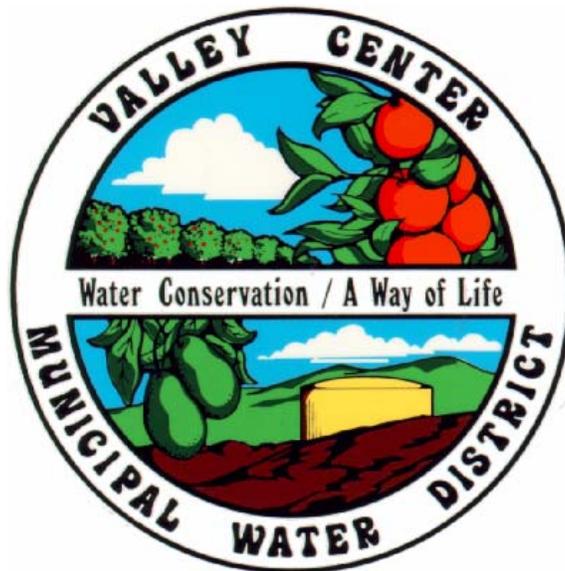


VALLEY CENTER MUNICIPAL WATER DISTRICT
Valley Center, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2006

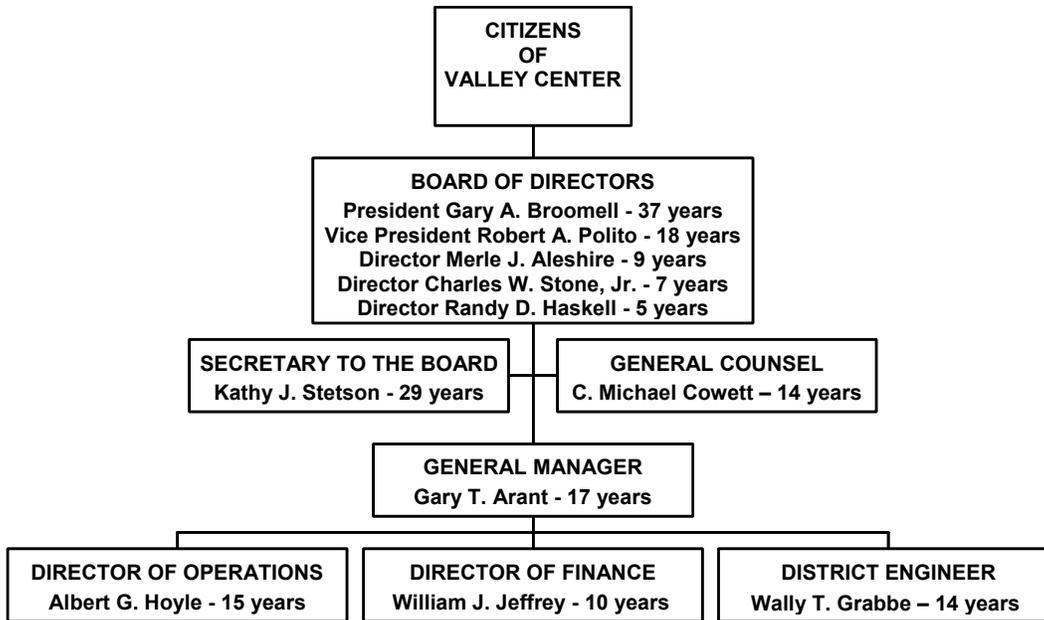


Prepared by:

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, 2005

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.



Carla E. Fudge

President

Jeffrey R. Egan

Executive Director





INTRODUCTORY SECTION

VALLEY CENTER MUNICIPAL WATER DISTRICT

A Public Agency Organized July 12, 1954

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

December 18, 2006

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

We are pleased to present the Valley Center Municipal Water District's Comprehensive Annual Financial Report for the year ended June 30, 2006.

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.

The Comprehensive Annual Financial Report is presented in three main sections:

- The Introductory Section, which includes this transmittal letter with other pertinent information to assist in understanding the financial condition of the District and the results of its operations for the year.
- The Financial Section, which includes the Independent Auditor's Report, Management's Discussion and Analysis (MD&A) of the Financial Statements, the District's Financial Statements for the Fiscal Year ended June 30, 2006, explanatory footnotes on the financial statements and supplemental schedules. The MD&A provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A compliment this letter of transmittal and should be read in conjunction with it.
- The Statistical Section, which includes 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.

PROFILE OF THE DISTRICT

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 Wastewater Treatment, Skyline Ranch Wastewater, and Woods Valley Ranch Wastewater.

General operations account for all activity related to water operations as well as the general operations of the District. Lower Moosa Wastewater Treatment and Woods Valley Ranch Wastewater Treatment account for the wastewater collection and treatment operations for these two 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.

AUDIT AND BUDGET

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 wastewater services 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. Capital assets are recorded in the fund purchasing the asset.

The District requires an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Leaf & Cole, LLP, was appointed by the Board of Directors to conduct this year's audit. Their audit report, which contains an unqualified ("clean") opinion on the District's financial statements, is located at the front of the financial section of this report.

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 chooses to approve a two-year budget 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 budget must be viewed as an estimate only. Budget appropriations for major capital projects continue from year to year until the project is completed.

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.

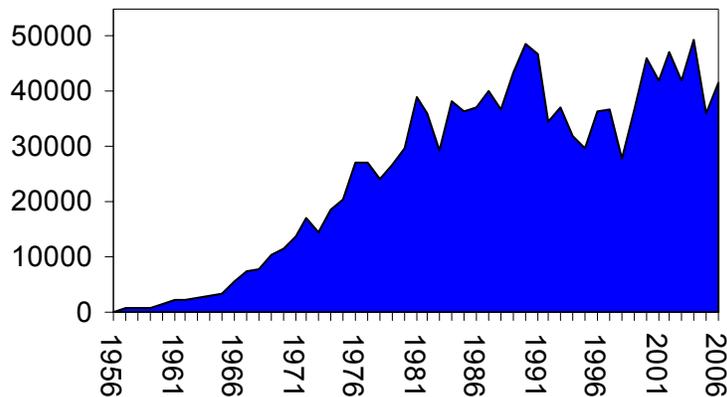
DISTRICT FORMATION AND ORGANIZATION

Valley Center Municipal Water District was founded on July 12, 1954, pursuant to the California Municipal Water District Law of 1911. The District encompasses approximately 100 square miles of land in northern San Diego County. The District provides water and wastewater services to its domestic, agricultural and commercial customers. While growth continues to occur, primarily in the domestic market, it is the agricultural customers that generate the largest demands on the system. Although comprising 18% of the total customers, 79% of the total water demand was used to irrigate avocado and citrus groves as well as for many 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 which oversee the Finance, Engineering, and Operations Departments. There are currently 83 employees working for the District.

Valley Center Municipal Water District purchases 100% of its water from the San Diego County Water Authority (SDCWA or “Authority”) at a cost \$20.9 million, or 57% of District operating expenses. The Authority imports most of its water from the Metropolitan Water District of Southern California (MWD). The District billed 9,302 customers for 41,719 acre feet of water during the year ended June 30, 2006.

WATER SALES In Acre Feet



The District’s water system includes eight aqueduct connections, 42 reservoirs, 26 pumping stations and 291 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 also provides sanitation service for approximately 2,530 customers through two wastewater treatment facilities: the 500,000 gallon per day Lower Moosa Canyon Water Reclamation Facility at Circle R Drive near Old Highway 395 and the second wastewater system which will ultimately serve 270 homes and a golf course in Woods Valley Ranch. Construction of the permanent treatment facility is being performed by the developer. 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. The District also operated the 25,000 gallon per day Skyline Ranch plant on Paradise Mountain until May 2006, at which time operation reverted to the property owner.

ECONOMIC CONDITIONS

The estimated population of the District is 25,441. 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 2005 was 40.7 years and the median household income was \$80,352. 25% of the residents were under the age of 18 and 16% age of 65 and older.

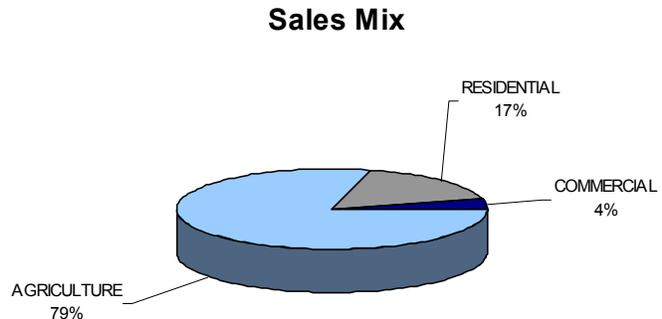
From 2000 to 2005, the population increased 17½%, and is forecast to increase 11% by 2010 and a total of 45% by 2020. Median household income (adjusted for inflation) grew 8% from 2000 to 2005, but is expected to increase slightly less than inflation through 2020.

DISTRICT ECONOMIC RESULTS

The demand for new connections continued, with the District's total active meters increasing in 2005-06 by 404 meters to 9,579, including 838 fire meters. In addition, the District has service availability letters for approximately one hundred connections in process, including homes in the Rimrock, Islands, and Valley View developments.

Water sales for 2005-06 were 41,719 acre feet, up 5,629 acre feet or 15.6% from sales of 36,090 acre feet in 2004-05, but slightly lower than expected. Rainfall was thirteen and one-half inches, slightly above average, compared to thirty-four inches for the previous year. This wide fluctuation of water sales, resulting primarily from weather conditions, illustrates the influence of agriculture on total water demand.

Agricultural users purchased 79% of the District's total water sales in fiscal year 2005-06, similar to 81% in 1995-96. The average water sold to the District's agricultural users over the previous ten year period was 81%. As water is one of the largest costs of farmers in San Diego County, agricultural users in the area are continually developing more efficient irrigation systems.



Since May of 1994, the Metropolitan Water District's Interim Agricultural Water Program (IAWP) has provided a discount to qualifying agricultural water users. In addition, the San Diego County Water Authority offers a rebate on their 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 2006 discounts total \$205 per acre foot, saving the District's agricultural customers \$4.7 million in 2005-06. However, the continued increase in demands for new homes in Southern California will continue to result in the conversion of some farm land to housing.

Since May of 1994, the Metropolitan Water District's Interim Agricultural Water Program (IAWP) has provided a discount to qualifying agricultural water users. In addition, the San Diego County Water Authority offers a rebate on their 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 2006 discounts total \$205 per acre foot, saving the District's agricultural customers \$4.7 million in 2005-06. However, the continued increase in demands for new homes in Southern California will continue to result in the conversion of some farm land to housing.

Energy – Energy challenges facing the District include the volatile cost of natural gas supplies and summer peak day supply issues for electricity. Intermittent electricity supply shortages on peak summer days remain possible through the next few years as construction and permitting of new electricity generation lags behind the steadily increasing demand. Following electric rate increases in 2006, due to natural gas supply shortages and generation capacity constraints, prices are expected to stabilize.

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. The District will continue to study alternative energy sources and will consider their use when economically feasible.

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 currently financed from standby fees and capital reserves on a pay as you go cash basis. 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 relocation or private development projects provide the opportunity to replace an existing facility.

At June 30, 2006, the District had \$615,000 in revenue bonds. No new debt was issued. Based on our financial projections and capital improvement plan, the District estimates that it will require a debt issuance during the 2006-07 fiscal year. The estimated amount of this issuance is \$8,300,000 with an estimated annual debt service in the amount of \$718,200.

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) – The core map service viewer has been created along with an updated GIS homepage. The core map service enables staff to perform basic query functions on various layers of District data. Final deliverables for the six-inch pixel resolution aerial imagery and the two-foot contour data is to be completed by December 2006.

Supervisory Control And Data Acquisition (SCADA) System – System designs for the Couser Pump Station and the Woods Valley Ranch Water Reclamation Facility were completed and are under construction. The tone telemetry system in the control room has been diverted from the existing control console to the SCADA system software application.

Employee Training and Development – This program has been developed and adopted by the Board of Directors for implementation over the next two fiscal years.

Capital Financing Plan – The long range financial plan report was completed in June 2005. The financial model has been integrated into our budgeting and rate setting process. We are working with our financial advisor to assist the District in preparing for a debt issuance during 2006-07 to fund the capital projects recommended in our Water Master Plan while maintaining adequate reserves. 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.

Economic Study Group (ESG) – Though efforts to legislatively change the voting structure were abandoned, work continued on and was successful in reforming the governance at the local level. Changes were implemented to strengthen the committee process showing the impact of the smaller member agencies.

Resources Evaluation – A comprehensive analysis of a potential one mega-watt solar power facility located at Lake Turner to supply a portion of the electrical power for the Betsworth Pumping Station was completed. Based on the analysis, it was determined that the project would not be pursued at this time, but economic factors impacting the project would continue to be monitored and the project reconsidered in the future.

In addition, an agreement was negotiated and approved by the Board of Directors to participate in the Poseidon-City of Carlsbad Sea Water Desalination Project. This agreement could result in the District receiving in-lieu deliveries of up to 7,500 acre feet per year of desalted seawater.

STRATEGIC PLAN PERFORMANCE MEASUREMENT STANDARDS RESULTS FOR YEAR ENDED JUNE 30, 2006

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

Survey responses show we met or exceeded expectations 98.7% of the time.

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

Water loss for calendar year 2005 was 5.6%. Additional resources will be allocated in the coming year to reduce this loss to our standard.

