

VALLEY CENTER MUNICIPAL WATER DISTRICT
Valley Center, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2005

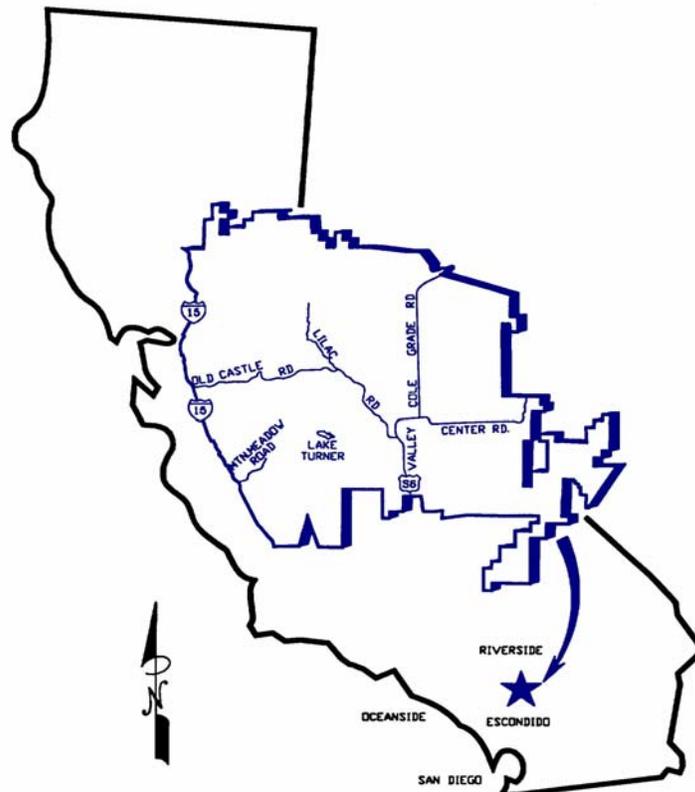
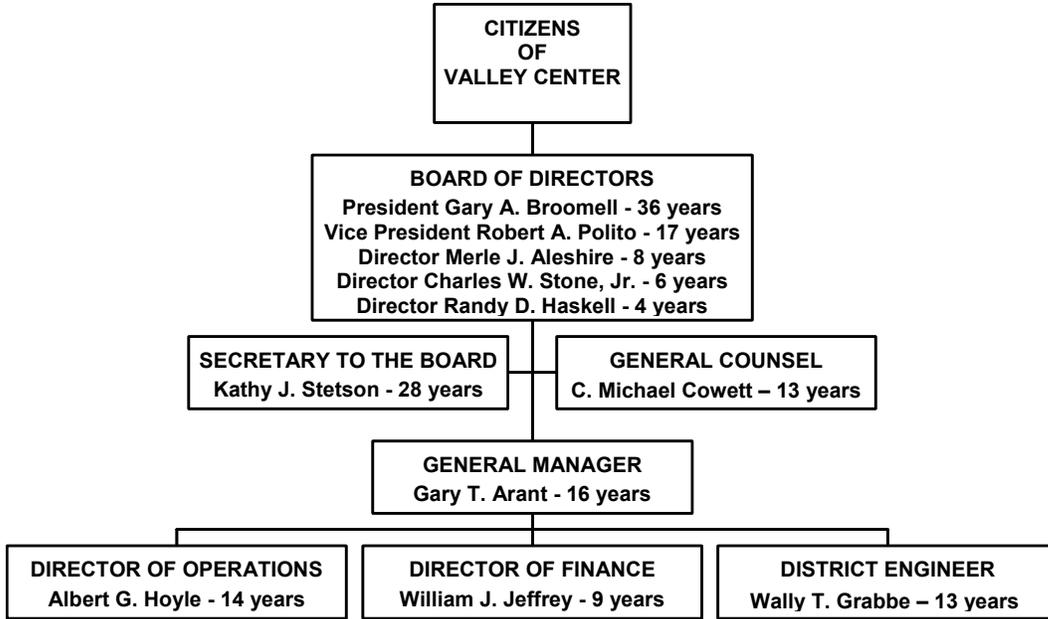


Prepared by:

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, 2004

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.



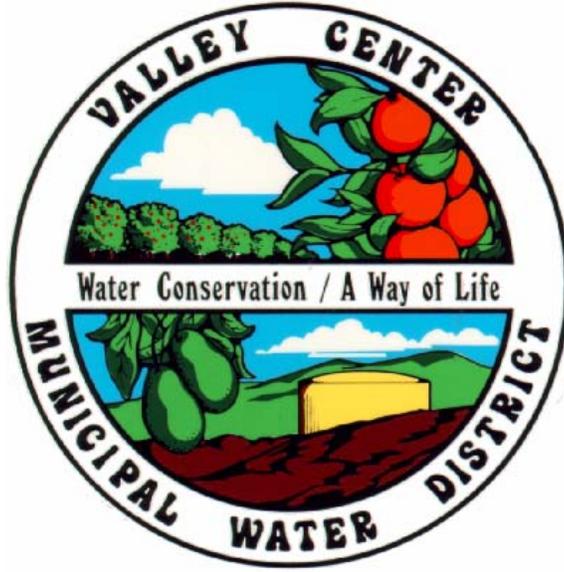
Nancy L. Ziehl

President

Jeffrey R. Emery

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

October 3, 2005

INDEPENDENT AUDIT

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

Leaf & Cole, LLP, Certified Public Accountants, have issued an unqualified (“clean”) opinion on the District’s financial statements for the year. The independent auditor’s report is located at the front of the financial section of this report.

We are pleased to present the Valley Center Municipal Water District’s Comprehensive Annual Financial Report for the year ended June 30, 2005.

Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

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.

A statistical section is also presented, 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.

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’s management. 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.

PROFILE OF THE DISTRICT

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.

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 78 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 9,122 customers for 36,090 acre feet of water during the year ended June 30, 2005. The cost to purchase this water from the Authority was \$17.2 million or 55% of District water operating expenses.

In its 51 years of existence, the District has constructed a water system consisting of eight aqueduct connections, 41 reservoirs, 26 pumping stations and 289 miles of water main. In 2003-04, its peak year, the District sold 49,336 acre feet of water, a quantity sufficient to meet the water usage needs of a city of approximately 200,000 people. The District remains the second largest water retailer of imported water within the San Diego County Water Authority behind only the City of San Diego. The District is also the largest retail purchaser of agricultural water within the Metropolitan Water District's service area.

In addition to water supply, the District provides sanitation service for approximately 2,550 customers through three sewer treatment facilities: the 500,000 gallon per day Lower Moosa Canyon Water Reclamation Facility at Circle R Drive near Old Highway 395, the 25,000 gallon per day Skyline Ranch Plant, located on Paradise Mountain, and the third sewer system which will ultimately serve 270 homes and a golf course in Woods Valley Ranch. A temporary 50,000 gallon per day treatment facility plant has been completed and will treat the wastewater flows for the homes connected to the system prior to completion of the permanent plant.

REPORTING ENTITY

For reporting purposes, the financial statements present a combined report which includes all District activities for which the Board of Directors of Valley Center Municipal Water District is primarily financially accountable. The District has established various self-balancing groups of accounts 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.

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.

ECONOMIC CONDITIONS

The estimated population of the District is 24,802. According to the San Diego Association of Governments (SanDAG), in the Valley Center Community Plan Area, which encompasses part but not all of the District, the median age in 2004 was 40.7 years and the median household income was \$72,344. 25% of the residents were under the age of 18 and 16% age of 65 and older.

From 2000 to 2004, the population increased 13%. Growth is expected to slow slightly, and is forecast to increase 11% by 2010 and a total of 45% by 2020. Median household income (adjusted for inflation) grew 8% from 2000 to 2004, but is expected to increase slightly less than inflation through 2020.

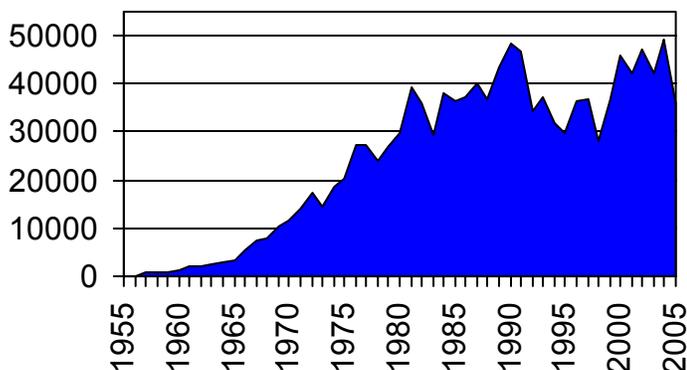
DISTRICT ECONOMIC RESULTS

New meter sales in the District increased greatly in 2004-05. Residential meters grew 9.4%. The District continues to see a steady demand for new connections, and has service availability letters for about three 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 2004-05 by 635 meters to 9,172.

With thirty-four inches of rain compared to eleven inches for the previous year, water sales for 2004-05 were 36,090 acre feet, down 13,246 acre feet or 26.8% from sales of 49,336 acre feet in 2003-04. This wide fluctuation of water sales, resulting primarily from weather conditions, illustrates the influence of agriculture on total water demand.

WATER SALES

In Acre Feet



Water delivered to agricultural users represented 78% of the District's total water sold in fiscal year 2004-05, which is comparable to 76% in 1994-95. These two years had higher than normal rainfall. The average water sold to the District's agricultural users over the previous ten year period was 81%. 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. In addition, the San Diego County Water Authority implemented a new rebate on their melded water rate. In exchange for reduced rates, agricultural customers agree to have their water supply reduced first during droughts and other emergencies. For the calendar year 2005 discounts total \$177 per acre foot. They produced a direct savings to the District's agricultural customers of \$3.4 million in 2004-05. 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 the coming 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 with supply problems, which include conflicts in the Middle East.

Long-Term Financial Planning – New or expanded facilities are funded by capacity fees collected by the District when new meter services are purchased and from interest earned on existing reserves. Capacity fees are set to fund system improvements identified in the District's Water Master Plan to support additional service connections. Replacement facilities are financed from standby fees and capital reserves on a pay as you go cash basis instead of debt financing. This reserve is funded annually by a combination of excess operating and non-operating revenues.

Facilities which are identified and budgeted annually for replacement are not determined solely by the depreciation schedule, but are identified through a process which assesses a combination of factors, including age, condition, and the critical nature of the facility. Also, existing facilities are replaced when the County of San Diego road improvements force a relocation or private development projects provide the opportunity to replace an existing facility.