3. OPERATING RESERVES - *Operating Reserves shall be equal to six months operating and maintenance expenses (excluding wholesale water and power purchases).*

Our Operating Reserve at year end represents less than one months operating and maintenance expenses. The Reserve will be restored after the completion of a debt issue in 2007 to reimburse capital project costs.

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 10.5% and 14.4% 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 99.4%.

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

Four projects were bid with aggregate results 7.6% more 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.

The District had two-lost time accidents in 2005-06 representing 0.03% of total hours worked.

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 equaled the 12-month rolling average rate of return on U.S. Treasury bonds for the year.

PLANNING AND CONSTRUCTION PROJECTS

Transmission, Distribution, and Storage Facilities Improvements – The 2 million gallon Meadows No. 2 Reservoir was placed in service, adding needed capacity and redundancy in that area. The Paradise No. 1 and Meadows No. 1 reservoirs were recoated, as well as the Reidy Creek pipeline replacement project being completed.

Major projects currently underway in the District include: the replacement of approximately 17,708 feet of pipeline in Valley Center Road in conjunction with the County of San Diego's road widening schedule and the reconstruction of the Couser Pump Station.

South Village Water Reclamation - The Woods Valley Ranch permanent facility is currently under construction by the developer. An interim, 50,000 gallons per day, water reclamation facility is currently being utilized for the treatment of wastewater flows generated by the homes connected to the system prior to completion of the permanent plant. 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.

Lower Moosa Canyon Water Reclamation Facility -The Lower Moosa Canyon Water Reclamation Facility provides wastewater service to the Interstate 15 corridor area of the District, which includes the communities of Hidden Meadows, Lawrence Welk Village, Castle Creek, Champagne Village, the Treasures, Islands, and Oak Woodlands. Currently, the capacity of the plant is 0.5 m.g.d. (million gallons per day) which easily accommodates the existing average daily flow rate of approximately 0.31 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.

Skyline Ranch Wastewater Treatment Facility – The Skyline Ranch Wastewater Treatment Facility was fully supported by the Skyline Ranch Country Club, which it served exclusively. The Skyline Ranch Country Club petitioned the District and the Regional Water Quality Control Board (RWQCB) to have the plant and the Waste Discharge Permit transferred to them for ownership, operation, and maintenance. Transfer of the facility was approved by the RWQCB subject to a new Waste Discharge Permit and completion of a transfer agreement. The transfer agreement was prepared, executed, and became effective May 5, 2006.

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, 2005. 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 fourteen consecutive years (fiscal years ended 1992 through 2005). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

ACKNOWLEDGMENTS

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

Respectfully Submitted:



Gary T. Arant
General Manager



William J. Jeffrey
Director of Finance





FINANCIAL SECTION





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A Partnership of Professional Corporations

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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, 2006, 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, 2006, 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 2006 combining schedule of balance sheets and the 2006 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 as of and for the year ended June 30, 2006, 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, 2005, 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 2005 combining schedule of balance sheets and the 2005 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.

San Diego, California
September 22, 2006

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, 2006. Please read it in conjunction with the transmittal letter at the front of this report and the District's financial statements, which follow this section.

FINANCIAL STATEMENTS

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

- Balance 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.

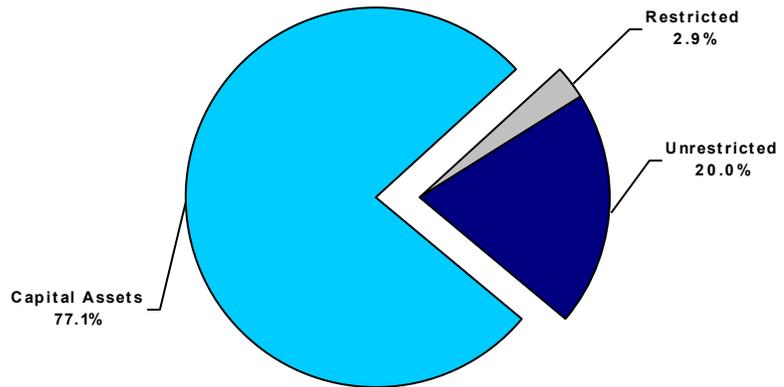
FINANCIAL HIGHLIGHTS

During the year ended June 30, 2006, net assets increased by \$1,161,371. Total revenues were \$38,720,139, which included operating revenues of \$34,980,351, nonoperating revenues of \$2,154,156, and capital contributions of \$1,585,632. Total revenues increased \$5,441,982 from the prior year with total expenses also increasing \$4,916,364. For the year ended June 30, 2006, operating expenses exceeded operating revenues by \$2,359,698 and by \$4,078,617 for the previous year. Nonoperating revenues of \$2,154,156 exceeded nonoperating expenses of \$218,719. Nonoperating revenues consist primarily of property taxes and assessments, investment income. Capital contributions of \$1,585,632 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 2005 and 2006 from \$80,381,621 to \$81,542,992. Net assets invested in capital assets, net of related debt, increased \$1,614,504, restricted net assets increased \$250,542 with the collection of capacity fees, and unrestricted net assets decreased \$703,675 primarily to fund capital projects.

TOTAL NET ASSETS
Fiscal Year 2005-06



NET ASSETS

	2006	2005
Current Assets	\$ 26,178,681	\$ 25,473,718
Restricted assets	4,267,473	3,955,877
Capital assets	63,502,148	61,968,893
Total Assets	\$ 93,948,302	\$ 91,398,488
Current liabilities	\$ 9,349,970	\$ 8,016,765
Noncurrent liabilities	3,055,340	3,000,102
Total Liabilities	12,405,310	11,016,867
Net assets:		
Invested in capital assets, net of related debt	62,887,148	61,272,644
Restricted for facility expansion	2,363,055	2,112,513
Unrestricted	16,292,789	16,996,464
Total Net Assets	81,542,992	80,381,621
Total Liabilities and Net Assets	\$ 93,948,302	\$ 91,398,488

Change in Net Assets - The District's operating revenues increased 23.0% to \$34,980,351 as a result of increased consumption attributed to a decrease in rainfall, 13½ inches in 2005-06 compared to 34 inches in 2004-05.

The District's operating expenses increased 14.8% to \$37,340,049. Operating expenses increased primarily due to an increase in the volume of water purchased in response to the increase in demand noted above.

The District's investment income showed a slight decrease, \$11,321, including unrealized gains and losses on investments. Tax revenues increased 28.4% to \$1,363,904 due to the increase in assessed valuation in property throughout the district. The percentage change appears large because of the Educational Revenue Augmentation Fund (ERAF) property tax shift of \$1,000,000 each year. The actual increase in assessed valuation was 19.5%.

CHANGES IN NET ASSETS

	<u>2006</u>	<u>2005</u>
<u>Operating Revenues:</u>		
Water sales and pumping charges	\$32,422,914	\$26,172,184
Sewer charges	1,516,327	1,476,617
Meter installation fees	474,070	479,791
Other water operating revenues	567,040	320,187
Total Operating Revenues	<u>34,980,351</u>	<u>28,448,779</u>
<u>Operating Expenses:</u>		
Cost of water sold	20,902,095	17,202,614
Energy and pumping costs	4,506,674	3,927,593
Water systems operations	4,125,970	3,900,188
Sewer collection and treatment	641,189	638,092
Engineering	1,208,598	1,164,938
General and administrative	2,780,531	2,779,509
Depreciation	3,174,992	2,914,462
Total Operating Expenses	<u>37,340,049</u>	<u>32,527,396</u>
Operating Loss	<u>(2,359,698)</u>	<u>(4,078,617)</u>
<u>Nonoperating Revenues (Expenses):</u>		
Property taxes and assessments	1,363,904	1,061,881
Investment income	564,566	575,887
Energy settlement	0	473,798
Other nonoperating revenues	225,686	414,104
Interest expense	(28,564)	(23,099)
Loss on disposal of assets	(190,155)	(91,909)
Total Nonoperating Revenues (Expenses)	<u>1,935,437</u>	<u>2,410,662</u>
(Loss) Before Contributions	(424,261)	(1,667,955)
Capital Contributions	<u>1,585,632</u>	<u>2,303,708</u>
Change in Net Assets	1,161,371	635,753
Net Assets at Beginning of Year	<u>80,381,621</u>	<u>79,745,868</u>
NET ASSETS AT END OF YEAR	<u><u>\$81,542,992</u></u>	<u><u>\$80,381,621</u></u>

ANALYSIS OF OPERATIONS

Water Operations

Revenues for the year ended June 30, 2006, totaled \$36,840,848, which is a 17.6% increase from the prior year. Details of this increase in revenues are as follows:

➤ Water sales increased by 26.3%, or \$5,171,775, from the prior year. There was a 15.6% increase in the volume of water sold. In 2005-06, 41,719 acre feet of water were billed compared to 36,090 acre feet in the prior year. Water rates increased 7.5% for domestic and 4.8% for agricultural, almost entirely due to increases in wholesale costs from the District's suppliers. Meter charges increased 14.3% from \$2,653,225 in 2004-05 to \$3,031,610 in 2005-06 because of a growth in customers and increased rates.

➤ Energy and pumping revenues increased 18.2%, or \$700,570, due to the increase in the volume of water sold.

➤ Property taxes and assessments increased by 28.4%, or \$302,023, from 2004-05 to 2005-06. This increase is due to the increase in assessed valuation in property throughout the district. The percentage change appears large because of the Educational Revenue Augmentation Fund (ERAF) property tax shift. 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.

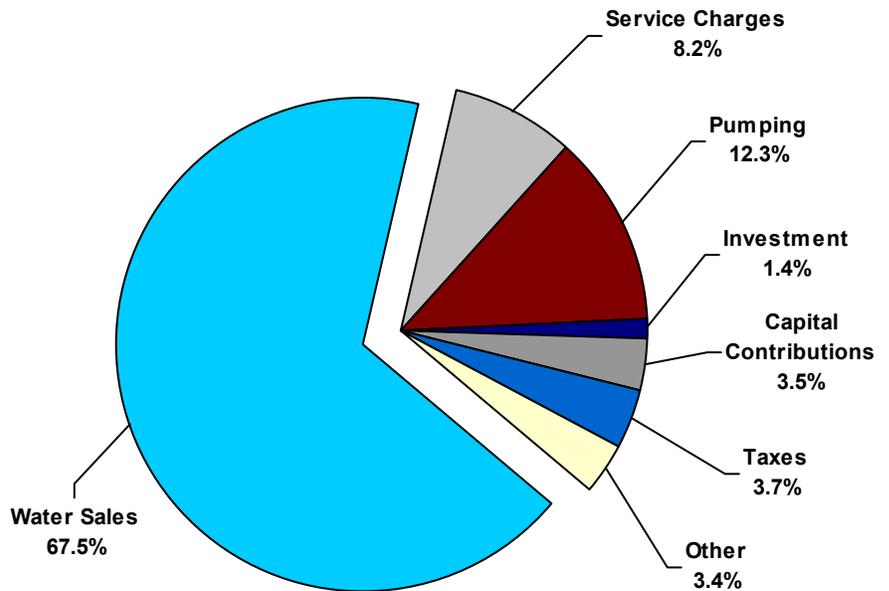
➤ Investment income was down 6.7%, or \$37,169, from the prior year. This decrease is due to lower cash balances. Yields fluctuated between 2.9% and 4.2% during the course of the year, compared to 2.2% and 2.9% the prior year.

➤ Meter installation fees decreased \$5,721, or 1.2% from the prior year. This is a result of the stabilizing in local development projects and new housing starts in the District.

➤ Other nonoperating revenues decreased \$188,418, or 45.5% in 2005-06. These include rents received from leases for telecommunications facilities. The decrease is the result of the reimbursement in 2004-05 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 \$579,240 or 31.3% from the prior year.

WATER OPERATIONS REVENUE Fiscal Year 2005-06

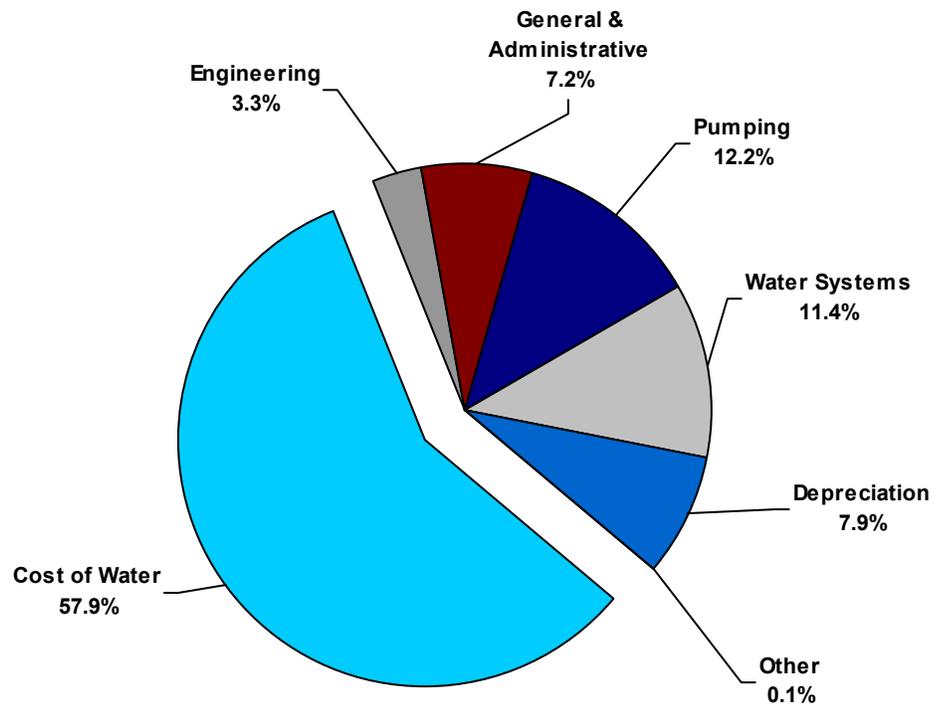


Expenses for the year ended June 30, 2006, totaled \$36,138,069, an increase of 15.0% or \$4,718,629. Certain significant expenses are as follows:

- The cost of water sold increased 21.5% due to increased water deliveries caused by a decrease in rainfall during the year. In 2004-05, the District purchased 38,105 acre feet of water at an average price of \$451 per acre foot. In the current year, the District purchased 44,767 acre feet of water at an average price of \$467 per acre foot, an increase of 3.4% or \$16 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 \$4,716,933 for fiscal year 2005-06, including \$795,492 from SDCWA on their melded water rate. This equates to a rebate of \$143 per acre foot. This cost reduction for agricultural water is passed through to the District's qualified agricultural customers.

WATER OPERATIONS EXPENSES Fiscal Year 2005-06



- Energy and pumping costs associated with the distribution of water for the District increased 14.6%, or \$559,899, due to the increase in water deliveries.
- Water systems operations expenses increased 5.8%, or \$225,782, from the prior year due to increased labor, maintenance and operating costs.
- General and administrative expenses increased slightly 0.2% or \$5,456 due to increased payroll costs, maintenance, and supplies offset by a reduction in outside services.
- Depreciation expense in 2005-06 increased 10.0%, or \$260,525, from the prior year due to plant additions.
- Interest expense showed a slight increase due to the higher interest rates from the previous year.
- Other nonoperating expenses were \$10,270 compared to the prior year of \$91,909. This represents a reduction in the undepreciated balance of assets which were replaced during the year.

WATER OPERATIONS CHANGES IN NET ASSETS

	2006	2005	Increase (Decrease)	Percent Change
REVENUES:				
Water Sales	\$24,848,652	\$19,676,877	\$ 5,171,775	26.3 %
Meter Service Charges	3,031,610	2,653,225	378,385	14.3 %
Pumping and energy charges	4,542,652	3,842,082	700,570	18.2 %
Meter Installation Fees	474,070	479,791	(5,721)	(1.2) %
Other water operating revenues	567,040	320,187	246,853	77.1 %
Property taxes and assessments	1,363,904	1,061,881	302,023	28.4 %
Investment income	517,434	554,603	(37,169)	(6.7) %
Energy settlement	0	473,798	(473,798)	(100.0) %
Other nonoperating revenues	225,686	414,104	(188,418)	(45.5) %
Capital Contributions	1,269,800	1,849,040	(579,240)	(31.3) %
Total revenues	<u>36,840,848</u>	<u>31,325,588</u>	<u>5,515,260</u>	<u>17.6 %</u>
EXPENSES:				
Cost of water sold	20,902,095	17,202,614	3,699,481	21.5 %
Energy and pumping costs	4,391,880	3,831,981	559,899	14.6 %
Water systems operations	4,125,970	3,900,188	225,782	5.8 %
Engineering	1,208,598	1,164,938	43,660	3.7 %
General and administrative	2,608,437	2,602,981	5,456	0.2 %
Depreciation	2,862,255	2,601,730	260,525	10.0 %
Interest Expense	28,564	23,099	5,465	23.7 %
Other nonoperating expenses	10,270	91,909	(81,639)	(88.8) %
Total expenses	<u>36,138,069</u>	<u>31,419,440</u>	<u>4,718,629</u>	<u>15.0 %</u>
Change in Net Assets	<u>\$ 702,779</u>	<u>\$ (93,852)</u>	<u>\$ 796,631</u>	<u>848.8 %</u>

Sewer Treatment Operations

The Lower Moosa Canyon Water Reclamation Facility serves 2,309 customers in a limited geographic area on the west side of the District. The revenue from sewer charges was \$1,089,575 for 2005-06, an increase of \$77,197 from the prior year. This increase is primarily due to a 4% increase in sewer service connections, as well as rate increases to fund operations and maintenance.

LOWER MOOSA CHANGES IN NET ASSETS

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
REVENUES:				
Sewer charges	\$ 1,089,575	\$ 1,012,378	\$ 77,197	7.6 %
Investment income	29,555	14,171	15,384	108.6 %
Capital contributions	<u>272,119</u>	<u>350,976</u>	<u>(78,857)</u>	<u>(22.5) %</u>
Total revenues	<u>1,391,249</u>	<u>1,377,525</u>	<u>13,724</u>	<u>1.0 %</u>
EXPENSES:				
Energy and pumping costs	105,193	88,399	16,794	19.0 %
Sewer collection and treatment	477,152	389,289	87,863	22.6 %
General and administrative	130,392	116,761	13,631	11.7 %
Depreciation	<u>288,584</u>	<u>287,562</u>	<u>1,022</u>	<u>0.4 %</u>
Total expenses	<u>1,001,321</u>	<u>882,011</u>	<u>119,310</u>	<u>13.5 %</u>
Change in Net Assets	<u>\$ 389,928</u>	<u>\$ 495,514</u>	<u>\$ (105,586)</u>	<u>(21.3) %</u>

Expenses for the year ended June 30, 2006, totaled \$1,001,321, an increase of 13.5% or \$119,310. Certain significant expenses are as follows:

- Energy and pumping costs were \$16,794 higher than the previous year due to increased connections as well as higher energy costs.
- Sewer collection and treatment costs were 22.6% higher than last year, or \$87,863, due to increased maintenance costs.
- General and administrative expenses were 11.7% higher than last year, or \$13,631. 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 \$117,809 for the period ending June 30, 2006 and \$144,538 as of June 30, 2005.

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 served 222 customers in a single mobile home park on the east side of the District. The agreement between the District and the park required the park to pay the full cost of maintenance, operation and replacement of the facilities. Net income in one year was used to reduce rates in the subsequent year, while losses were recovered in the subsequent year. As of May 5, 2006, ownership, operation, and maintenance reverted back to the Skyline Ranch Country Club. Other nonoperating expenses reflect the transfer of the plant's net assets back to the property owner.

SKYLINE RANCH CHANGES IN NET ASSETS

	2006	2005	Increase (Decrease)	Percent Change
REVENUES:				
Sewer Charges	\$ 77,693	\$ 124,220	\$ (46,527)	(37.5) %
Investment Income	(87)	(413)	326	78.9 %
Capital Contribution	3,393	4,844	(1,451)	30.0 %
Total revenues	<u>80,999</u>	<u>128,651</u>	<u>(47,652)</u>	<u>(37.0) %</u>
EXPENSES:				
Energy and pumping costs	9,601	7,213	2,388	33.1 %
Sewer collection and treatment	79,189	81,583	(2,394)	(2.9) %
General and administrative	16,386	22,131	(5,745)	(26.0) %
Depreciation	5,923	7,107	(1,184)	(16.7) %
Other nonoperating expenses	179,885	0	179,885	0.0 %
Total expenses	<u>290,984</u>	<u>118,034</u>	<u>172,950</u>	<u>146.5 %</u>
Change in Net Assets	<u>\$ (209,985)</u>	<u>\$ 10,617</u>	<u>\$ (220,602)</u>	<u>(2077.8) %</u>

The Woods Valley Ranch Water Reclamation Facility will serve 270 homes and the golf course of the development. The permanent 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 226 homes have been constructed and flow is currently being treated by a temporary 50,000 gallon per day treatment facility.

WOODS VALLEY RANCH CHANGES IN NET ASSETS

	2006	2005	Increase (Decrease)	Percent Change
REVENUES:				
Sewer Charges	\$ 349,059	\$ 340,019	\$ 9,040	2.7 %
Investment Income	17,664	7,526	10,138	134.7 %
Capital Contribution	40,320	98,848	(58,528)	(59.2) %
Total revenues	<u>407,043</u>	<u>446,393</u>	<u>(39,350)</u>	<u>(8.8) %</u>
EXPENSES:				
Sewer collection and treatment	84,848	167,220	(82,372)	(49.3) %
General and administrative	25,316	37,636	(12,320)	(32.7) %
Depreciation	18,230	18,063	167	0.9 %
Total expenses	<u>128,394</u>	<u>222,919</u>	<u>(94,525)</u>	<u>(42.4) %</u>
Change in Net Assets	<u>\$ 278,649</u>	<u>\$ 223,474</u>	<u>\$ 55,175</u>	<u>24.7 %</u>

CAPITAL ASSETS

Capital assets include land, annexation fees, transmission and distribution system, general plant, and construction-in-progress. At June 30, 2006, the District had \$110,105,265 in capital assets with \$46,603,117 of accumulated depreciation. This represents a net increase (including additions and deductions) of \$1,533,255, or 2.5% over the prior year. Significant additions include Meadows #2 Reservoir, Couser Pump Station, SCADA system improvements, geographical information system improvements, and security upgrades. In addition, contributed assets included two miles of water mains and 1 mile of sewer main, including mains in the Sherwood Ridge and Oak Woodlands subdivisions.

CAPITAL ASSETS

	2006	2005
Land	\$ 3,356,379	\$ 2,874,326
Annexation fees	786,185	786,185
Construction-in-progress	4,313,836	4,492,012
Transmission and distribution system	94,085,813	90,800,279
General plant	7,563,052	6,775,518
Total	\$110,105,265	\$105,728,320

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

LONG-TERM DEBT

At June 30, 2006, the District had \$615,000 in revenue bonds, compared to \$695,000 in revenue bonds payable at June 30, 2005. No new debt was issued during the year. Based on our financial projections and capital improvement plan, the District estimates that it will require a debt issuance during the 2006-07 fiscal year. The estimated amount of this issuance is \$8,300,000 with an estimated annual debt service in the amount of \$718,200. The District had no general obligation bonded debt at June 30, 2006. 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. At June 30, 2006, the District had designated \$680,757 of its unrestricted net assets as an operating reserve to mitigate the potential of these effects. This represents less than one months operating and maintenance expenses. The reserve will be restored to the strategic plan goal of six months operating and maintenance expenses after the completion of a debt issue in 2007 to reimburse capital project costs.

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, 2006**

ASSETS

Current Assets: (Notes 1 and 2)

Cash and cash equivalents	\$ 6,682,436
Investments	11,102,269
Accounts receivable - water and sewer, net	5,248,367
Accrued interest receivable	154,059
Taxes receivable	6,782
Other receivables	34,195
Inventory	394,020
Prepaid expenses and deposits	286,603
Work in progress for others	<u>2,269,950</u>
Total Current Assets	<u>26,178,681</u>

Noncurrent Assets:

Restricted Assets: (Notes 1, 2 and 3)

Investments	<u>4,267,473</u>
Total Restricted Assets	<u>4,267,473</u>

Capital Assets: (Notes 1 and 4)

Nondepreciable capital assets	8,456,400
Depreciable capital assets, net	<u>55,045,748</u>
Total Capital Assets	<u>63,502,148</u>

Total Noncurrent Assets	<u>67,769,621</u>
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TOTAL ASSETS **\$93,948,302**

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

LIABILITIES AND NET ASSETS

Current Liabilities: (Note 1)

Accounts payable	\$ 5,778,763
Accrued payroll	98,063
Accrued compensated absences	597,300
Customer deposits	2,795,844
Current portion of long-term debt	<u>80,000</u>
Total Current Liabilities	<u>9,349,970</u>

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

Liabilities Payable From Restricted Assets:

Benefit plan liability	<u>1,904,418</u>
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Long-Term Debt:

Revenue bonds	615,000
Less: Current portion above	<u>(80,000)</u>
Total Long-Term Debt	<u>535,000</u>

Other Noncurrent Liabilities:

Accrued compensated absences	<u>615,922</u>
Total Other Noncurrent Liabilities	<u>615,922</u>

Total Noncurrent Liabilities	<u>3,055,340</u>
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Total Liabilities	<u>12,405,310</u>
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Commitments and Contingencies (Notes 7, 9, 10, 12 and 13)

Net Assets: (Note 8)

Invested in capital assets, net of related debt	62,887,148
Restricted for facility expansion	2,363,055
Unrestricted	<u>16,292,789</u>
Total Net Assets	<u>81,542,992</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$93,948,302</u>
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**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

Operating Revenues:

Water sales and pumping charges	\$32,422,914
Sewer charges	1,516,327
Meter installation fees	474,070
Other water operating revenues	<u>567,040</u>
Total Operating Revenues	<u>34,980,351</u>

Operating Expenses:

Cost of water sold	20,902,095
Energy and pumping costs	4,506,674
Water systems operations	4,125,970
Sewer collection and treatment	641,189
Engineering	1,208,598
General and administrative	2,780,531
Depreciation	<u>3,174,992</u>
Total Operating Expenses	<u>37,340,049</u>

Operating (Loss) (2,359,698)

Nonoperating Revenues (Expenses):

Property taxes and assessments	1,363,904
Investment income	564,566
Other nonoperating revenues	225,686
Interest expense	(28,564)
Loss on disposal of assets	<u>(190,155)</u>
Total Nonoperating Revenues (Expenses)	<u>1,935,437</u>