At June 30, 2005, the District had \$695,000 in revenue bonds. No new debt was issued. During the year, the District completed a Long Range Financing Plan and began evaluating the need to issue additional debt in the near future.

MAJOR INITIATIVES - 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) – Integration of GIS with the Document Management System was completed along with pertinent staff training. Customer documents and map drawing documents have been linked to specific geographic features in GIS. An agreement with a photogrammetry company was made to acquire current high resolution aerial imagery and 2-foot contour interval topographic map of the District.

Supervisory Control And Data Acquisition (SCADA) System – The District-wide radio survey, SCADA master plan, and standard specifications for SCADA related instrumentation and electrical equipment were completed. Design began on the Phase 1 improvements that are scheduled for construction in 2005-06.

Corporate Facility Master Plan – The District successfully negotiated, completed the purchase, and secured the zoning of 32 acres of land near the intersection of Lilac and Valley Center Roads. This will serve as the future home of the Valley Center Municipal Water District.

Capital Financing Plan – The financial model was completed and presented to the Board in the first quarter of 2004-05. A financial advisor was engaged to provide an impartial, third party look at our financial strategies to identify ways to fund the projects recommended in our Water Master Plan. A long range financial plan report was developed, presented, and accepted by the Board in June.

Emergency Response Planning – The Emergency Response Plan has been updated and sent to the California Department of Health Services. Phase one of the security improvements for our ten critical facilities has commenced. Phase two is scheduled to begin during 2005-06 with phase three scheduled for 2006-07.

Economic Study Group (ESG) – Legislative efforts by the ESG led to a growing awareness of the governance issues and ultimately to Sacramento-supported discussions, negotiations, and progress on various changes aimed at bringing a more open, balanced, and inclusive process to the SDCWA.

Energy Resources Evaluation - Progress continued on upgrading the various pumping units, with 21 of the 29 units identified being either refurbished or replaced during the year with an estimated annual energy savings of \$235,000. The balance of the units will be replaced over the next two fiscal years, completing the program. As a result of our proactive pump efficiency program, the District received the California-Nevada Section American Water Works Association (AWWA) Energy Management Award. This award is given to utilities in recognition for outstanding energy management in the operation of the water system.

In addition, evaluations of both solar power and participation in the proposed Poseidon-City of Carlsbad Sea Water Desalination Project were also initiated near the end of the year.

Comprehensive Employee Training and Development Plan – “Critical Asset Management – Employee Recruitment, Training and Development, Retention, and Succession Planning”, was developed by District staff and adopted by the Board for implementation beginning in 2005-06.



Site of future corporate facility at the corner of Lilac and Valley Center Roads

STRATEGIC PLAN PERFORMANCE MEASUREMENT STANDARDS RESULTS FOR YEAR ENDED JUNE 30, 2005

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 2004 was 5.9%.

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 12.4% and 16.5% 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 100.2%.

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

Three projects were bid with aggregate results 8.3% 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 2005, we have gone over seven 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 average yield of 2.53% is below the one-year Treasury bond average of 2.78%. Our average yield was less than standard because we held securities while interest rates were rising rapidly.

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 2004-05 fiscal year, the District’s financial model and long range financial plan report were prepared, presented, and accepted by the Board of Directors.

Transmission and Distribution Facilities Improvements - Construction was completed on pressure reducing valve and large meter upgrades at Circle R, Champagne Village, and Charlan Road. The recoating of Hauck Mesa, Ridge Ranch, and Kornblum reservoirs was completed, as well as Champagne Lakes and Lilac Road Bridge Main replacement projects.

Central Valley Sewer - Sewer facilities proposed for the District’s central valley area include three small wastewater treatment facilities to be constructed by the developers of the Woods Valley Ranch, Orchard Run, and Village Square developments. Previously, there were four treatment facilities proposed. In the past year the Orchard Run developer has requested to participate in an expansion to Woods Valley Ranch.

The Woods Valley Ranch developers have constructed an interim water reclamation facility, which is ready for operation and will treat up to 50,000 gallons per day. This construction allowed the issuance of additional interim sewer permits. These permits allow for the issuance of building permits for the construction of new homes within the Woods Valley Ranch development. Plans for the permanent treatment facility are approved with construction scheduled to begin in September 2005 with substantial completion by the fiscal year end. Initial planning has begun on the proposed expansion of the plant to serve the Orchard Run Development and the balance of the property in the southern node area of the Valley Center central valley area.

Live Oak Ranch development has submitted a preliminary design report and has received conceptual approval by the Board for their project.

Previously, a plan was submitted and conceptual approval was received for a treatment facility to serve the northern node of the Valley Center central valley area. The plan called for a subsurface disposal wastewater treatment facility that will serve a proposed shopping center and condominium project known as Village Square. No new activity occurred for this project during the year.



Woods Valley Ranch

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. The District has retained an engineering consultant to evaluate the effluent disposal capacity of the existing percolation pond and ground water basin.



Moosa Sewer Treatment Facility

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.

AWARDS & ACKNOWLEDGEMENTS

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) 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, 2004. 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 that satisfied 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 thirteen consecutive years (fiscal years ended 1992 through 2004). 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



Cole Grade Road





FINANCIAL SECTION





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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 sheet of Valley Center Municipal Water District as of June 30, 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Center Municipal Water District at June 30, 2005, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

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.

The 2005 combining schedule of balance sheets and the 2005 combining schedule of revenues, expenses and changes in net assets are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2005, taken as a whole.

We also have previously audited, 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 the balance sheet of Valley Center Municipal Water District as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended (none of which is presented herein), and we expressed an unqualified opinion on those financial statements. In our opinion, the 2004 combining schedule of balance sheets and the 2004 combining schedule of revenues, expenses and changes in net assets are fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

Leaf & Cole, LLP.

San Diego, California
August 25, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2005. 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.

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.

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

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

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

The balance sheet provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

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

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

- Operating
- Investing
- Capital financing
- Noncapital financing

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

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

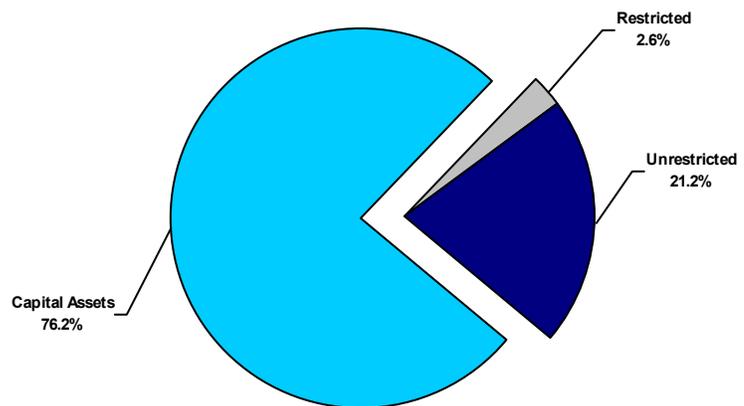
FINANCIAL HIGHLIGHTS

During the year ended June 30, 2005, net assets increased by \$635,753. Total revenues were \$33,278,157, which included operating revenues of \$28,448,779, nonoperating revenues of \$2,525,670, and capital contributions of \$2,303,708. Total revenues decreased \$9,427,203 from the prior year with total expenses also decreasing \$2,488,611. For the year ended June 30, 2005, operating expenses exceeded operating revenues by \$4,078,617 and by \$211,822 for the previous year. Nonoperating revenues of \$2,525,670 exceeded nonoperating expenses of \$115,008. Nonoperating revenues consist primarily of property taxes and assessments, investment income, and the proceeds from litigation. Capital contributions of \$2,303,708 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 2004 and 2005 from \$79,745,868 to \$80,381,621. Net assets invested in capital assets, net of related debt, increased \$4,947,659, restricted net assets increased \$771,575 due to a settlement reached with one of the District's energy providers and the collection of capacity fees, and unrestricted net assets decreased \$5,083,481 primarily to fund capital projects.

TOTAL NET ASSETS
Fiscal Year 2004-05



NET ASSETS

	2005	2004
Current Assets	\$ 25,473,718	\$ 31,041,401
Restricted assets	3,955,877	3,139,048
Capital assets	61,968,893	57,093,828
Total Assets	<u>\$ 91,398,488</u>	<u>\$ 91,274,277</u>
Current liabilities	\$ 8,016,765	\$ 8,459,247
Noncurrent liabilities	3,000,102	3,069,162
Total Liabilities	<u>11,016,867</u>	<u>11,528,409</u>
Net assets:		
Invested in capital assets, net of related debt	61,272,644	56,324,985
Restricted for facility expansion	2,112,513	1,340,938
Unrestricted	16,996,464	22,079,945
Total Net Assets	<u>80,381,621</u>	<u>79,745,868</u>
Total Liabilities and Net Assets	<u>\$ 91,398,488</u>	<u>\$ 91,274,277</u>

Change in Net Assets - The District's operating revenues decreased 18.4% to \$28,448,779 as a result of decreased consumption attributed to an unusual increase in rainfall, 34 inches in 2004-05 compared to 11 inches in 2003-04.

The District's operating expenses decreased 7.2% to \$32,527,396. Operating expenses decreased primarily due to reduced amounts of water purchased in response to the decrease in demand noted above.

The District's investment income increased \$355,334 due to market conditions, including unrealized gains and losses on investments. Tax revenues decreased 45.5% to \$1,061,881 as a result of the Educational Revenue Augmentation Fund (ERAF) property tax shift implemented by the state to help alleviate its financial crisis.