Loss Before Contributions (424,261)

Capital Contributions 1,585,632

Change in Net Assets 1,161,371

Net Assets at Beginning of Year 80,381,621

NET ASSETS AT END OF YEAR (Notes 1 and 8) **\$81,542,992**

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006**

Cash Flows From Operating Activities:

Receipts from customers	\$34,289,720
Payments to suppliers for goods and services	(26,787,940)
Payments to employees for services	(6,801,290)
Change in retirees' health benefits plan expense	61,054
Change in work in progress for others	(888,123)
Change in customer deposits	805,733
Other nonoperating revenue	<u>225,686</u>
Net Cash Provided by Operating Activities	<u>904,840</u>

Cash Flows From Noncapital Financing Activities:

Property taxes received	<u>1,373,563</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,373,563</u>

Cash Flows From Capital and Related Financing Activities:

Acquisition and construction of capital assets	(3,949,490)
Principal paid on long-term debt	(80,000)
Principal paid on annexation fees payable	(1,249)
Interest paid on bonds and long-term debt	(28,564)
Capital contributions received	609,027
Proceeds from disposition of capital assets	<u>27,693</u>
Net Cash Used by Capital and Related Financing Activities	<u>(3,422,583)</u>

Cash Flows From Investing Activities:

Purchases of investments	(18,418,148)
Proceeds from maturities of investments	18,343,789
Investment income received	<u>562,929</u>
Net Cash Provided by Investing Activities	<u>488,570</u>

Net Decrease in Cash and Cash Equivalents (655,610)

Cash and Cash Equivalents at Beginning of Year 7,338,046

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 6,682,436

(Continued)

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Reconciliation of Operating Income to Net

Cash Used by Operating Activities:

Operating income	\$(2,359,698)
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	3,174,992
Retirees' health benefits plan expense	61,054
Other nonoperating revenues	225,686
Change in assets and liabilities:	
Accounts receivable - water and sewer, net	(858,713)
Other receivables	168,082
Inventory	(13,391)
Prepaid expenses and deposits	(13,687)
Work in progress for others	(888,123)
Accounts payable	431,359
Accrued payroll	21,313
Accrued compensated absences	150,233
Customer deposits	<u>805,733</u>
Net Cash Provided by Operating Activities	<u>\$ 904,840</u>

Cash and Cash Equivalents -

Financial Statement Classification

Cash and cash equivalents	\$6,682,436
Total Cash and Cash Equivalents	<u>\$6,682,436</u>

Noncash Investing, Capital and Financing Activities:

Customer contributions of capital assets	<u>\$ 976,605</u>
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The accompanying notes are an integral part of the financial statements.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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, 2006**

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 consists 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 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, 2006, 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, 2006

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 \$5,248,367 have been reduced by an allowance for estimated uncollectible accounts in the amount of \$28,710 at June 30, 2006.

(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.

At June 30, 2006 inventory consists of the following:

Water inventory	\$112,390
Materials inventory	<u>281,630</u>
	<u>\$394,020</u>

(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 their lives are not capitalized.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1 - Summary of Significant Accounting Policies (Continued)

(j) Capital Assets (Continued)

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.

(n) Unrestricted Net Assets

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

(o) Pronouncements of GASB and FASB

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

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; as well as 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 options contracts, obligations of the State of California, and obligations of local agencies within California.

Cash and investments held by the District were comprised of the following at June 30, 2006:

	Fair Value	<u>Investment Maturities (In Years)</u>	
		Less Than 1	1 - 5
Cash on Hand	\$ 1,200	\$ 1,200	\$
Cash in the California Local Agency Investment Fund	6,029,205	6,029,205	
Open Ended Money Market Mutual Funds	490,644	490,644	
Demand Deposits	161,387	161,387	
Investments:			
United States Agency Securities	14,137,374	9,095,495	5,041,879
Certificates of Deposit	<u>1,232,368</u>	<u>750,626</u>	<u>481,742</u>
Total Cash and Investments	<u>\$22,052,178</u>	<u>\$16,528,557</u>	<u>\$5,523,621</u>
Financial Statement Classification:			
Cash and Cash Equivalents	\$ 6,682,436		
Investments	11,102,269		
Restricted Investments	<u>4,267,473</u>		
Total	<u>\$22,052,178</u>		

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

2 - Cash and Investments (Continued)

(b) Concentration of Credit Risk

The District's policy is that investments should be diversified through limited investment to avoid over-concentration in securities from a specific issuer (excluding U.S. Treasury securities), by varying maturities, and by 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. The District further limits certificates of deposit to 30 percent of its portfolio. State law limits investment in money market funds by 20% of the total portfolio, and investments in any one fund to 10%. At June 30, reportable investments representing more than 5% of the District's investment portfolio are as follows:

<u>Issuer</u>	<u>Percentage</u>
United States Government sponsored Enterprises:	
Federal Farm Credit Bank	7.9
Federal Home Loan Bank	34.1
Federal Home Loan Mortgage Corporation	11.7
Federal National Mortgage Association	5.1

(c) Credit Risk

The District's ordinances subject management to 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 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
Tennessee Valley Authority	AAA	Aaa

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

2 - Cash and Investments (Continued)

(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.

3 - Restricted Assets

Restricted assets were provided by, and are to be used for, the following at June 30, 2006:

<u>Funding Source</u>	<u>Use</u>	
District contributions	Benefit plan liability	\$1,904,418
Proceeds of energy settlement	Projects promoting energy efficiency	1,141,567
Capacity fees	System expansion	<u>1,221,488</u>
		<u>\$4,267,473</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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

4 - Capital Assets

Capital assets consist of the following:

	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>
Capital Assets Not Being Depreciated:				
Land	\$ 2,874,326	\$ 532,053	\$ (50,000)	\$ 3,356,379
Water rights	786,185			786,185
Construction in progress	<u>4,492,012</u>	<u>3,454,241</u>	<u>(3,632,417)</u>	<u>4,313,836</u>
	<u>8,152,523</u>	<u>3,986,294</u>	<u>(3,682,417)</u>	<u>8,456,400</u>
Capital Assets Being Depreciated:				
Transmission and distribution system	90,800,279	3,555,047	(269,513)	94,085,813
General plant	<u>6,775,518</u>	<u>917,528</u>	<u>(129,994)</u>	<u>7,563,052</u>
	<u>97,575,797</u>	<u>4,472,575</u>	<u>(399,507)</u>	<u>101,648,865</u>
Less Accumulated Depreciation:				
Transmission and distribution system	(40,209,121)	(2,447,112)	201,308	(42,454,925)
General plant	<u>(3,550,306)</u>	<u>(727,880)</u>	<u>129,994</u>	<u>(4,148,192)</u>
	<u>(43,759,427)</u>	<u>(3,174,992)</u>	<u>331,302</u>	<u>(46,603,117)</u>
Net Capital Assets Being Depreciated	<u>53,816,370</u>	<u>1,297,583</u>	<u>(68,205)</u>	<u>55,045,748</u>
Net Capital Assets	<u>\$61,968,893</u>	<u>\$5,283,877</u>	<u>\$(3,750,622)</u>	<u>\$ 63,502,148</u>

Depreciation totalled \$3,174,992 for the year ended June 30, 2006.

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, 2006, total \$615,000. Varying amounts of principal plus interest currently at 5.15% 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, 2005</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Current Portion</u>
Revenue Bonds	<u>\$695,000</u>	<u>\$80,000</u>	<u>\$615,000</u>	<u>\$80,000</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

5 - Long-Term Debt - Revenue Bonds (Continued)

Aggregate maturities of the revenue bond for fiscal years subsequent to June 30, 2006, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 80,000	\$22,134	\$102,134
2008	85,000	19,158	104,158
2009	90,000	15,903	105,903
2010	95,000	12,555	107,555
2011	100,000	12,059	112,059
2012 - 2013	<u>165,000</u>	<u>3,007</u>	<u>168,007</u>
	<u>\$615,000</u>	<u>\$84,816</u>	<u>\$699,816</u>

6 - Special Assessment Bonds

On February 5, 1997, Valley Center Municipal Water District Assessment District No. 96-1 (AD 96-1) issued \$1,743,654 of limited obligation improvement bonds pursuant to the provisions of the Municipal Improvement Act of 1913 and the Improvement Bond Act of 1915. Under the Acts, the District is not obligated to repay the AD 96-1 bonds and the District does not intend in any manner to assume responsibility for the repayment of such debt. The bonds proceeds were used to establish reserve funds, pay bond issuance costs, refund to certain AD 96-1 property owners previous costs advanced, and expand the Lower Moosa Canyon water reclamation facility. AD 96-1 bonds payable at June 30, 2006 totalled \$1,230,000.

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

7 - 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 \$40,196 for post-retirement healthcare benefits during the year ended June 30, 2006. As of June 30, 2006, nine retired employees are receiving post-retirement healthcare benefits from the District.

The District's Board of Directors, wholly in its discretion, periodically resolves to restrict assets for the payment of Plan benefits. No assets have been transferred to the Plan administrator. 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, 2006, was \$1,904,418. The liability will become payable upon the sooner of Plan termination or as the payment of participants' health insurance premiums become due. This liability is the amount enforceable under the current plan and does not reflect a current actuarially determined liability.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

7 - Benefit Plan Liability (Continued)

The District has determined that the present value of the unfunded actuarial liability for other post employment benefits as of June 30, 2006, is between \$6,675,800 and \$11,750,700, with an actuarial contribution between 11.5% and 15.7%. The District will be required to record a liability for post employment benefits when it implements Governmental Accounting Standards Board Statement 45 "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions" (GASB 45) during the year ended June 30, 2009. The estimated liability above was not calculated using GASB 45 Standards and no actuarial liability has been recorded in the financial statements of the District.

8 - 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, 2006:

Master plan system improvements	\$10,970,350
Pumping rate stabilization	2,484,947
Sewer capital replacement reserves	970,649
Operating reserve	680,757
Unrestricted and undesignated net assets	523,775
Vehicle replacement	394,436
Agricultural rebate	235,671
Continuing capital projects - Woods Valley	<u>32,204</u>
Unrestricted Net Assets	<u>\$16,292,789</u>

9 - Defined Benefit Pension Plan

(a) Plan Description

The District began participation in a defined benefit pension plan, (the "Plan") on June 30, 2001, which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

9 - Defined Benefit Pension Plan (Continued)

(b) Funding Policy

The District has elected to make contributions on behalf of its employees at the required amount of 7% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2006, was 20.91%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

(c) Annual Pension Costs

For the fiscal year ended June 30, 2006, the District's annual pension cost and actual contribution was \$1,298,576. The required contribution for the fiscal year ended June 30, 2006, was determined as part of the June 30, 2003, actuarial valuation.

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

Valuation Date	June 30, 2005
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	17 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth 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 the CalPERS risk pool. 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, 2006**

9 - 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, 2004	\$ 986,696	100%	\$-0-
June 30, 2005	1,617,481	100%	-0-
June 30, 2006	1,298,576	100%	-0-

(e) Schedule of Funding Progress for PERS

Since the Agency's plan had less than 100 active members as of June 30, 2004, it is required to participate in a risk pool. The schedule of funding progress below shows the recent history of the risk pool's actuarial value of assets, accrued liability, their relationship, and the relationship of the unfunded liability to payroll.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Liability (AAL) Entry Age (B)</u>	<u>Unfunded AAL (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	\$2,372,879,034	\$2,596,966,545	\$224,087,511	91.4%	\$725,020,458	30.9%
June 30, 2004	2,460,944,656	2,746,095,668	285,151,012	89.6%	743,691,970	38.3%
June 30, 2005	2,588,713,000	2,891,460,651	302,747,651	89.5%	755,046,679	40.1%

10 - 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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

10 - Risk Management (Continued)

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, 2006, was \$215,374. There were no instances in the past three years where a settlement exceeded the District's coverage.

11 - 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.

12 - 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, 2006, the total unpaid amounts on these contracts was \$493,515.

(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.

13 - New Governmental Accounting Standards

GASB No. 44

In May 2004, the Governmental Accounting Standards Board (GASB) issued Statement No 44 "Economic Condition Reporting: The Statistical Section" an amendment of NCGA Statement No. 1. This statement improves the understandability and usefulness of statistical section information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model for state and local governments required by GASB Statement No. 34. This pronouncement is effective for statistical sections prepared for periods beginning after June 15, 2005. As required the District has implemented the provisions of this Statement for the fiscal year ended June 30, 2006. Implementation of this pronouncement had no affect on the change in net assets for the year ended June 30, 2006.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

13 - New Governmental Accounting Standards (Continued)

GASB No. 45

In June 2004, the Government Accounting Standards Board issued Statement No. 45 “Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension”. This pronouncement is effective for the year ended June 30, 2009. This pronouncement requires significant changes to the accounting and disclosures associated with postemployment benefits (OPEB). The District has not determined the effect on the financial statements in the year of adoption.

GASB No. 46

In June 2005, the Government Accounting Standards Board issued Statement No. 46 “Net Assets Restricted by Enabling Legislation - An Amendment of GASB No. 34”. This pronouncement is effective for year ended June 30, 2006. This pronouncement requires that limitations on the uses of net assets imposed by enabling legislation be reported as restricted net assets. This pronouncement did not have a material affect on the District’s net assets at June 30, 2006.

GASB No. 47

In June 2005, the Governmental Accounting Standards Board issued Statement No. 47 “Accounting for Termination Benefits”. This pronouncement is effective for the year ended June 30, 2006 and requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefit including significant methods and assumptions used to determine termination benefit liabilities. This pronouncement did not have a material affect on the District’s change in net assets for the year ended June 30, 2006.





COMBINING SCHEDULES

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS
JUNE 30, 2006**

	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	\$ 6,682,436	\$ 4,932,548	\$1,087,039	\$	\$ 662,849
Investments	11,102,269	11,102,269			
Accounts receivable - water and sewer, net	5,248,367	5,248,367			
Accrued interest receivable	154,059	154,059			
Taxes receivable	6,782	6,782			
Other receivables	34,195	34,195			
Inventories	394,020	394,020			
Prepaid expenses and deposits	286,603	286,603			
Work-in-progress for others	<u>2,269,950</u>	<u>2,269,950</u>			
Total Current Assets	<u>26,178,681</u>	<u>24,428,793</u>	<u>1,087,039</u>	<u>-0-</u>	<u>662,849</u>
<u>Noncurrent Assets:</u>					
Restricted Assets:					
Investments	<u>4,267,473</u>	<u>4,267,473</u>			
Total Restricted Assets	<u>4,267,473</u>	<u>4,267,473</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Capital Assets:					
Nondepreciable capital assets	8,456,400	8,169,227	121,377		165,796
Depreciable capital assets, net	<u>55,045,748</u>	<u>48,356,468</u>	<u>5,999,831</u>		<u>689,449</u>
Total Capital Assets	<u>63,502,148</u>	<u>56,525,695</u>	<u>6,121,208</u>	<u>-0-</u>	<u>855,245</u>
Total Noncurrent Assets	<u>67,769,621</u>	<u>60,793,168</u>	<u>6,121,208</u>	<u>-0-</u>	<u>855,245</u>
TOTAL ASSETS	<u>\$93,948,302</u>	<u>\$85,221,961</u>	<u>\$7,208,247</u>	<u>\$ -0-</u>	<u>\$1,518,094</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS (CONTINUED)
JUNE 30, 2006**

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	\$ 5,778,763	\$ 5,778,763	\$	\$	\$
Accrued payroll	98,063	98,063			
Compensated absences	597,300	597,300			
Customer deposits	2,795,844	2,733,942	9,000		52,902
Current portion of long-term debt	<u>80,000</u>	<u>80,000</u>			
Total Current Liabilities	<u>9,349,970</u>	<u>9,288,068</u>	<u>9,000</u>	<u>-0-</u>	<u>52,902</u>
<u>Noncurrent Liabilities:</u>					
Liabilities Payable From Restricted Assets:					
Benefit plan liability	<u>1,904,418</u>	<u>1,904,418</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Long-Term Debt:					
Revenue bonds	615,000	615,000			
Less: Current portion above	<u>(80,000)</u>	<u>(80,000)</u>			
Total Long-Term Debt	<u>535,000</u>	<u>535,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Other Noncurrent Liabilities:					
Compensated absences	<u>615,922</u>	<u>615,922</u>			
Total Other Noncurrent Liabilities	<u>615,922</u>	<u>615,922</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Noncurrent Liabilities	<u>3,055,340</u>	<u>3,055,340</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>12,405,310</u>	<u>12,343,408</u>	<u>9,000</u>	<u>-0-</u>	<u>52,902</u>
<u>Net Assets:</u>					
Investment in capital assets, net of related debt	62,887,148	55,910,695	6,121,208		855,245
Restricted for facility expansion	2,363,055	2,363,055			
Unrestricted	<u>16,292,789</u>	<u>14,604,803</u>	<u>1,078,039</u>		<u>609,947</u>
Total Net Assets	<u>81,542,992</u>	<u>72,878,553</u>	<u>7,199,247</u>	<u>-0-</u>	<u>1,465,192</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$93,948,302</u>	<u>\$85,221,961</u>	<u>\$7,208,247</u>	<u>\$ -0-</u>	<u>\$1,518,094</u>

**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>					
<u>Restricted Assets:</u>					
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>
<u>Capital Assets:</u>					
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 (Payable from restricted assets)	<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 REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

	<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	\$32,422,914	\$32,422,914	\$	\$	\$
Sewer charges	1,516,327		1,089,575	77,693	349,059
Meter installation fees	474,070	474,070			
Other water operating revenues	<u>567,040</u>	<u>567,040</u>			
Total Operating Revenues	<u>34,980,351</u>	<u>33,464,024</u>	<u>1,089,575</u>	<u>77,693</u>	<u>349,059</u>
<u>Operating Expenses:</u>					
Cost of water sold	20,902,095	20,902,095			
Energy and pumping costs	4,506,674	4,391,880	105,193	9,601	
Water systems operations	4,125,970	4,125,970			
Sewer collection and treatment	641,189		477,152	79,189	84,848
Engineering	1,208,598	1,208,598			
General and administrative	2,780,531	2,608,437	130,392	16,386	25,316
Depreciation	<u>3,174,992</u>	<u>2,862,255</u>	<u>288,584</u>	<u>5,923</u>	<u>18,230</u>
Total Operating Expenses	<u>37,340,049</u>	<u>36,099,235</u>	<u>1,001,321</u>	<u>111,099</u>	<u>128,394</u>
Operating Income (Loss)	<u>(2,359,698)</u>	<u>(2,635,211)</u>	<u>88,254</u>	<u>(33,406)</u>	<u>220,665</u>
<u>Nonoperating Revenues (Expenses):</u>					
Property taxes and assessments	1,363,904	1,363,904			
Investment income	564,566	517,434	29,555	(87)	17,664
Other nonoperating revenues	225,686	225,686			
Interest expense	(28,564)	(28,564)			
Other nonoperating expenses	<u>(190,155)</u>	<u>(10,270)</u>		<u>(179,885)</u>	
Total Nonoperating Revenues (Expenses)	<u>1,935,437</u>	<u>2,068,190</u>	<u>29,555</u>	<u>(179,972)</u>	<u>17,664</u>

(Continued)

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

	<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	\$ (424,261)	\$ (567,021)	\$ 117,809	\$(213,378)	\$ 238,329
Capital Contributions	<u>1,585,632</u>	<u>1,269,800</u>	<u>272,119</u>	<u>3,393</u>	<u>40,320</u>
Change in Net Assets	1,161,371	702,779	389,928	(209,985)	278,649
Net Assets at Beginning 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>
NET ASSETS AT END OF YEAR	<u><u>\$81,542,992</u></u>	<u><u>\$72,878,553</u></u>	<u><u>\$7,199,247</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$1,465,192</u></u>

**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>
<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			
Sewer collection and treatment	638,092		389,289	81,583	167,220
Engineering	1,164,938	1,164,938			
General and administrative	2,779,509	2,602,981	116,761	22,131	37,636
Depreciation	<u>2,914,462</u>	<u>2,601,730</u>	<u>287,562</u>	<u>7,107</u>	<u>18,063</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 (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 (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 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>





STATISTICAL SECTION



Table I
NET ASSETS BY COMPONENT
Last Ten Fiscal Years

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Primary government					
Invested in capital assets, net of related debt	\$ 62,314,150	\$ 61,272,644	\$ 56,324,985	\$ 49,471,743	
Restricted	2,363,055	2,112,513	1,340,938	1,104,843	
Unrestricted	16,292,789	16,996,464	22,079,945	21,594,937	
Total primary government net assets	<u>\$ 80,969,994</u>	<u>\$ 80,381,621</u>	<u>\$ 79,745,868</u>	<u>\$ 72,171,523</u>	<u>\$ -</u>
Fund equity ⁽¹⁾					
Contributed capital					\$ 15,287,990
Retained earnings					53,814,658
Total fund equity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,102,648</u>
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Primary government					
Invested in capital assets, net of related debt					
Restricted					
Unrestricted					
Total primary government net assets	<u>\$ -</u>				
Fund equity ⁽¹⁾					
Contributed capital	\$ 14,401,673	\$ 14,589,162	\$ 14,138,236	\$ 13,252,586	\$ 13,210,791
Retained earnings	49,956,617	51,743,710	49,222,655	47,700,455	46,340,990
Total fund equity	<u>\$ 64,358,290</u>	<u>\$ 66,332,872</u>	<u>\$ 63,360,891</u>	<u>\$ 60,953,041</u>	<u>\$ 59,551,781</u>

Equity as Net Assets and to present Restricted, Unrestricted, and Invested in Capital Assets categories.

Source: Valley Center Municipal Water District

Net Assets / Fund Equity

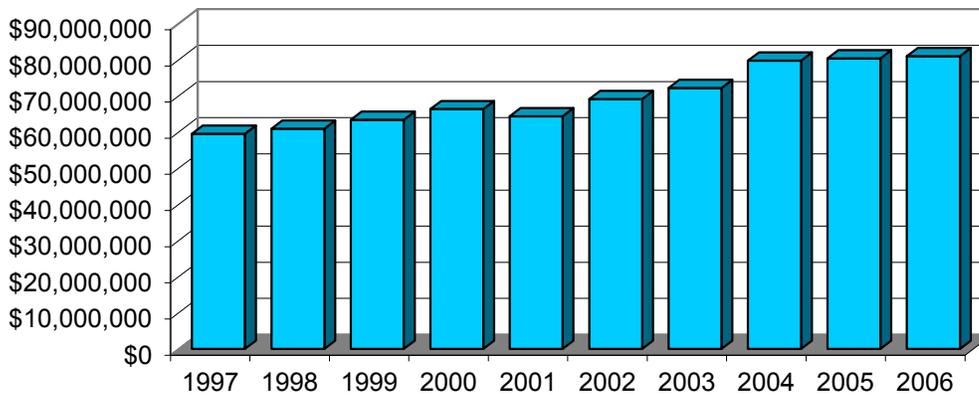


Table II
CHANGES IN NET ASSETS
Last Ten Fiscal Years

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Operating Revenues:										
Water sales ⁽¹⁾⁽⁷⁾	\$27,880,263	\$22,330,102	\$27,636,793	\$23,154,449	\$25,814,798	\$ 22,618,159	\$ 25,108,504	\$ 20,316,890	\$ 15,482,401	\$ 18,869,070
Pumping charges	4,542,651	3,842,082	5,251,814	4,864,087	5,995,290	3,680,327	3,454,067	2,721,762	2,089,971	2,804,603
Sewer charges	1,516,327	1,476,617	1,142,242	996,551	783,632	637,280	522,761	449,749	437,531	449,362
Meter installation fees	474,070	479,791	546,437	241,218	176,456	147,515	171,129	161,875	132,914	77,715
Other water operating revenues	567,040	320,187	277,930	254,118	301,490	235,867	210,456	195,906	247,353	289,167
Total operating revenues	\$34,980,351	\$28,448,779	\$34,855,216	\$29,510,423	\$33,071,666	\$ 27,319,148	\$ 29,466,917	\$ 23,846,182	\$ 18,390,170	\$ 22,489,917
Operating Expenses:										
Cost of water sold ⁽²⁾	\$20,902,095	\$17,202,614	\$20,475,081	\$18,179,621	\$20,245,538	\$ 19,374,345	\$ 20,266,611	\$ 16,995,191	\$ 12,295,462	\$ 14,859,285
Energy and pumping costs	4,506,674	3,927,593	4,510,435	4,244,840	4,066,764	5,808,455	3,249,934	2,757,191	2,164,899	2,667,979
Water systems operations	4,125,970	3,900,188	3,235,666	2,935,531	2,699,794	2,714,061	2,353,394	2,051,169	2,075,988	2,033,254
Sewer collection and treatment	641,189	638,092	551,085	432,270	365,518	387,476	275,825	279,198	203,910	196,233
Engineering	1,208,598	1,164,938	947,818	828,884	673,468	673,504	604,677	531,482	502,083	463,948
General and administrative	2,780,531	2,779,509	2,497,208	2,049,869	1,943,113	1,815,537	1,594,982	1,560,855	1,399,502	1,311,340
Depreciation	3,174,992	2,914,462	2,849,745	2,596,666	2,401,004	2,273,538	2,136,247	1,803,750	1,783,522	1,745,892
Total operating expenses	\$37,340,049	\$32,527,396	\$35,067,038	\$31,267,681	\$32,395,199	\$ 33,046,916	\$ 30,481,670	\$ 25,978,836	\$ 20,425,366	\$ 23,277,931
Operating Income	\$ (2,359,698)	\$ (4,078,617)	\$ (211,822)	\$ (1,757,258)	\$ 676,467	\$ (5,727,768)	\$ (1,014,753)	\$ (2,132,654)	\$ (2,035,196)	\$ (788,014)
Nonoperating Revenues and (Expenses):										
Property taxes and assessments	\$ 1,363,904	\$ 1,061,881	\$ 1,946,806	\$ 1,801,576	\$ 1,703,844	\$ 1,620,418	\$ 1,644,952	\$ 2,085,844	\$ 2,140,125	\$ 2,161,410
Investment income ⁽³⁾	564,566	575,887	220,553	557,188	899,579	1,665,958	1,276,155	1,144,186	1,451,859	1,515,412
Other nonoperating revenues ⁽⁴⁾	225,686	887,902	574,795	680,093	111,756	93,306	65,255	255,394	61,986	43,746
Interest expense	(28,564)	(23,099)	(51,573)	(87,541)	(94,322)	(117,294)	(121,885)	(94,362)	(145,547)	(188,735)
Other nonoperating expenses ⁽⁵⁾	(763,153)	(91,909)	(12,404)	(28,677)	(299,794)	(10,341)	(12,281)	(141,638)	(11,313)	(219,040)
Total Nonoperating Revenues and (Expenses)	\$ 1,362,439	\$ 2,410,662	\$ 2,678,177	\$ 2,922,639	\$ 2,321,063	\$ 3,252,047	\$ 2,852,196	\$ 3,249,424	\$ 3,497,110	\$ 3,312,793
Income (Loss) Before Contributions	\$ (997,259)	\$ (1,667,955)	\$ 2,466,355	\$ 1,165,381	\$ 2,997,530	\$ (2,475,721)	\$ 1,837,443	\$ 1,116,770	\$ 1,461,914	\$ 2,524,779
Capital contributions ⁽⁶⁾	1,585,632	2,303,708	5,107,990	1,903,494	1,746,828	501,139	1,134,538	N/A	N/A	N/A
Change in Net Assets	\$ 588,373	\$ 635,753	\$ 7,574,345	\$ 3,068,875	\$ 4,744,358	\$ (1,974,582)	\$ 2,971,981	\$ 1,116,770	\$ 1,461,914	\$ 2,524,779
Net Assets at Beginning of Year	\$80,381,621	\$79,745,868	\$72,171,523	\$69,102,648	\$64,358,290	\$ 66,332,872	\$ 63,360,891	\$ 62,244,121	\$ 60,782,207	\$ 58,257,428
NET ASSETS AT END OF YEAR	\$80,969,994	\$80,381,621	\$79,745,868	\$72,171,523	\$69,102,648	\$ 64,358,290	\$ 66,332,872	\$ 63,360,891	\$ 62,244,121	\$ 60,782,207

(1) A detailed schedule of water sales is presented in Table III.