CHANGES IN NET ASSETS

	<u>2005</u>	<u>2004</u>
<u>Operating Revenues:</u>		
Water sales and pumping charges	\$26,172,184	\$32,888,607
Sewer charges	1,476,617	1,142,242
Meter installation fees	479,791	546,437
Other water operating revenues	320,187	277,930
Total Operating Revenues	<u>28,448,779</u>	<u>34,855,216</u>
<u>Operating Expenses:</u>		
Cost of water sold	17,202,614	20,475,081
Energy and pumping costs	3,927,593	4,510,435
Water systems operations	3,900,188	3,235,666
Depreciation	2,914,462	2,849,745
General and administrative	2,779,509	2,497,208
Engineering	1,164,938	947,818
Sewer collection and treatment	638,092	551,085
Total Operating Expenses	<u>32,527,396</u>	<u>35,067,038</u>
Operating Loss	<u>(4,078,617)</u>	<u>(211,822)</u>
<u>Nonoperating Revenues (Expenses):</u>		
Property taxes and assessments	1,061,881	1,946,806
Investment income	575,887	220,553
Energy settlement	473,798	421,154
Other nonoperating revenues	414,104	153,641
Interest expense	(23,099)	(51,573)
Loss on disposal of assets	(91,909)	(12,404)
Total Nonoperating Revenues (Expenses)	<u>2,410,662</u>	<u>2,678,177</u>
Income (Loss) Before Contributions	(1,667,955)	2,466,355
Capital Contributions	<u>2,303,708</u>	<u>5,107,990</u>
Change in Net Assets	635,753	7,574,345
Net Assets at Beginning of Year	<u>79,745,868</u>	<u>72,171,523</u>
NET ASSETS AT END OF YEAR	<u><u>\$80,381,621</u></u>	<u><u>\$79,745,868</u></u>

ANALYSIS OF OPERATIONS

Water Operations

Revenues for the year ended June 30, 2005, totaled \$31,325,588, which is a 21.3% decrease from the prior year. Details of this decrease in revenues are as follows:

➤ Water sales decreased by 22.4%, or \$5,690,410, from the prior year. There was a 26.8% decrease in the volume of water sold. In 2004-05, 36,090 acre feet of water were billed compared to 49,336 acre feet in the prior year. Meter charges increased 16.9% from \$2,269,506 in 2003-04 to \$2,653,225 in 2004-05 because of a growth in customers and increased rates.

➤ Energy and pumping revenues decreased 26.8%, or \$1,409,732, due to the decrease in the volume of water sold.

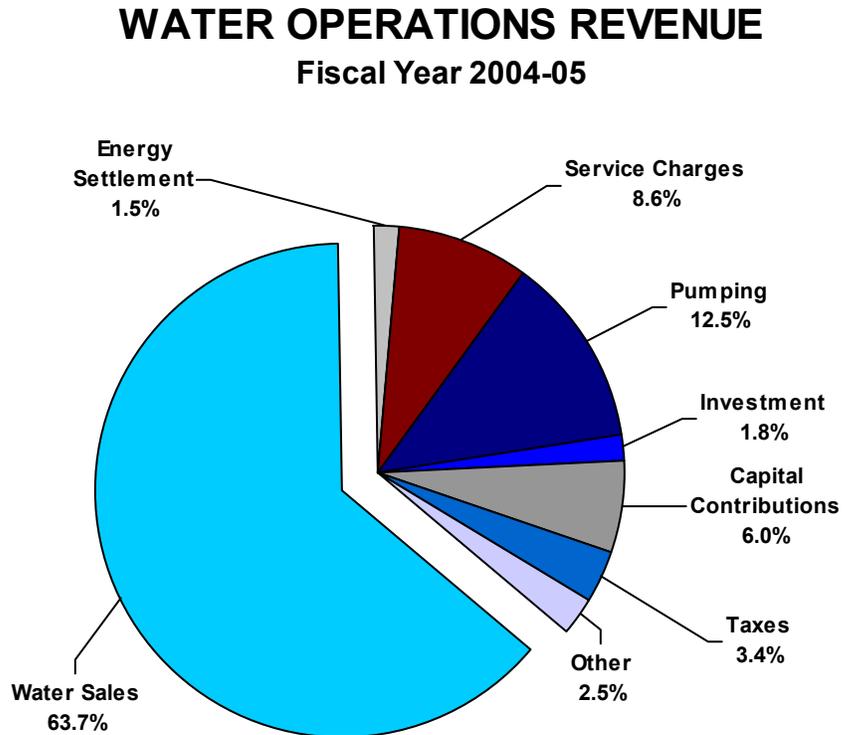
➤ Property taxes and assessments decreased by 45.5%, or \$884,925, from 2003-04 to 2004-05. This decrease is due to the ERAF property tax shift implemented by the state to help alleviate its financial condition. The District has adopted San Diego County's alternative method of distribution of tax levies and collections under which the County advances 100% of the secured tax levies due to the District each year without consideration for delinquencies.

➤ Investment income increased 172.3%, or \$350,924, from the prior year. This increase is due to market conditions, including unrealized gain on investments. Yields fluctuated between 2.2% and 2.9% during the course of the year, compared to 2.3% and 1.7% the prior year. Interest income includes interest earned by water operations from advances to the sewer operations.

➤ Meter installation fees decreased \$66,646, or 12.2% from the prior year. This is a result of the slowing in local development projects and new housing starts in the District.

➤ Other nonoperating revenues increased \$260,463, or 169.5% in 2004-05. These include rents received from leases for telecommunications facilities. The increase is the result of the reimbursement from the Federal Emergency Management Agency (FEMA) and California Office of Emergency Services for District expenses associated with the Paradise fire of 2003 and the 2005 winter storms.

➤ Capital contributions, which vary based on developer projects, decreased of \$1,523,589 or 45.2% from the prior year. The prior year (2003-04) was the highest level of developer-contributed infrastructure to the District for at least the last ten years.

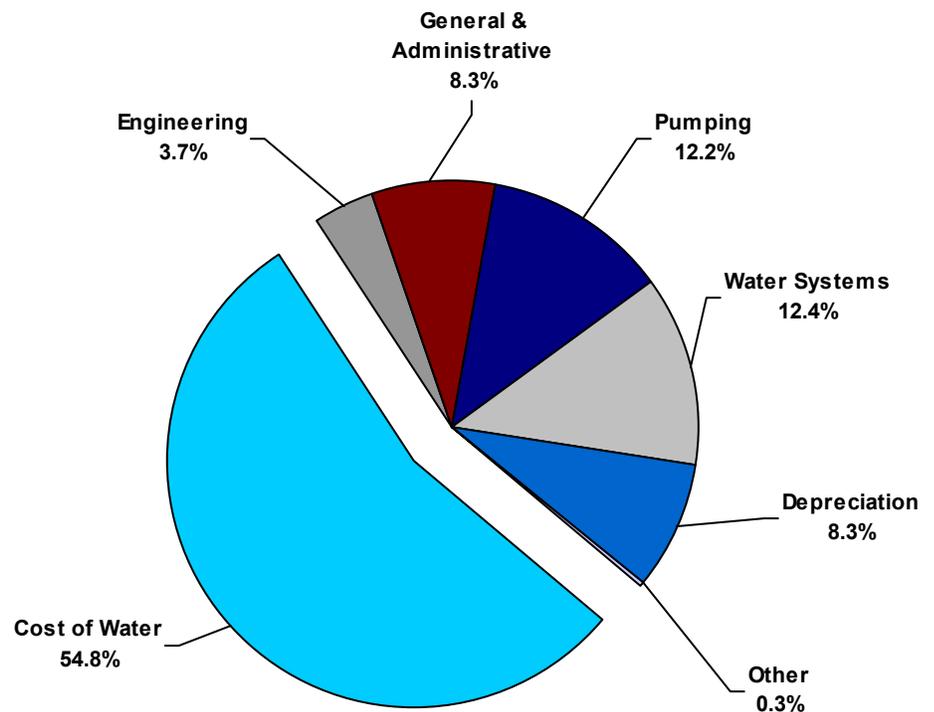


Expenses for the year ended June 30, 2005, totaled \$31,419,440, a decrease of 7.2% or \$2,441,424. Certain significant expenses are as follows:

- The cost of water sold decreased 16.0% due to decreased water deliveries caused by an increase in rainfall during the year. In 2003-04, the District purchased 52,182 acre feet of water at an average price of \$392 per acre foot. In the current year, the District purchased 38,105 acre feet of water at an average price of \$451 per acre foot, an increase of 15.1% or \$59 per acre foot. The average price per acre foot is impacted by the fixed components of the Metropolitan Water District of Southern California (MWD) and San Diego County Water Authority (SDCWA) rate structure. These fixed components include: a capacity reservation charge by MWD and customer service and emergency storage program charges by the CWA.

Agricultural rebates received were \$3,448,147 for fiscal year 2004-05, including \$188,192 for a new SDCWA rebate on their melded water rate. This equates to a rebate of \$123 per acre foot. This cost reduction for agricultural water is passed through to the District's qualified agricultural customers.

WATER OPERATIONS EXPENSES Fiscal Year 2004-05



- Energy and pumping costs associated with the distribution of water for the District decreased 13.4%, or \$594,034, due to the decrease in water deliveries offset by slightly higher energy costs.
- Water systems operations expenses increased 20.5%, or \$664,522, from the prior year due to increased labor, maintenance and operating costs.
- Depreciation expense in 2004-05 increased 8.8%, or \$211,190, from the prior year due to plant additions.
- General and administrative expenses increased 10.6% or \$249,339 due to increased payroll costs (including a large increase in required retirement contributions), maintenance, supply, and outside services.
- Interest expense showed a slight increase due to the higher interest rates from the previous year.
- Other nonoperating expenses include a loss of \$91,909 compared to the prior year of \$12,404. This represents the undepreciated balance of assets which were replaced during the year.

WATER OPERATIONS CHANGES IN NET ASSETS

	2005	2004	Increase (Decrease)	Percent Change
REVENUES:				
Water Sales	\$19,676,877	\$25,367,287	\$ (5,690,410)	(22.4) %
Meter Service Charges	2,653,225	2,269,506	383,719	16.9 %
Pumping and energy charges	3,842,082	5,251,814	(1,409,732)	(26.8) %
Meter Installation Fees	479,791	546,437	(66,646)	(12.2) %
Other water operating revenues	320,187	277,930	42,257	15.2 %
Property taxes and assessments	1,061,881	1,946,806	(884,925)	(45.5) %
Investment income	554,603	203,679	350,924	172.3 %
Energy settlement	473,798	421,154	52,644	12.5 %
Other nonoperating revenues	414,104	153,641	260,463	169.5 %
Capital Contributions	1,849,040	3,372,629	(1,523,589)	(45.2) %
Total revenues	<u>31,325,588</u>	<u>39,810,883</u>	<u>(8,485,295)</u>	<u>(21.3) %</u>
EXPENSES:				
Cost of water sold	17,202,614	20,475,081	(3,272,467)	(16.0) %
Energy and pumping costs	3,831,981	4,426,015	(594,034)	(13.4) %
Water systems operations	3,900,188	3,235,666	664,522	20.5 %
Depreciation	2,601,730	2,390,540	211,190	8.8 %
General and administrative	2,602,981	2,353,642	249,339	10.6 %
Engineering	1,164,938	947,818	217,120	22.9 %
Interest Expense	23,099	19,698	3,401	17.3 %
Other nonoperating expenses	91,909	12,404	79,505	641.0 %
Total expenses	<u>31,419,440</u>	<u>33,860,864</u>	<u>(2,441,424)</u>	<u>(7.2) %</u>
Change in Net Assets	<u>\$ (93,852)</u>	<u>\$ 5,950,019</u>	<u>\$ (6,043,871)</u>	<u>(101.6) %</u>

Sewer Treatment Operations

The Lower Moosa Canyon Water Reclamation Facility serves 2,264 customers in a limited geographic area on the west side of the District. The revenue from sewer charges was \$1,012,378 for 2004-05, an increase of \$127,696 from the prior year. This increase is primarily due to rate increases to fund operations and maintenance, as well as a 4% increase in sewer service connections.