(2) Net of rate credits from San Diego County Water Authority and Metropolitan Water District of \$1,102,132 in 2004, \$635,111 in 2003, and \$1,333,039 in 1997.

(3) Restated for unrealized gains and losses pursuant to GASB Statement No. 31, which was effective in 1998.

(4) Includes energy settlement of \$473,798 in 2005, \$421,154 in 2004, and \$556,444 in 2003.

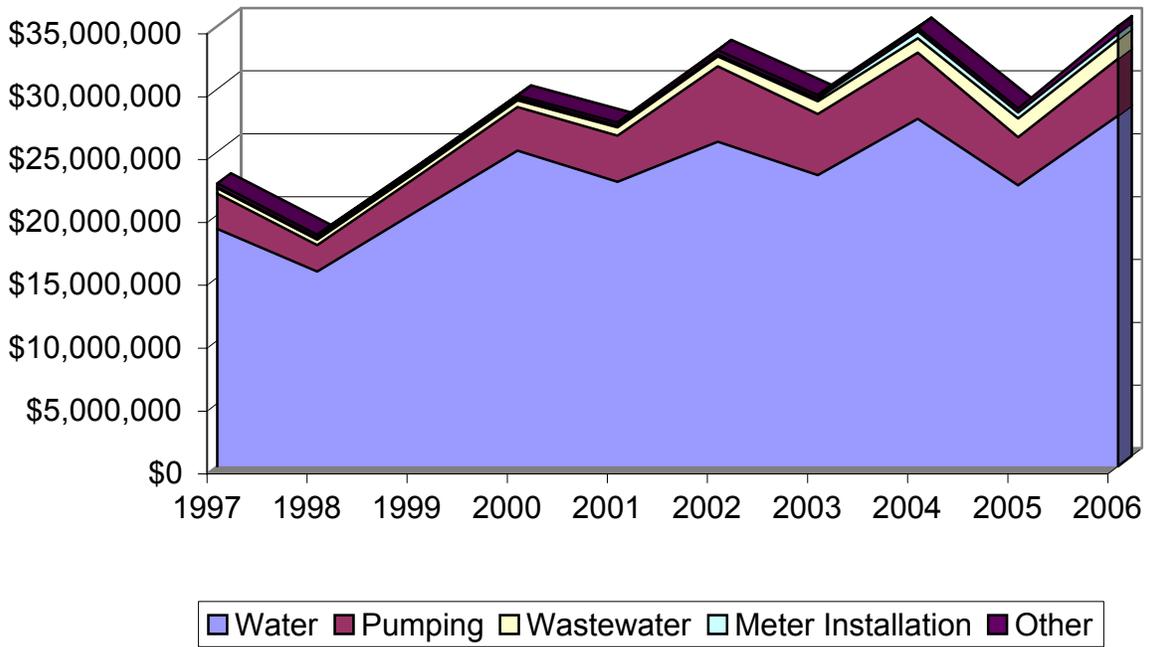
(5) Includes loss on termination of projects and disposition of assets.

(6) Capital contributions reported as additions to contributed equity until GASB Statement No. 33 in 2000.

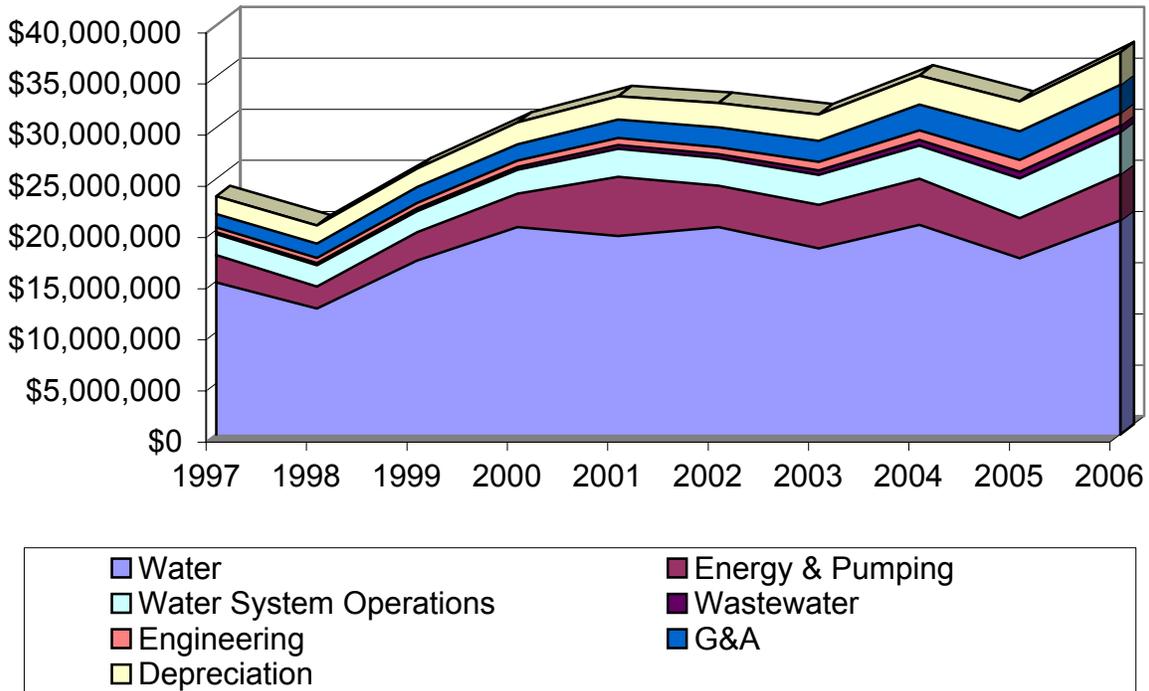
(7) Net of credits for Metropolitan Water District refunds of \$554,111 in 2001 and \$954,799 in 1997.

Source: Valley Center Municipal Water District

Operating Revenues



Operating Expenses



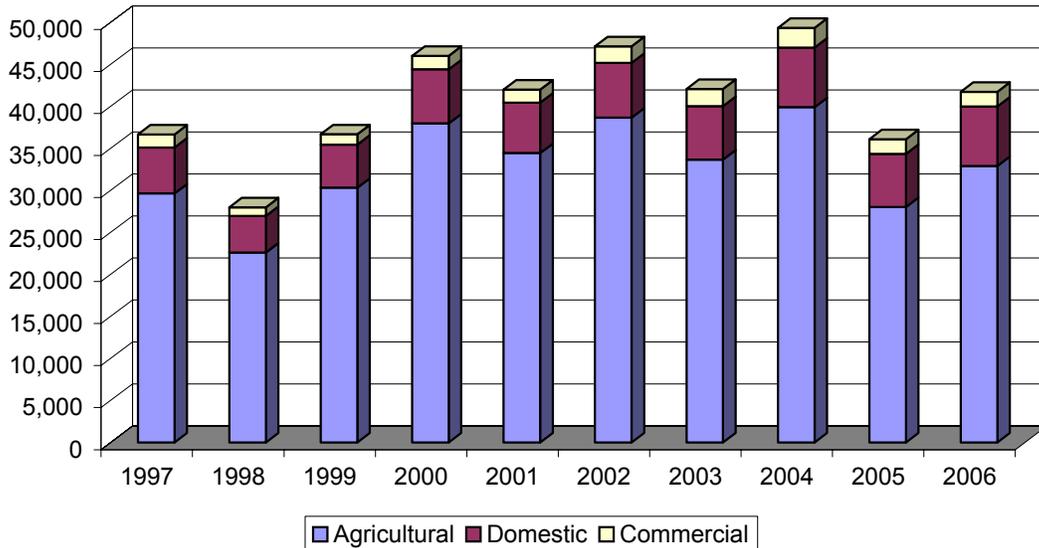
**Table III
WATER SALES BY USER TYPE (1)(2)
Last Ten Fiscal Years**

Fiscal Year Ended	Domestic		Commercial		Agricultural		Total		Average Direct Rate ⁽³⁾
	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	
2006	\$7,834,755	7,081.3	\$1,320,201	1,729.3	\$18,725,307	32,917.4	\$27,880,263	41,728.0	\$ 668
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	619
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	560
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	550
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	548
2001	4,534,067	5,991.8	1,079,219	1,563.4	17,004,873	34,447.5	22,618,159	42,002.7	538
2000	5,266,215	6,431.8	1,126,417	1,617.3	18,715,871	37,967.5	25,108,503	46,016.6	546
1999	4,590,299	5,131.5	805,696	1,228.9	14,920,895	30,321.7	20,316,890	36,682.1	554
1998	3,575,546	4,350.6	695,353	1,032.3	11,211,503	22,614.0	15,482,402	27,996.9	553
1997	3,356,730	5,484.2	1,046,339	1,538.9	14,466,001	29,633.5	18,869,070	36,656.6	515

- (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 \$554,111 in 2001 and \$954,799 in 1997.
 (3) Calculated average rate, including commodity and monthly meter charges. See Table IX for actual rates.

Source: Valley Center Municipal Water District

Water Sales



**Table IV
ACTIVE WATER METERS AND SEWER SERVICES
Last Ten Fiscal Years**

Fiscal Year Ended	Domestic	Commercial	Agricultural	Total Active	All Inactive Meters	Total	Sewer EDUs
2006	7,587	325	1,709	9,621	630	10,251	2,600 (1)
2005	7,179	313	1,725	9,217	636	9,853	2,685
2004	6,479	326	1,732	8,537	638	9,175	2,599
2003	5,835	307	1,699	7,841	641	8,482	2,563
2002	5,603	306	1,734	7,643	656	8,299	2,453
2001	5,423	303	1,732	7,458	662	8,120	2,271
2000	5,244	345	1,696	7,285	675	7,960	2,321
1999	5,055	356	1,640	7,051	734	7,785	2,257
1998	4,824	353	1,610	6,787	778	7,565	2,114
1997	4,723	354	1,576	6,653	790	7,443	2,114

(1) 2006 figure net of 222 EDU's for Skyline Ranch reverted back to property owner in May 2006.