LOWER MOOSA CHANGES IN NET ASSETS

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
REVENUES:				
Sewer charges	\$ 1,012,378	\$ 884,682	\$ 127,696	14.4 %
Investment income	14,171	11,856	2,315	19.5 %
Capital contributions	<u>350,976</u>	<u>1,080,992</u>	<u>(730,016)</u>	<u>(67.5) %</u>
Total revenues	<u>1,377,525</u>	<u>1,977,530</u>	<u>(600,005)</u>	<u>(30.3) %</u>
EXPENSES:				
Energy and pumping costs	88,399	77,309	11,090	14.3 %
Sewer collection and treatment	389,289	453,397	(64,108)	(14.1) %
General and administrative	116,761	106,492	10,269	9.6 %
Depreciation	287,562	448,652	(161,090)	(35.9) %
Interest expense	<u>0</u>	<u>31,875</u>	<u>(31,875)</u>	<u>(100.0) %</u>
Total expenses	<u>882,011</u>	<u>1,117,725</u>	<u>(235,714)</u>	<u>(21.1) %</u>
Change in Net Assets	<u>\$ 495,514</u>	<u>\$ 859,805</u>	<u>\$ (364,291)</u>	<u>(42.4) %</u>

Expenses for the year ended June 30, 2005, totaled \$882,011, a decrease of 21.1% or \$235,714. Certain significant expenses are as follows:

- Energy and pumping costs were \$11,090 higher than the previous year due to increased connections as well as higher energy costs
- Sewer collection and treatment costs were 14.1% lower than last year, or \$64,108, due to decreased maintenance costs and equipment requirements.
- General and administrative expenses were 9.6% higher than last year, or \$10,269. This is due to increased administrative overhead costs associated with the operation of the treatment plant.

The operation had a net profit before capital contributions of \$144,538 for the period ending June 30, 2005 and a net loss of \$221,187 as of June 30, 2004.

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

	2005	2004	Increase (Decrease)	Percent Change
REVENUES:				
Sewer Charges	\$ 124,220	\$ 89,587	\$ 34,633	38.7 %
Investment Income	(413)	512	(925)	(180.7) %
Capital Contribution	4,844	4,166	678	16.3 %
Total revenues	<u>128,651</u>	<u>94,265</u>	<u>34,386</u>	<u>36.5 %</u>
EXPENSES:				
Energy and pumping costs	7,213	7,111	102	1.4 %
Sewer collection and treatment	81,583	77,159	4,424	5.7 %
General and administrative	22,131	18,965	3,166	16.7 %
Depreciation	7,107	7,107	0	0.0 %
Total expenses	<u>118,034</u>	<u>110,342</u>	<u>7,692</u>	<u>7.0 %</u>
Change in Net Assets	<u>\$ 10,617</u>	<u>\$ (16,077)</u>	<u>\$ 26,694</u>	<u>166.0 %</u>

Sewer treatment costs increased during the year because of increased services associated with the spray field 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 128 homes have been constructed and flow is currently being removed by pumper trucks.

WOODS VALLEY RANCH CHANGES IN NET ASSETS

	2005	2004	Increase (Decrease)	Percent Change
REVENUES:				
Sewer Charges	\$ 340,019	\$ 167,973	\$ 172,046	102.4 %
Investment Income	7,526	4,506	3,020	67.0 %
Capital Contribution	98,848	650,203	(551,355)	(84.8) %
Total revenues	<u>446,393</u>	<u>822,682</u>	<u>(376,289)</u>	<u>(45.7) %</u>
EXPENSES:				
Sewer collection and treatment	167,220	20,529	146,691	714.6 %
General and administrative	37,636	18,109	19,527	107.8 %
Depreciation	18,063	3,446	14,617	424.2 %
Total expenses	<u>222,919</u>	<u>42,084</u>	<u>180,835</u>	<u>429.7 %</u>
Change in Net Assets	<u>\$ 223,474</u>	<u>\$ 780,598</u>	<u>\$ (557,124)</u>	<u>(71.4) %</u>

CAPITAL ASSETS

Capital assets include land, annexation fees, transmission and distribution system, general plant, and construction-in-progress. At June 30, 2005, the District had \$105,728,320 in capital assets with \$43,759,427 of accumulated depreciation. This represents a net increase (including additions and deductions) of \$4,875,065, or 8.5% over the prior year. Significant additions include land for the new corporate facility, Meadows #2 Reservoir, Lilac Road Bridge, Reidy Creek, and Valley Center Road pipeline replacements, SCADA system improvements, geographical information system improvements, and reservoir recoatings. In addition, contributed assets included six miles of water mains and 1.6 miles of sewer main, including mains in the Woods Valley Ranch, Montreaux, Sherwood Ridge, Islands, and Oak Woodlands subdivisions.

CAPITAL ASSETS

	2005	2004
Land	\$ 2,874,326	\$ 1,286,655
Annexation fees	786,185	786,185
Construction-in-progress	4,492,012	4,149,839
Transmission and distribution system	90,800,279	86,394,542
General plant	6,775,518	5,670,907
Total	<u>\$105,728,320</u>	<u>\$98,288,128</u>

More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

At June 30, 2005, the District had \$695,000 in revenue bonds, compared to \$765,000 in revenue bonds payable at June 30, 2004, a decrease of 9.2%. No new debt was issued during the year. During the year, the District completed a Long Range Financing Plan and began evaluating the need to issue additional debt in the near future. The District had no general obligation bonded debt at June 30, 2005. 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 \$4,926,495 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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
BALANCE SHEET
JUNE 30, 2005**

ASSETS

	<u>2005</u>
<u>Current Assets:</u> (Notes 1 and 2)	
Cash and cash equivalents	\$ 7,327,215
Investments	11,350,337
Accounts receivable - water and sewer, net	4,389,654
Accrued interest receivable	152,422
Taxes receivable	16,441
Other receivables	202,277
Inventory	380,629
Prepaid expenses and deposits	272,916
Work in progress for others	<u>1,381,827</u>
Total Current Assets	<u>25,473,718</u>
 <u>Noncurrent Assets:</u>	
<u>Restricted Assets:</u> (Notes 1, 2, 3 and 4)	
Cash and cash equivalents	10,831
Investments	<u>3,945,046</u>
Total Restricted Assets	<u>3,955,877</u>
<u>Capital Assets:</u> (Notes 1 and 4)	
Nondepreciable capital assets	8,152,523
Depreciable capital assets, net	<u>53,816,370</u>
Total Capital Assets	<u>61,968,893</u>
Total Noncurrent Assets	<u>65,924,770</u>
 TOTAL ASSETS	 <u>\$91,398,488</u>

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

LIABILITIES AND NET ASSETS

2005

Current Liabilities: (Note 1)

Accounts payable	\$ 5,347,404
Accrued payroll	76,750
Accrued compensated absences	522,500
Customer deposits	1,990,111
Current portion of long-term debt	<u>80,000</u>
Total Current Liabilities	<u>8,016,765</u>

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

Liabilities Payable From Restricted Assets:

Benefit plan liability	<u>1,843,364</u>
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Long-Term Debt:

Revenue bonds	695,000
Less: Current portion above	<u>(80,000)</u>
Total Long-Term Debt	<u>615,000</u>

Other Noncurrent Liabilities:

Accrued compensated absences	540,489
Annexation fees payable	<u>1,249</u>
Total Other Noncurrent Liabilities	<u>541,738</u>

Total Noncurrent Liabilities	<u>3,000,102</u>
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Total Liabilities	<u>11,016,867</u>
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Commitments and Contingencies (Note 13)

Net Assets: (Note 9)

Invested in capital assets, net of related debt	61,272,644
Restricted for facility expansion	2,112,513
Unrestricted	<u>16,996,464</u>
Total Net Assets	<u>80,381,621</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$91,398,488</u>
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The accompanying notes are an integral part of the financial statements.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005**

	<u>2005</u>
<u>Operating Revenues:</u>	
Water sales and pumping charges	\$26,172,184
Sewer charges	1,476,617
Meter installation fees	479,791
Other water operating revenues	<u>320,187</u>
Total Operating Revenues	<u>28,448,779</u>
<u>Operating Expenses:</u>	
Cost of water sold	17,202,614
Energy and pumping costs	3,927,593
Water systems operations	3,900,188
Depreciation	2,914,462
General and administrative	2,779,509
Engineering	1,164,938
Sewer collection and treatment	<u>638,092</u>
Total Operating Expenses	<u>32,527,396</u>
Operating Loss	<u>(4,078,617)</u>
<u>Nonoperating Revenues (Expenses):</u>	
Property taxes and assessments	1,061,881
Investment income	575,887
Energy settlement	473,798
Other nonoperating revenues	414,104
Interest expense	(23,099)
Loss on disposal of assets	<u>(91,909)</u>
Total Nonoperating Revenues (Expenses)	<u>2,410,662</u>
Loss Before Contributions	(1,667,955)
Capital Contributions	<u>2,303,708</u>
Change in Net Assets	635,753
Net Assets at Beginning of Year	<u>79,745,868</u>
NET ASSETS AT END OF YEAR (Notes 1 and 9)	<u>\$80,381,621</u>

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005**

	<u>2005</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers	\$28,829,619
Payments to suppliers for goods and services	(23,125,712)
Payments to employees for services	(6,983,287)
Change in retirees' health benefits plan expense	45,254
Change in work in progress for others	(444,524)
Change in Customer deposits	(40,967)
Proceeds from energy settlement	<u>473,798</u>
Net Cash Used by Operating Activities	<u>(1,245,819)</u>
<u>Cash Flows From Noncapital Financing Activities:</u>	
Property taxes received	<u>1,060,094</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,060,094</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Acquisition and construction of capital assets	(6,004,138)
Principal paid on long-term debt	(70,000)
Principal paid on annexation fees payable	(2,594)
Interest paid on bonds and long-term debt	(23,099)
Capital contributions received	418,580
Proceeds from disposition of capital assets	7,830
Other nonoperating revenue	<u>414,104</u>
Net Cash Used by Capital and Related Financing Activities	<u>(5,259,317)</u>
<u>Cash Flows From Investing Activities:</u>	
Purchases of investments	(130,621)
Proceeds from maturities of investments	100,000
Investment income received	<u>555,363</u>
Net Cash Provided by Investing Activities	<u>524,742</u>
Net Decrease in Cash and Cash Equivalents	(4,920,300)
Cash and Cash Equivalents at Beginning of Year	<u>12,258,346</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 7,338,046</u>

(Continued)

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2005**

	<u>2005</u>
<u>Reconciliation of Operating Income to Net</u>	
<u>Cash Provided by Operating Activities:</u>	
Operating income	\$ (4,078,617)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,914,462
Retirees' health benefits plan expense	45,254
Proceeds from energy settlement	473,798
Change in assets and liabilities:	
Accounts receivable - water and sewer, net	493,941
Other receivables	(113,101)
Inventory	(12,734)
Prepaid expenses and deposits	(40,096)
Work in progress for others	(444,524)
Accounts payable	(249,969)
Accrued payroll	(156,646)
Compensated absences	(36,620)
Customer deposits	(40,967)
Net Cash Used by Operating Activities	<u><u>\$(1,245,819)</u></u>
 <u>Cash and Cash Equivalents -</u>	
<u>Financial Statement Classification</u>	
Cash and cash equivalents	\$ 7,327,215
Restricted cash and cash equivalents	<u>10,831</u>
Total Cash and Cash Equivalents	<u><u>\$ 7,338,046</u></u>
 <u>Noncash Investing, Capital and Financing Activities:</u>	
Customer contributions of capital assets	<u><u>\$ 1,885,128</u></u>

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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, 2005**

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 revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of the District consist of water sales, sewer service, and connection and installation fees. Nonoperating revenues consist of property taxes and assessments, investment income, and special charges that can be used for either operating or capital purposes. Operating expenses include the cost of sales, operation, maintenance, and administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges.

(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, 2005, 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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

1 - Summary of Significant Accounting Policies (Continued)

(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.

(h) Accounts Receivable - Water and Sewer

Water and sewer accounts receivable of \$4,389,654 have been reduced by an allowance for estimated uncollectible accounts in the amount of \$16,085.

(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:

Water inventory	\$ 98,855
Materials inventory	<u>281,774</u>
	<u>\$380,629</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

1 - Summary of Significant Accounting Policies (Continued)

(j) Capital Assets

Capital assets 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. The District capitalizes all assets with a cost of at least \$2,000 and a useful life of at least two years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

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

(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 year.

(m) Classification of Liabilities

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

1 - Summary of Significant Accounting Policies (Continued)

(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.

2 - Cash and Investments

(a) Authorized Investments

The District's Ordinances authorize the District to invest in bonds issued by the District; obligations of the United States Treasury, agencies, and government-sponsored enterprises; certificates of deposit at commercial banks and savings and loans when insured or collateralized in accordance with law; shares of beneficial interest issued by a diversified management company as authorized by California Government Code Section 53601(k); the State of California Local Agency Investment Fund; and deposits with the Treasurer of the County of San Diego.

These authorized investments are more restrictive than those permitted by the California Government Code, which would also allow investments in prime commercial paper, bankers' acceptances, repurchase and reverse repurchase agreements, financial futures or financial option contracts, obligations of the State of California, and obligations of local agencies within California.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

2 - Cash and Investments (Continued)

(a) Authorized Investments (continued)

Cash and investments held by the District were comprised of the following:

	Fair Value	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1-5</u>
Cash on Hand	\$ 1,200	1,200	-
Cash in the California Local Agency Investment Fund	6,763,293	6,763,293	-
Open Ended Money Market Mutual Funds	388,361	388,361	-
Demand Deposits	185,192	185,192	-
Investments:			
United States Agency Securities	13,413,383	5,586,236	7,827,147
Certificates of Deposit	<u>1,882,000</u>	<u>627,000</u>	<u>1,255,000</u>
Total Cash and Investments	<u>\$22,633,429</u>	<u>13,551,282</u>	<u>9,082,147</u>
Financial Statement Classification:			
Cash and Cash Equivalents	\$ 7,327,215		
Investments	11,350,337		
Restricted Cash and Cash Equivalents	10,831		
Restricted Investments	<u>3,945,046</u>		
Total	<u>\$22,633,429</u>		

(b) Concentration of Credit Risk

The District's Ordinances state that investments should be diversified by limiting investments to avoid over-concentration in securities from a specific issuer (excluding U.S. Treasury securities), varying maturities, and investing a portion of the portfolio in external investment pools or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations. State law limits investments in money market funds to 20% of the total portfolio, and investments in any one fund to 10%. The District further limits certificates of deposit to 30 percent of its portfolio. At June 30, reportable investments representing more than 5% of the District's investment portfolio are as follows:

<u>Issuer</u>	<u>Percentage</u>
Federal Farm Credit Bank	8.0%
Federal Home Loan Bank	34.4
Federal Home Loan Mortgage Corporation	11.8
Federal National Mortgage Association	5.1

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

2 - Cash and Investments (Continued)

(c) Credit Risk

The District's Ordinances subject management of the investment portfolio to the "prudent investor" standard, which states that "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." Certificates of deposit must be fully insured and have a rating of satisfactory or better. As of June 30, the District's investments were rated by Standard & Poor's and by Moody's Investors Service as follows:

	<u>Standard & Poor's</u>	<u>Moody's</u>
California Local Agency Investment Fund	Not rated	Not rated
Open Ended Money Market Mutual Funds	AAA	Aaa
United States Government Sponsored Enterprises:		
Federal Farm Credit Bank	AAA	Aaa
Federal Home Loan Bank	AAA	Aaa
Federal Home Loan Mortgage Corporation	AAA	Aaa
Federal National Mortgage Association	AAA	Aaa

(d) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. To eliminate custodial credit risk, the District's Ordinances require that all demand deposits be entirely insured or collateralized and that all investment securities be in the name of the District and held by an insured depository. At June 30, the District held no deposits or investments that were exposed to custodial credit risk.

(e) Interest Rate Risk

The District's Ordinances state that the District will structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. The District cannot invest in any security that could result in zero interest accrual if held to maturity. Maturities are limited to five years.

(f) Foreign Currency Risk

The District is not exposed to foreign currency risk.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

3 - Restricted Assets

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

<u>Funding Source</u>	<u>Use</u>	<u>2005</u>
District contributions	Benefit plan liability	\$1,843,364
Proceeds of energy settlement	Projects promoting energy efficiency	1,451,396
Capital contributions	Replacement of the Skyline Wastewater Treatment Plant	10,831
Capacity fees	System expansion	<u>650,286</u>
		<u>\$3,955,877</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, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2005</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,286,655	\$ 1,587,671	\$ -	\$ 2,874,326
Annexation fees	786,185			786,185
Construction in progress	<u>4,149,839</u>	<u>5,383,201</u>	<u>(5,041,028)</u>	<u>4,492,012</u>
	<u>6,222,679</u>	<u>6,970,872</u>	<u>(5,041,028)</u>	<u>8,152,523</u>
Capital Assets Being Depreciated:				
Transmission and distribution system	86,394,542	4,825,168	(419,431)	90,800,279
General plant	<u>5,670,907</u>	<u>1,134,254</u>	<u>(29,643)</u>	<u>6,775,518</u>
	92,065,449	5,959,422	(449,074)	97,575,797
Less: Accumulated depreciation	<u>(41,194,300)</u>	<u>(2,914,462)</u>	<u>349,335</u>	<u>(43,759,427)</u>
Net Capital Assets Being Depreciated	<u>50,871,149</u>	<u>3,044,960</u>	<u>(99,739)</u>	<u>53,816,370</u>
Net Capital Assets	<u>\$57,093,828</u>	<u>\$ 10,015,832</u>	<u>\$(5,140,767)</u>	<u>\$61,968,893</u>

Depreciation totaled \$2,914,462 for the year ended June 30, 2005.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

5 - Long-Term Debt – 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, total \$695,000. Varying amounts of principal plus interest currently at 3.875% 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, 2004</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Current Portion</u>
Revenue Bonds	<u>\$765,000</u>	<u>\$70,000</u>	<u>\$695,000</u>	<u>\$80,000</u>

Aggregate maturities of the revenue bond for fiscal years subsequent to June 30, 2005, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 80,000	\$24,954	\$ 104,954
2007	80,000	21,811	101,811
2008	85,000	18,619	103,619
2009	90,000	15,035	105,035
2010	95,000	11,402	106,402
2011 - 2013	<u>265,000</u>	<u>10,729</u>	<u>275,729</u>
	<u>\$695,000</u>	<u>\$102,550</u>	<u>\$797,550</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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, 2005, totaled \$1,300,000.

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

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, 2005, is \$1,249. 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.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

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 \$29,041 for post-retirement healthcare benefits during the year ended June 30, 2005. As of June 30, 2005, eight 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.

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, 2005, was \$1,843,364. The liability will become payable upon the sooner of Plan termination or as the payment of participants' health insurance premiums become due.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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>2005</u>
Continuing capital projects	\$ 8,003,224
Operating reserve	4,926,495
Rate stabilization reserve	243,695
Pumping rate stabilization	2,334,176
Vehicle replacement	271,716
Agricultural rebate	235,671
Sewer capital replacement reserves	560,083
Continuing capital projects - Woods Valley	112,843
Unrestricted and undesignated net assets	<u>308,561</u>
Unrestricted Net Assets	<u><u>\$16,996,464</u></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.

(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, 2005, was 29.189%. 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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

10 - Defined Benefit Pension Plan (Continued)

(c) Annual Pension Costs

For the fiscal year ended June 30, 2005, the District's annual pension cost and actual contribution was \$1,617,481. The required contribution for the fiscal year ended June 30, 2005, was determined as part of the June 30, 2002, actuarial valuation.