Source: Valley Center Municipal Water District

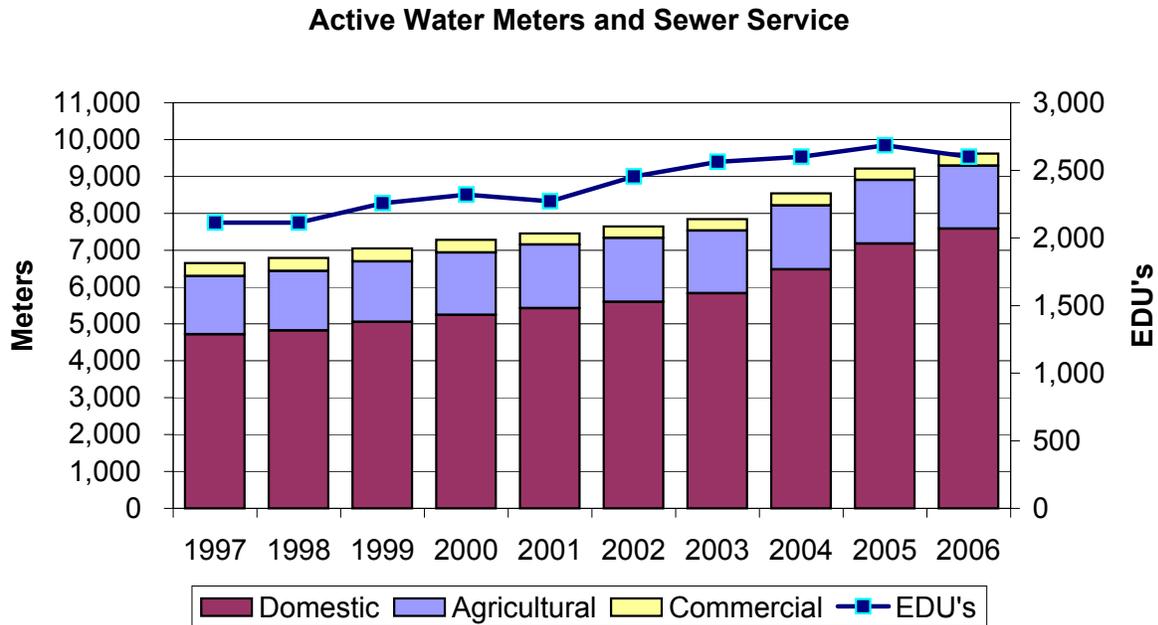


Table V
ASSESSED VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year Ended	Secured			Net Assessed Value	Assessed Unsecured Value	Total Assessed Value	Tax Rate
	Real Property	Personal Property	Exemptions				
2006	\$3,434,024,564	\$310,601	\$18,187,509	\$3,416,147,656	\$18,989,987	\$3,435,137,643	0
2005	2,872,402,815	284,993	16,703,521	2,855,984,287	18,674,290	2,874,658,577	0
2004	2,541,385,638	628,340	15,279,056	2,526,734,922	16,092,740	2,542,827,662	0
2003	2,273,104,717	643,148	11,170,321	2,262,577,544	12,498,775	2,275,076,319	0
2002	2,093,743,877	437,106	10,936,903	2,083,244,080	13,674,153	2,096,918,233	0
2001	1,916,554,247	525,794	10,881,145	1,906,198,896	12,541,411	1,918,740,307	0
2000	1,774,453,328	594,351	10,722,016	1,764,325,663	12,474,511	1,776,800,174	0
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	1,600,524,981	0.02922
1997	1,566,898,632	759,275	8,973,430	1,558,684,477	8,670,874	1,567,355,351	0.03408

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

Assessed Value of Taxable Property

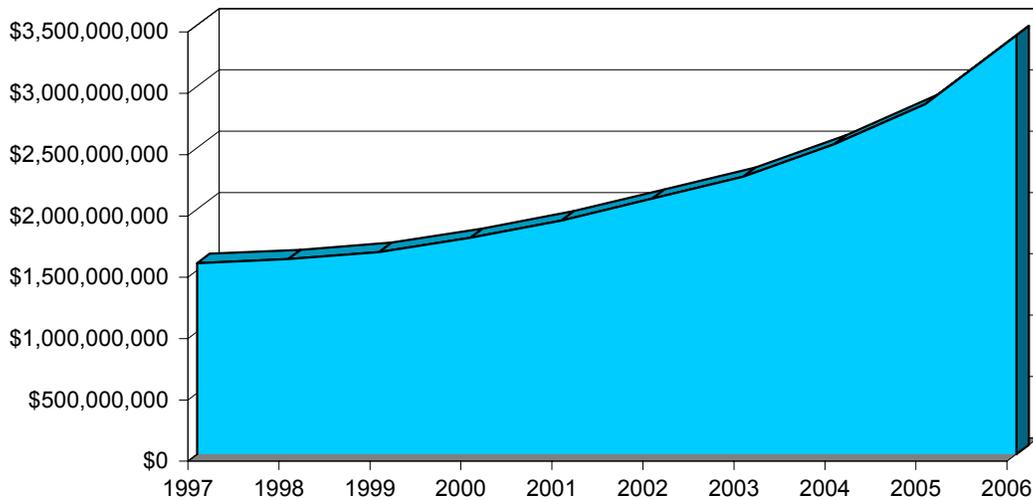


Table VI
PROPERTY TAX AND ASSESSMENT LEVIES AND COLLECTIONS (1)
Last Ten Fiscal Years

Fiscal Year Ended	Levy			Total Collections ⁽²⁾	Net Delinquent ⁽³⁾	Percent Delinquent ⁽⁴⁾
	Property Taxes	Special Assessments	Total Levy			
2006	\$833,152 ⁽⁵⁾	\$1,082,859	\$1,916,011	\$1,881,717	\$34,294	0%
2005	524,063 ⁽⁵⁾	1,080,827	1,604,890	1,570,775	34,115	0%
2004	1,407,933	913,113	2,321,046	2,296,641	24,405	0%
2003	1,249,793	917,002	2,166,795	2,149,111	17,684	0%
2002	1,153,893	743,418	1,897,311	1,883,406	13,905	0%
2001	1,078,238	742,248	1,820,486	1,803,398	17,088	0%
2000	1,078,652	759,020	1,837,672	1,820,215	17,457	0%
1999	1,436,622	863,270	2,299,892	2,275,044	24,848	0%
1998	1,477,490	787,469	2,264,959	2,243,518	21,441	0%
1997	1,492,188	760,836	2,253,024	2,233,312	19,712	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

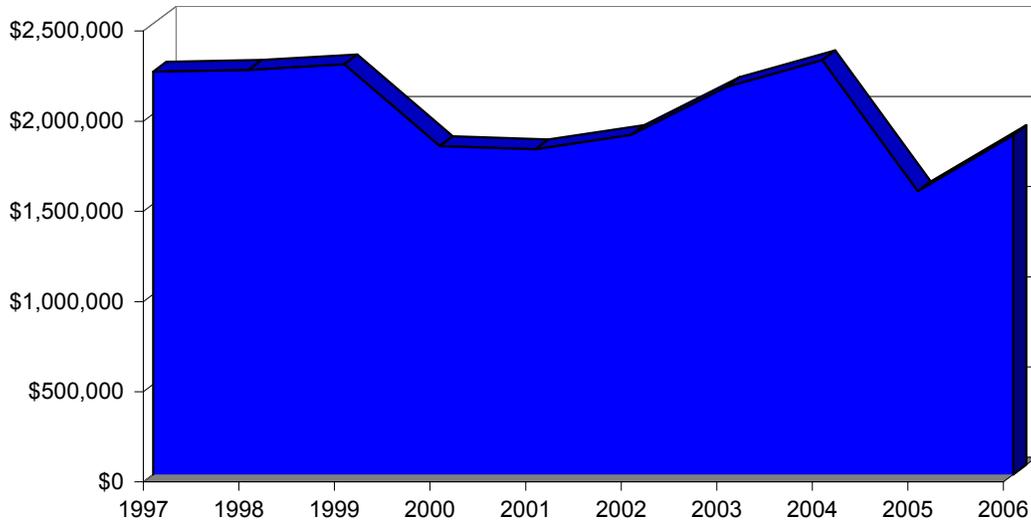


Table VII
DIRECT AND OVERLAPPING BONDED DEBT (1)
June 30, 2006

2005-06 Assessed Valuation: \$3,435,137,643

	Total Debt 6/30/2006	% Applicable	District's Share of Debt 6/30/06
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			
Metropolitan Water District	\$389,565,000	0.235	\$915,478
Palomar Pomerado Hospital District	80,000,000	7.867	6,293,600
Escondido Union High School District	39,042,978	7.507	2,930,956
Fallbrook Union High School District	21,165,071	1.480	313,243
Bonsall Union School District	8,920,243	4.563	407,031
Escondido Union School District	60,799,622	7.816	4,752,098
Valley Center-Pauma Unified School District	3,371,698	82.797	2,791,665
Valley Center-Pauma Unified School District Community Facilities District No. 2003-1	10,260,000	100.000	10,260,000
Valley Center Municipal Water District	0	100.000	0
Valley Center Municipal Water District Assessment District No. 96-1	1,275,000	100.000	1,275,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$29,939,071
OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	\$ 387,535,000	1.210	\$4,689,174
San Diego County Pension Obligations	1,231,282,916	1.210	14,898,523
San Diego County Superintendent of Schools Certificates of Participation	12,495,000	1.210	151,190
Palomar Community College District Certificates of Participation	8,425,000	5.314	447,705
Escondido Union School District Certificates of Participation	12,980,000	7.816	1,014,517
City of Escondido Certificates of Participation	74,124,425	0.054	40,027
TOTAL OVERLAPPING GENERAL FUND DEBT			\$21,241,136
COMBINED TOTAL DEBT			\$51,180,207
Ratios to Assessed Valuation:			
Direct Debt		0.00%	
Total Direct and Overlapping Tax and Assessment Debt		0.87%	
Combined Total Debt		1.49%	

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: \$0

2005-06 TYPICAL TOTAL TAX RATE (TRA 94-075): 1.05822

- (1) Percentage of overlapping agency's assessed valuation located within boundaries of the district.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

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

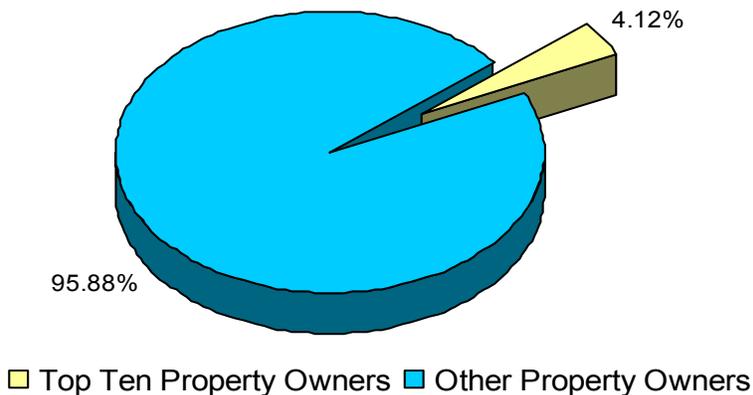
**Table VIII
PROPERTY OWNERS BY HIGHEST CUMULATIVE NET ASSESSED PROPERTY VALUE
Current Fiscal Year**

Fiscal year ended June 30, 2006

<u>Property Owner</u>	<u>Cumulative Net Assessed Value</u>	<u>Percent of District Total Net Assessed Value</u>
Trimark Pacific-Valley Center LLC	\$24,031,108	0.70%
Woods Valley Development Co LLC	19,405,780	0.56%
Woodside Aberdeen Inc	19,164,343	0.56%
Greystone Hidden Meadows LLC	18,127,750	0.53%
Rimrock 12008 LLC	16,355,000	0.48%
Teleklew Productions Inc	12,660,353	0.37%
Woods Valley Ranch Valley Center LP	8,587,708	0.25%
NNP Woods Valley Golf LLC	8,211,178	0.24%
Trimark Pacific Sherwood LLC	7,672,259	0.22%
Josephine Development LLC	7,344,000	0.21%
Total Top Ten Property Owners	\$141,559,479	4.12%
Other Property Owners	\$3,293,578,164	95.88%
Total Assessed Valuation	\$3,435,137,643	100.00%

Data Source: 2005 Master Property Records from San Diego County Used for 2005-06 Property Taxes

PRINCIPAL PROPERTY OWNERS



**Table IX
WATER RATES
Last Ten Fiscal Years**

Fiscal Year Ended ⁽¹⁾	Commodity Charge ⁽²⁾								Monthly Meter Charge ⁽⁴⁾	
	Domestic				Agricultural				3/4" Meter	1" Meter ⁽³⁾
	MWD	SDCWA	VCMWD	Total	MWD	SDCWA	VCMWD	Total		
2006	\$501	\$165	\$93	\$759	\$372	\$89	\$93	\$554	\$19.50	\$27.00
2005	490	129	87	706	361	81	87	529	18.75	26.00
2004	462	115	74	651	333	83	74	490	15.75	22.00
2003	454	96	72	622	317	81	72	470	15.75	22.00
2002	454	96	72	622	317	81	72	470	15.75	22.00
2001	454	91	72	617	317	81	72	470	15.75	22.00
2000	456	91	72	619	319	81	72	472	15.75	22.00
1999	456	85	72	613	319	80	72	471	15.75	22.00
1998	442	80	79	601	305	80	79	464	15.75	22.00
1997	437	80	84	601	300	80	84	464	15.75	22.00

(1) Rate as of June 30. Rate changes effective in January (starting in 1999).

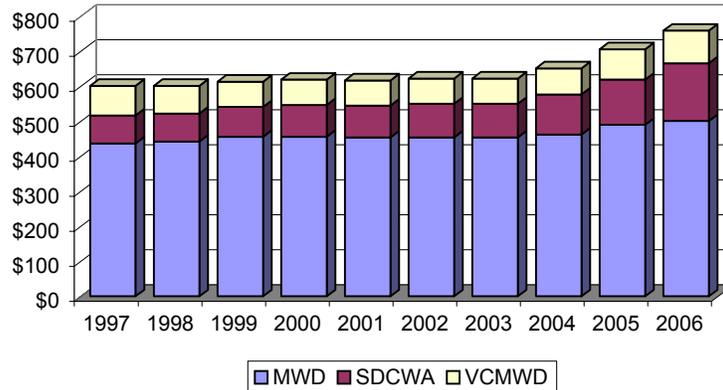
(2) Excludes pumping charges.

(3) Larger meters are multiples of the charge for a 1" meter.