The following is a summary of the actuarial assumptions and methods used as on June 30, 2002, to calculate the required contribution for the District for the year ended June 30, 2005, and as of June 30, 2003, to calculate the required contributions for all pooled employers in the plan for the year ended June 30, 2006:

Valuation Date	June 30, 2002	June 30, 2003
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
Average Remaining Period	13 Years as of the Valuation Date	17 Years as of the Valuation Date
Asset Valuation Method	3 Year Smoothed Market	3 Year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	8.25% (net of administrative expenses)	7.75% (net of administrative expenses)
Projected Salary Increases	3.75% to 14.20% depending on age, service, and type	3.25% to 14.45% depending on age, service, and type
of employment		
Inflation	3.50%	3.00%
Payroll Growth	3.75%	3.25%
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%.	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% 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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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, 2003	\$ 934,568	100%	\$-0-
June 30, 2004	\$ 986,696	100%	\$-0-
June 30, 2005	\$1,617,481	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
June 30, 2003	4,183,601	13,305,581	9,121,980	31.4	3,739,240	244.0

Beginning with the June 30, 2003, actuarial valuation, the District was required to participate in a CalPERS risk pool. The aggregate funding progress for the 537 participants in the pool follows:

<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, 2003	\$2,596,966,545	\$2,372,879,034	\$224,087,511	91.4%	\$725,020,458	30.9%

(f) Subsequent Event

Effective July 1, 2005, CalPERS granted the District's request to restructure its unfunded liability over a new thirty-year amortization period. This lowered the required employer contribution rate for the fiscal year ended June 30, 2006, to 20.910%, but extended the time to fully fund the Plan and increased the total cost of paying the unfunded liability.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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, 2005, was \$201,563. There were no instances in the past three years where a settlement exceeded the District's coverage.

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, 2005, the total unpaid amounts on these contracts was \$803,153.

(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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

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>2005 Sewer</u>	<u>Total</u>
<u>Assets:</u>			
Current assets	\$24,291,801	\$ 1,181,917	\$25,473,718
Restricted assets	3,945,046	10,831	3,955,877
Capital assets	<u>54,909,039</u>	<u>7,059,854</u>	<u>61,968,893</u>
Total Assets	<u>\$83,145,886</u>	<u>\$8,252,602</u>	<u>\$91,398,488</u>
<u>Liabilities:</u>			
Current liabilities	7,970,010	46,755	8,016,765
Noncurrent liabilities	<u>3,000,102</u>	<u>-0-</u>	<u>3,000,102</u>
Total Liabilities	<u>10,970,112</u>	<u>46,755</u>	<u>11,016,867</u>
<u>Net Assets:</u>			
Invested in capital assets, net of related debt	54,212,790	7,059,856	61,272,646
Restricted for facility expansion	2,101,682	10,831	2,112,513
Unrestricted	<u>15,861,302</u>	<u>1,135,160</u>	<u>16,996,462</u>
Total Net Assets	<u>72,175,774</u>	<u>8,205,847</u>	<u>80,381,621</u>
Total Liabilities and Net Assets	<u>\$83,145,886</u>	<u>\$8,252,602</u>	<u>\$91,398,488</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

14 - Segment Information (Continued)

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

	2005		
	Water	Sewer	Total
<u>Operating Revenues (Expenses):</u>			
Operating revenues	\$26,972,162	\$ 1,476,617	\$28,448,779
Depreciation expense	(2,601,730)	(312,732)	(2,914,462)
Other operating expenses	<u>(28,702,702)</u>	<u>(910,232)</u>	<u>(29,612,934)</u>
Operating Income (Loss)	<u>(4,332,270)</u>	<u>253,653</u>	<u>(4,078,617)</u>
<u>Nonoperating Revenues (Expenses):</u>			
Property taxes	1,061,881	-0-	1,061,881
Investment income	554,603	21,284	575,887
Other nonoperating revenues (expenses)	<u>772,894</u>	<u>-0-</u>	<u>772,894</u>
Total Nonoperating Revenues (Expenses)	<u>2,389,378</u>	<u>21,284</u>	<u>2,410,662</u>
 Income (Loss) Before Contributions	 (1,942,892)	 274,937	 (1,667,955)
<u>Capital Contributions</u>	<u>1,849,040</u>	<u>454,668</u>	<u>2,303,708</u>
 Change in Net Assets	 (93,852)	 729,605	 635,753
 Beginning Net Assets	 <u>72,269,626</u>	 <u>7,476,242</u>	 <u>79,745,868</u>
 ENDING NET ASSETS	 <u><u>\$72,175,774</u></u>	 <u><u>\$8,205,847</u></u>	 <u><u>\$80,381,621</u></u>

CONDENSED STATEMENT OF CASH FLOWS

	2005		
	Water	Sewer	Total
<u>Net Cash Provided (Used) By:</u>			
Operating activities	\$ (1,789,055)	\$ 543,236	\$(1,245,819)
Noncapital financing activities	1,061,277	(1,183)	1,060,094
Capital and related financing activities	(5,180,011)	(79,306)	(5,259,317)
Investing activities	<u>503,458</u>	<u>21,284</u>	<u>524,742</u>
Net Cash Used	<u>(5,404,331)</u>	<u>484,031</u>	<u>(4,920,300)</u>
 Beginning Cash and Cash Equivalents	 <u>11,550,812</u>	 <u>707,534</u>	 <u>12,258,346</u>
 ENDING CASH AND CASH EQUIVALENTS	 <u><u>\$ 6,146,481</u></u>	 <u><u>\$1,191,565</u></u>	 <u><u>\$ 7,338,046</u></u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

15 - New Governmental Accounting Standards

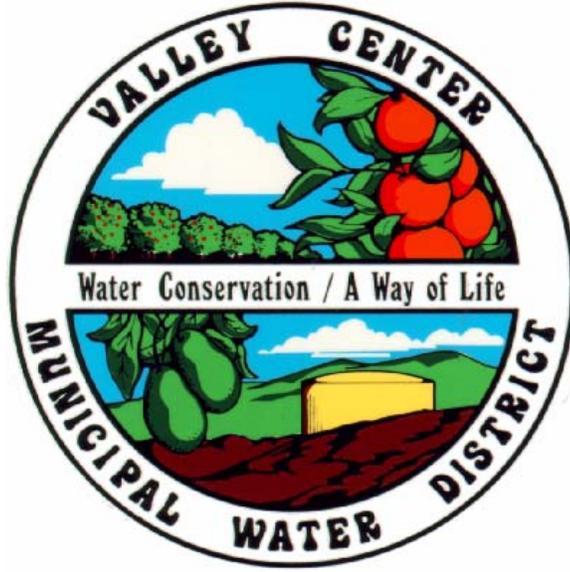
(a) GASB Statement No. 40

During the year, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosures". The objective of this statement is to update the custodial credit risk disclosure requirements and to establish more comprehensive disclosure requirements addressing other common risks of deposits and investments.

(b) GASB Statement No. 42

In November 2003 the Governmental Accounting Standards Board Issued Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and for the Insurance Recoveries. This pronouncement is effective for periods beginning after December 15, 2004, and requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. The District has not determined the effect, if any, on the financial statements in the year of adoption.





COMBINING SCHEDULES

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS
JUNE 30, 2005**

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	\$ 7,327,215	\$ 6,146,481	\$ 761,856	\$ 7,099	\$ 411,779
Investments	11,350,337	11,350,337			
Accounts receivable - water and sewer, net	4,389,654	4,389,654			
Accrued interest receivable	152,422	152,422			
Taxes receivable	16,441	15,258			1,183
Other receivables	202,277	202,277			
Inventory	380,629	380,629			
Prepaid expenses and deposits	272,916	272,916			
Work-in-progress for others	<u>1,381,827</u>	<u>1,381,827</u>			
Total Current Assets	<u>25,473,718</u>	<u>24,291,801</u>	<u>761,856</u>	<u>7,099</u>	<u>412,962</u>
<u>Noncurrent Assets:</u>					
Restricted Assets:					
Cash and cash equivalents	10,831			10,831	
Investments	<u>3,945,046</u>	<u>3,945,046</u>			
Total Restricted Assets	<u>3,955,877</u>	<u>3,945,046</u>	<u>-0-</u>	<u>10,831</u>	<u>-0-</u>
Capital Assets:					
Nondepreciable capital assets	8,152,523	7,896,776	46,742	123,848	85,157
Depreciable capital assets, net	<u>53,816,370</u>	<u>47,012,263</u>	<u>6,028,221</u>	<u>68,207</u>	<u>707,679</u>
Total Capital Assets	<u>61,968,893</u>	<u>54,909,039</u>	<u>6,074,963</u>	<u>192,055</u>	<u>792,836</u>
Total Noncurrent Assets	<u>65,924,770</u>	<u>58,854,085</u>	<u>6,074,963</u>	<u>202,886</u>	<u>792,836</u>
TOTAL ASSETS	<u>\$91,398,488</u>	<u>\$83,145,886</u>	<u>\$6,836,819</u>	<u>\$209,985</u>	<u>\$1,205,798</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS (CONTINUED)
JUNE 30, 2005**

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	\$ 5,347,404	\$ 5,347,404	\$	\$	\$
Accrued payroll	76,750	76,750			
Compensated absences	522,500	522,500			
Customer deposits	1,990,111	1,943,356	27,500		19,255
Current portion of long-term debt	<u>80,000</u>	<u>80,000</u>			
Total Current Liabilities	<u>8,016,765</u>	<u>7,970,010</u>	<u>27,500</u>	<u>-0-</u>	<u>19,255</u>
<u>Noncurrent Liabilities:</u>					
Liabilities Payable From Restricted Assets:					
Benefit plan liability	<u>1,843,364</u>	<u>1,843,364</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Long-Term Debt:					
Revenue bonds	695,000	695,000			
Less: Current portion above	<u>(80,000)</u>	<u>(80,000)</u>			
Total Long-Term Debt	<u>615,000</u>	<u>615,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Other Noncurrent Liabilities:					
Compensated absences	540,489	540,489			
Annexation fees payable	<u>1,249</u>	<u>1,249</u>			
Total Other Noncurrent Liabilities	<u>541,738</u>	<u>541,738</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Noncurrent Liabilities	<u>3,000,102</u>	<u>3,000,102</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>11,016,867</u>	<u>10,970,112</u>	<u>27,500</u>	<u>-0-</u>	<u>19,255</u>
<u>Net Assets:</u>					
Investment in capital assets, net of related debt	61,272,644	54,212,790	6,074,963	192,055	792,836
Restricted for facility expansion	2,112,513	2,101,682		10,831	
Unrestricted	<u>16,996,464</u>	<u>15,861,302</u>	<u>734,356</u>	<u>7,099</u>	<u>393,707</u>
Total Net Assets	<u>80,381,621</u>	<u>72,175,774</u>	<u>6,809,319</u>	<u>209,985</u>	<u>1,186,543</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$91,398,488</u>	<u>\$83,145,886</u>	<u>\$6,836,819</u>	<u>\$209,985</u>	<u>\$1,205,798</u>

**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	937,303	937,303			
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>					
Restricted Assets:					
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>
Capital Assets:					
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	<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			
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	49,486,373	5,991,048	154,163	693,401
Restricted for facility expansion	1,340,938	1,289,951		50,987	
Unrestricted	<u>22,079,945</u>	<u>21,493,302</u>	<u>322,757</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 REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005**

	<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	\$26,172,184	\$26,172,184	\$	\$	\$
Sewer charges	1,476,617		1,012,378	124,220	340,019
Meter installation fees	479,791	479,791			
Other water operating revenues	<u>320,187</u>	<u>320,187</u>			
Total Operating Revenues	<u>28,448,779</u>	<u>26,972,162</u>	<u>1,012,378</u>	<u>124,220</u>	<u>340,019</u>
<u>Operating Expenses:</u>					
Cost of water sold	17,202,614	17,202,614			
Energy and pumping costs	3,927,593	3,831,981	88,399	7,213	
Water systems operations	3,900,188	3,900,188			
Depreciation	2,914,462	2,601,730	287,562	7,107	18,063
General and administrative	2,779,509	2,602,981	116,761	22,131	37,636
Engineering	1,164,938	1,164,938			
Sewer collection and treatment	<u>638,092</u>	<u>638,092</u>	<u>389,289</u>	<u>81,583</u>	<u>167,220</u>
Total Operating Expenses	<u>32,527,396</u>	<u>31,304,432</u>	<u>882,011</u>	<u>118,034</u>	<u>222,919</u>
Operating Income (Loss)	<u>(4,078,617)</u>	<u>(4,332,270)</u>	<u>130,367</u>	<u>6,186</u>	<u>117,100</u>
<u>Nonoperating Revenues and (Expenses):</u>					
Property taxes and assessments	1,061,881	1,061,881			
Investment income	575,887	554,603	14,171	(413)	7,526
Energy settlement	473,798	473,798			
Other nonoperating revenues	414,104	414,104			
Interest expense	(23,099)	(23,099)			
Loss on disposal of assets	<u>(91,909)</u>	<u>(91,909)</u>			
Total Nonoperating Revenues and (Expenses)	<u>2,410,662</u>	<u>2,389,378</u>	<u>14,171</u>	<u>(413)</u>	<u>7,526</u>

(Continued)

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Total</u>	<u>General</u>	<u>Lower Moosa Sewer</u>	<u>Skyline Ranch Sewer</u>	<u>Woods Valley Ranch Sewer</u>
Income (Loss) Before Contributions	\$ (1,667,955)	\$(1,942,892)	\$ 144,538	\$ 5,773	\$124,626
Capital Contributions	<u>2,303,708</u>	<u>1,849,040</u>	<u>350,976</u>	<u>4,844</u>	<u>98,848</u>
Change in Net Assets	635,753	(93,852)	495,514	10,617	223,474
Net Assets at Beginning 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>
NET ASSETS AT END OF YEAR	<u>\$80,381,621</u>	<u>\$72,175,774</u>	<u>\$6,809,319</u>	<u>\$209,985</u>	<u>\$1,186,543</u>

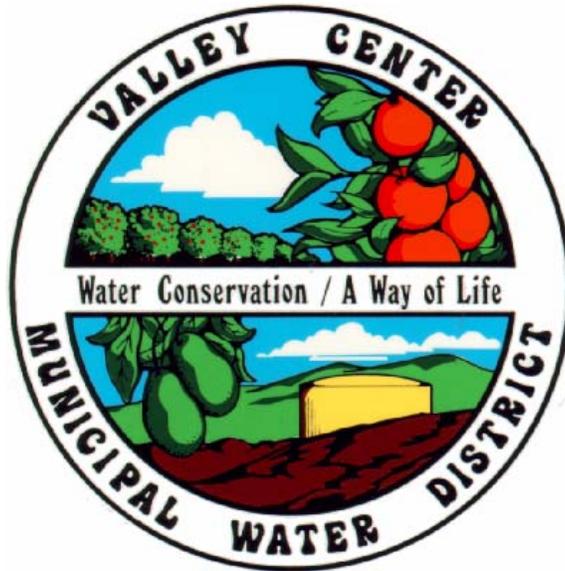
**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

	<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>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 Income (Loss)	<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			
Investment income	220,553	203,679	11,856	512	4,506
Energy settlement	421,154	421,154			
Other nonoperating revenues	153,641	153,641			
Interest expense	(51,573)	(19,698)	(31,875)		
Loss on disposal of assets	<u>(12,404)</u>	<u>(12,404)</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 (Loss) 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>



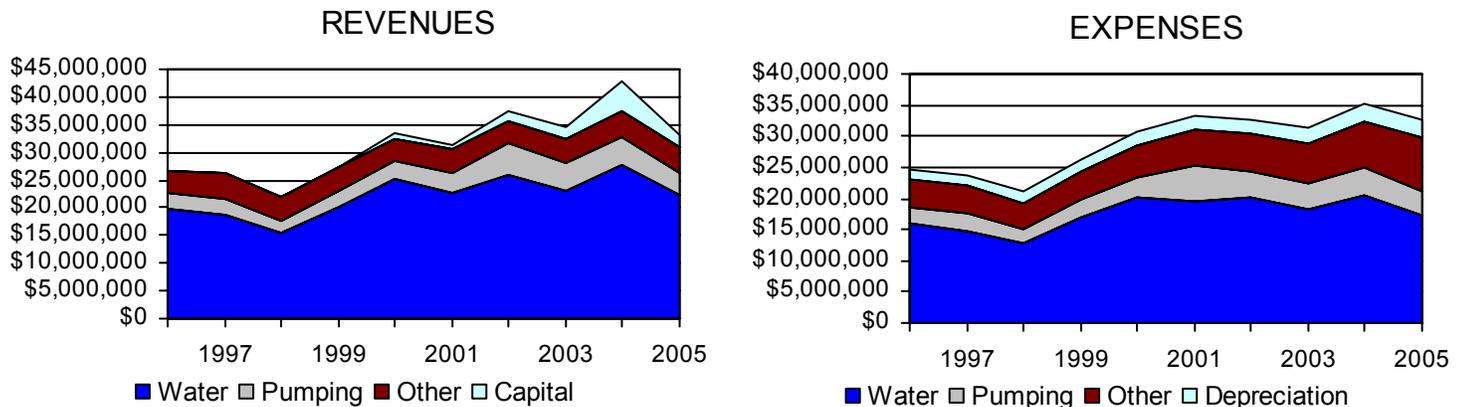
STATISTICAL SECTION

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

FISCAL YEAR ENDED	OPERATING REVENUES						NON-OPERATING REVENUES					
	WATER SALES (1)	PUMPING	METER INSTALLS	SEWER	OTHER	TOTAL OPERATING REVENUES	PROPERTY TAXES	INVESTMENT INCOME (3)	CAPITAL CONTRIBUTIONS (4)	OTHER	TOTAL REVENUES	
2005	\$22,330,102	\$3,842,082	\$479,791	\$1,476,617	\$320,187	\$28,448,779	\$1,061,881	\$575,887	\$2,303,708	\$887,902 (5)	\$33,278,157	
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	

- (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 \$473,798 in 2005, \$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				
	COST OF WATER SOLD	ENERGY AND PUMPING	WATER SYSTEMS OPERATIONS	SEWER COLLECTION TREATMENT	ENGINEER	GENERAL ADMIN. & FINANCE	DEPRECIATION	TOTAL OPERATING EXPENSES	INTEREST ON DEBT	OTHER (2)	TOTAL EXPENSES
2005	\$17,202,614	\$3,927,593	\$3,900,188	\$638,092	\$1,164,938	\$2,779,509	\$2,914,462	\$32,527,396	\$23,099	\$ 91,909	\$32,642,404
2004	20,475,081 (1)	4,510,435	3,235,666	551,085	947,818	2,497,208	2,849,745	35,067,038	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

- (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

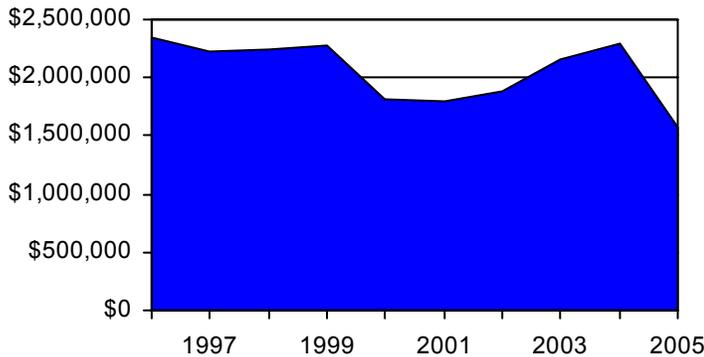
Table III
PROPERTY TAX AND ASSESSMENT LEVIES AND COLLECTIONS ⁽¹⁾
Last Ten Fiscal Years

FISCAL YEAR ENDED	LEVY			TOTAL COLLECTIONS(2)	NET DELINQUENT(3)	PERCENT DELINQUENT(4)
	PROPERTY TAXES	SPECIAL ASSESSMENTS	TOTAL LEVY			
2005	\$ 524,063 (5)	\$1,080,827	\$1,604,890	\$1,570,775	\$34,115	0.0 %
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 %

- (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.
- (5) Property Taxes net of \$1,097,331 as a result of SB1096 Property Tax Shift.

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

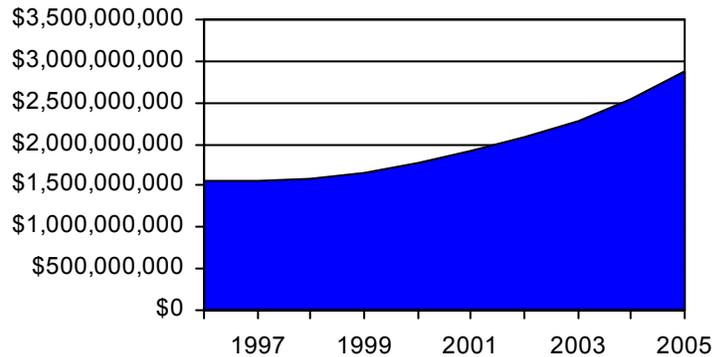


Table IV
ASSESSED VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

FISCAL YEAR ENDED	SECURED			NET ASSESSED VALUE	ASSESSED UNSECURED VALUE	TOTAL ASSESSED VALUE	TAX RATE
	REAL PROPERTY	PERSONAL PROPERTY	EXEMPTIONS				
2005	\$2,872,402,815	\$284,993	\$16,703,521	\$2,855,984,287	\$18,674,290	\$2,874,658,577	0.00000
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

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
2005	24,802	\$2,874,658,577	0	0	0	0.00 %	0.00
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

- (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

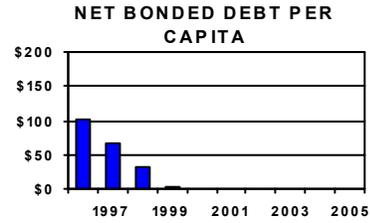
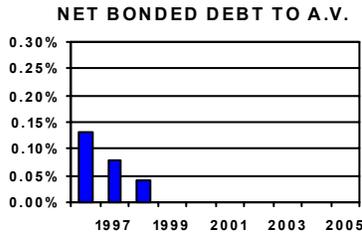


Table VI
DIRECT AND OVERLAPPING BONDED DEBT
June 30, 2005

<u>2004-05 Assessed Valuation</u>	\$2,874,658,577	Percent	Debt
		<u>Applicable</u>	<u>June 30, 2005</u>
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District		0.22	\$ 905,882
Valley Center Municipal Water District – Assessment District No. 96-1		100.00	1,345,000
Escondido Union High School District		6.83	2,766,353
Fallbrook Union High School District		1.60	353,921
Escondido Union School District		7.12	4,443,921
Valley Center –Pauma Unified School District		81.86	2,970,910
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			23,225,987
<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>			
San Diego County General Fund Obligations		1.14	5,278,916
San Diego County Pension Obligations		1.14	14,250,524
San Diego County Superintendent of Schools Certificates of Participation		1.14	145,920
Palomar Community College District Certificates of Participation		5.03	441,646
Escondido Union School District Certificates of Participation		7.12	954,792
City of Escondido Certificates of Participation		0.05	38,879
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT			21,110,677
COMBINED TOTAL DEBT			\$44,336,664
<u>Ratios to Assessed Valuation:</u>			
Direct Debt		0.00 %	
Total Direct and Overlapping Tax and Assessment Debt		0.81 %	
Combined Total Debt		1.54 %	
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/05			\$ 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	
2005	\$30,974,449	\$29,727,942	\$1,246,507	\$70,000	\$23,099	\$ 93,099	1,339 %
2004	37,597,370	32,281,270	5,316,100	70,000	51,573	121,573	4,373 %
2003	32,549,280	28,671,015	3,878,265	65,000	87,541	152,541	2,542 %
2002	35,786,845	29,994,195	5,792,650	60,000	94,322	154,322	3,754 %
2001	30,698,830	30,773,378	-74,548	50,000	117,294	167,294	-45 % (3)
2000	32,453,279	28,345,423	4,107,856	50,000	119,150	169,150	2,429 %
1999	27,331,606	24,175,086	3,156,520	170,000	88,052	258,052	1,223 %
1998	22,044,140	19,141,844	2,902,296	40,000	67,889	107,889	2,690 %
1997	26,209,945	21,532,039	4,677,906	40,000	70,591	110,591	4,230 %
1996	26,787,763	22,588,492	4,199,271	40,000	75,574	115,574	3,633 %

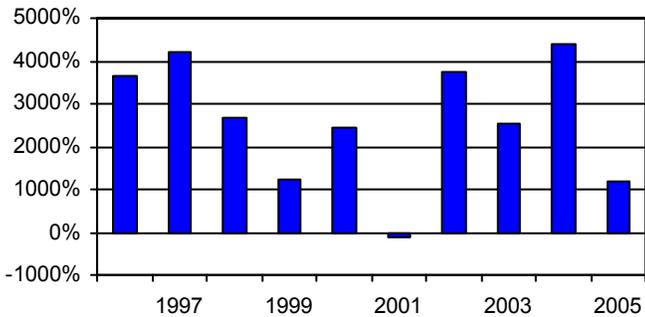
(1) Gross revenues exclude capital contributions.

(2) Operating expenses exclude depreciation.

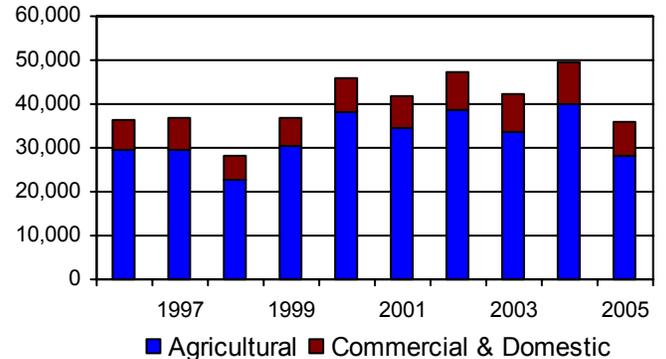
(3) Deficit resulted from increased energy costs which were met by using rate stabilization reserves of \$965,695. Coverage factor including the use of reserves as revenue is 533 %.

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		TOTAL	
	VALUE	ACRE FEET	VALUE	ACRE FEET	VALUE	ACRE FEET	VALUE	ACRE FEET
2005	\$5,959,185	6,324.7	\$1,321,841	1,744.7	\$15,049,076	28,020.4	\$22,330,102	36,089.8
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 (2)	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 (2)	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

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

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

Source: Valley Center Municipal Water District

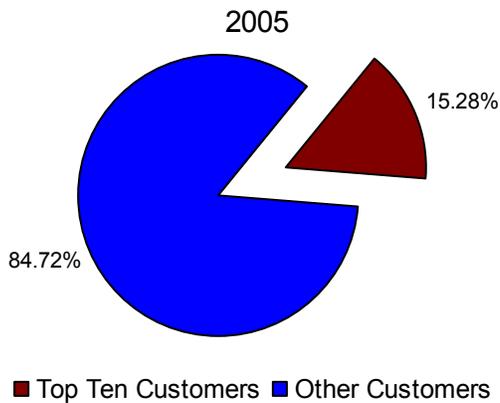
**Table IX
Principal Water Customers**

FISCAL YEAR ENDED 2005		
CUSTOMER	USAGE IN ACRE FEET	PERCENT OF WATER SOLD
Stehly, N. J. C.	927.0	2.57 %
Sierra Pacific Farms	855.2	2.37 %
BSTCO	790.4	2.19 %
Harlan Beck & Associates	618.3	1.71 %
Grandon Ranch Corp.	496.3	1.37 %
DeJong, John	489.5	1.36 %
Coykendall, H. C. J.	361.3	1.00 %
Rancho Sereno	361.3	1.00 %
Clayes, Dr. Joseph	310.8	.86 %
Bauer Farms, LLC	305.4	.85 %
Total Top Ten Customers	5,515.5	15.28 %
Other Customers	30,574.3	84.72 %
Total Water Sales	36,089.8	100.0 %

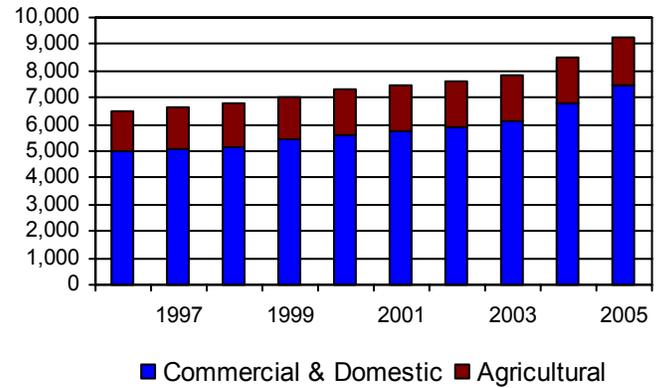
FISCAL YEAR ENDED 2004		
CUSTOMER	USAGE IN ACRE FEET	PERCENT OF WATER SOLD
Stehly, N. J. C.	1,382.9	2.80 %
Sierra Pacific Farms	1,361.0	2.76 %
BSTCO	1,228.6	2.49 %
Harlan Beck & Associates	988.6	2.00 %
DeJong, John	706.5	1.43 %
Grandon Ranch Corp.	695.1	1.41 %
Coykendall, H. C. J.	589.5	1.20 %
Rancho 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 %

Source: Valley Center Municipal Water District

PRINCIPAL WATER CUSTOMERS



ACTIVE METERS



**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		
2005	24,802	7,179	1,725	313	9,217	636	9,853	
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	

Source: Valley Center Municipal Water District

Table XI
DEMOGRAPHIC STATISTICS
June 30, 2005

WATER SYSTEM

Service Area	64,253 acres
Miles of Water Main (8 inches and larger)	289 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	9,853
Number of Meters in Service	9,217
Production Peak, Fiscal Year 2004-05 (July 17, 2004)	80.46 m.g.d.
Average Production, Fiscal Year 2004-05	34.02 m.g.d.

SEWER SYSTEM

Miles of Sewer Lines	53 miles
Number of Treatment Plants	3
Maximum Capacity of Treatment Plants	0.56 m.g.d.
Number of Sewer Connections	2,685

GENERAL INFORMATION

Estimated Population	24,802
Number of Authorized Employee Positions	80
Average Years of Service of Employees	10.25 years

Source: Valley Center Municipal Water District

**VALLEY CENTER MUNICIPAL WATER DISTRICT EMPLOYEES
2004-05**

GARY ARANT
BARBARA BAKER
GERALD BARNETT
DAVID BEAN
RICHARD BEATH
VELMA BLAKE
TOMAS BORROEL
MICHAEL BULL
JEFFREY BURTON
CRISTI BUSH
FERNANDO CARRILLO
CHRISTIAN CASTAING
ROBERT CATERINO
EARL COLIA
KENNETH COPE
CHARLES DACUS
RAMIRO DE ALBA-JIMENEZ
ROMAN DE MANRIQUEZ
NICHOLAS DEILE
DANIEL DENTINO
LAURIE DOERR
FRANCISCO DUMBRIQUE
GREG FEIK
MARCO FERNANDEZ
BRIAN FOWLER
IRENE FRANTZ
JORGE GARCIA
PATRICIA GARCIA
DALE GERTZEN

CHRISTINE GOOTEE
TROY GOSWICK
WALLY GRABBE
SA HATLAVONGSA
DENNIS HESKETT
CLARENCE HICKS
ADRIAN HILL
ALBERT HOYLE
RYAN HUGHES
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
ADAM NOWICKI

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