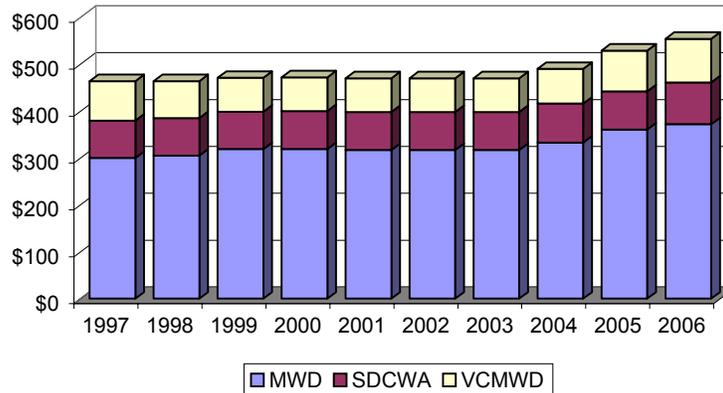
(4) Excludes SDCWA Infrastructure Access Charge.

Source: Valley Center Municipal Water District

Domestic Water Rates



Agricultural Water Rates



**Table X
SEWER RATES (2)
Last Ten Fiscal Years**

Fiscal Year Ended ⁽¹⁾	Moosa Gravity	Moosa Pressure	Skyline Gravity	Woods Valley Ranch
2006	\$38.00	\$70.50	\$34.19 (3)	\$98.60
2005	37.00	68.00	47.17	98.60
2004	34.00	64.00	33.04	50.00
2003	28.00	57.00	33.55	50.00
2002	28.00	48.20	23.59	N/A
2001	25.00	44.20	31.00	N/A
2000	19.50	34.50	25.84	N/A
1999	18.00	33.00	12.29	N/A
1998	16.50	31.50	21.90	N/A
1997	16.50	31.50	19.17	N/A

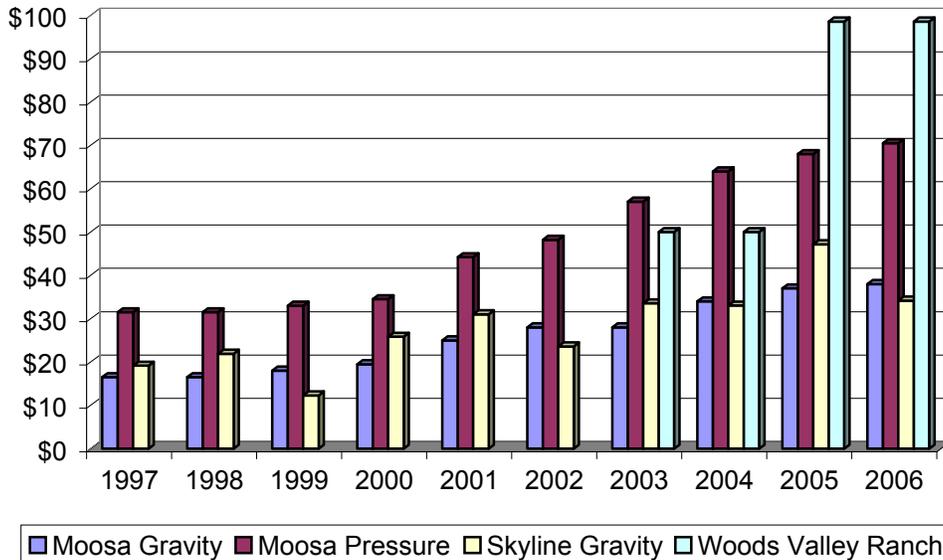
(1) Rate as of June 30. Rate changes effective in January (starting in 1999).

(2) Rates per equivalent dwelling unit (EDU).

(3) Skyline Ranch reverted back to property owner in May 2006.

Source: Valley Center Municipal Water District

Wastewater Rates



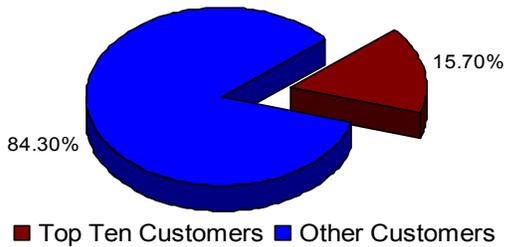
**Table XI
PRINCIPAL WATER CUSTOMERS
Current Fiscal Year and Nine Years Prior**

Fiscal year ended June 30, 2006		
<u>Customer</u>	<u>Usage in Acre Feet</u>	<u>Percent of Water Sold</u>
Sierra Pacific Farms	1,058.1	2.54%
Stehly, N. J. C.	1,005.8	2.41%
BSTCO	978.8	2.35%
Harlan Beck & Associates	703.3	1.69%
Grandon Ranch Corp.	622.2	1.49%
DeJong, John	523.0	1.25%
Coykendall, H. C. J.	501.3	1.20%
Rancho Sereno	435.4	1.04%
Bauer Farms, LLC	372.2	0.89%
Segal, G	352.6	0.84%
Total Top Ten Customers	6,552.7	15.70%
Other Customers	35,175.3	84.30%
Total Water Sales	41,728.0	100.00%

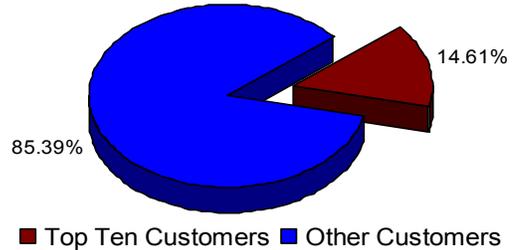
Fiscal year ended June 30, 1997		
<u>Customer</u>	<u>Usage in Acre Feet</u>	<u>Percent of Water Sold</u>
BSTCO	935.9	2.55%
Stehly, N. J. C.	712.8	1.94%
Harlan Beck & Associates	596.1	1.63%
P-K-B Farms	561.0	1.53%
Sierra Pacific Farms	515.0	1.40%
Segal, G.	459.8	1.25%
DeJong, John	437.9	1.19%
Paradise Leased	395.9	1.08%
Coykendall, H. C. J.	393.4	1.07%
Rancho Trio	355.0	0.97%
Total Top Ten Customers	5,362.8	14.61%
Other Customers	31,293.8	85.39%
Total Water Sales	36,656.6	100.00%

Source: Valley Center Municipal Water District

**PRINCIPAL WATER CUSTOMERS
2006**



**PRINCIPAL WATER CUSTOMERS
1997**



**Table XII
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years**

Fiscal Year Ended	General Obligation Bonds	Revenue Bonds	Term Loan	Total	Percentage of Personal Income ⁽¹⁾	Per Capita ⁽¹⁾
2006	\$0	\$615,000	\$0	\$615,000	0.05%	24
2005	0	695,000	0	695,000	0.06%	28
2004	0	765,000	0	765,000	0.07%	32
2003	0	835,000	1,500,000	2,335,000	0.22%	102
2002	0	900,000	1,500,000	2,400,000	0.24%	108
2001	0	960,000	1,500,000	2,460,000	0.25%	113
2000	0	1,010,000	1,500,000	2,510,000	0.28%	119
1999	75,000	1,060,000	1,716,606	2,851,606	0.34%	139
1998	260,000	1,230,000	784,004	2,274,004	0.30%	114
1997	530,000	1,270,000	1,209,973	3,009,973	0.43%	153

(1) See Table XIV for personal income and population data.

Source: Valley Center Municipal Water District

Outstanding Debt

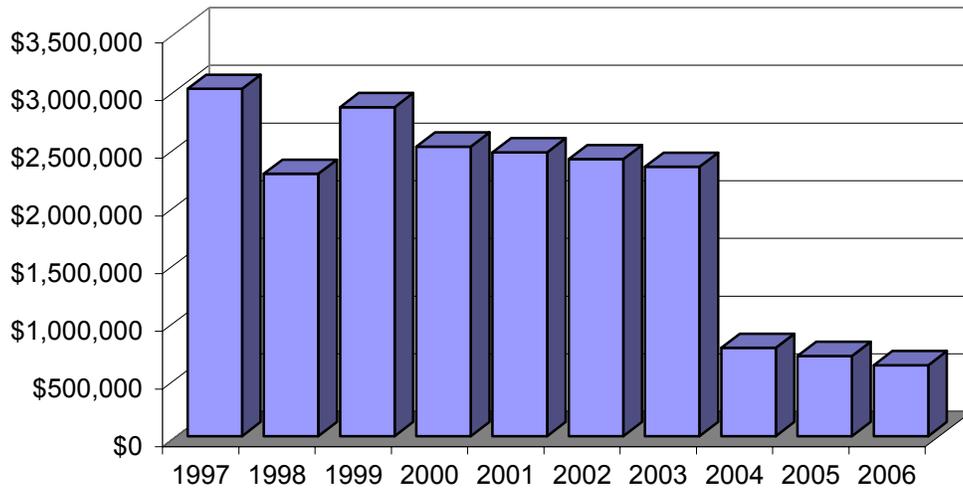


Table XIII
PLEDGED-REVENUE COVERAGE
Last Ten Fiscal Years

Fiscal Year Ended	Operating Revenues ⁽¹⁾	Nonoperating Revenues ⁽¹⁾	Gross Revenues	Less:		Net Available Revenues	Debt Service			Coverage Ratio
				Operating Expenses ⁽¹⁾⁽²⁾			Principal	Interest	Total	
2006	\$34,980,351	\$2,154,156	\$37,134,507	\$34,165,057		\$2,969,450	\$80,000	\$28,564	\$108,564	27.35
2005	28,448,779	2,525,670	30,974,449	29,612,934		1,361,515	70,000	23,099	93,099	14.62
2004	34,855,216	2,742,154	37,597,370	32,217,293		5,380,077	70,000	51,573	121,573	44.25
2003	29,510,423	3,038,857	32,549,280	28,671,015		3,878,265	65,000	87,541	152,541	25.42
2002	33,071,666	2,715,179	35,786,845	29,994,195		5,792,650	60,000	94,322	154,322	37.54
2001	27,319,148	3,379,682	30,698,830	30,773,378		-74,548	50,000	117,294	167,294	(0.45) ⁽³⁾
2000	29,466,917	2,986,362	32,453,279	28,345,423		4,107,856	50,000	119,150	169,150	24.29
1999	23,846,182	3,485,424	27,331,606	24,175,086		3,156,520	170,000	88,052	258,052	12.23
1998	18,390,170	3,653,970	22,044,140	18,641,844		3,402,296	40,000	67,889	107,889	31.54
1997	22,489,917	3,720,568	26,210,485	21,532,039		4,678,446	40,000	70,591	110,591	42.30

(1) See Table II.

(2) Operating expenses excluding 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 5.33.

Source: Valley Center Municipal Water District

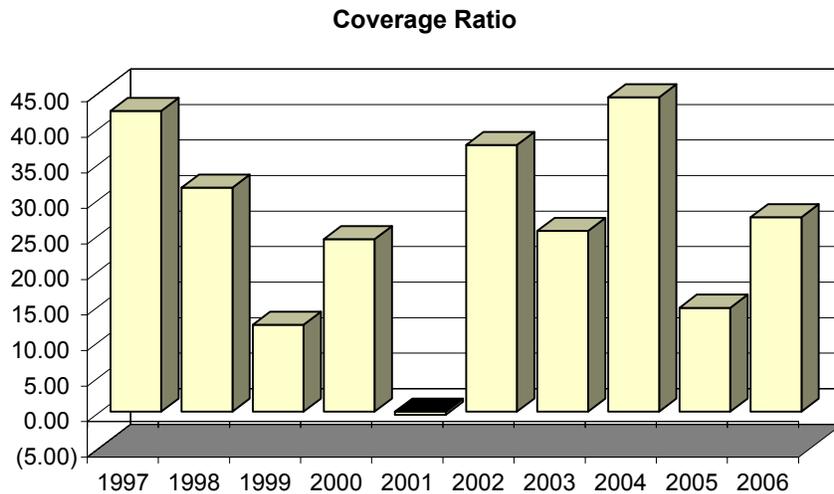


Table XIV
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE
AND NET BONDED DEBT PER CAPITA
Last Ten Fiscal Years

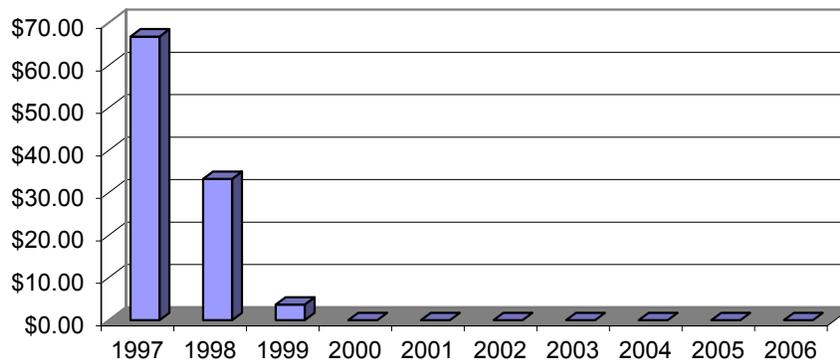
Fiscal Year Ended	Population Estimate	Assessed Valuation	Gross Bonded Debt ⁽¹⁾	Less Debt Service Funds ⁽²⁾	Net Bonded Debt	Net Bonded Debt to Assessed Valuation	Net Bonded Debt per Capita
2006	25,441	\$3,435,137,643	\$0	\$0	\$0	0.00%	-
2005	24,802	2,874,658,577	0	0	0	0.00%	-
2004	23,814	2,542,827,662	0	0	0	0.00%	-
2003	22,781	2,275,076,319	0	0	0	0.00%	-
2002	22,193	2,096,918,233	0	0	0	0.00%	-
2001	21,776	1,918,740,307	0	0	0	0.00%	-
2000	21,108	1,776,800,174	0	0	0	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

(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

Net Bonded Debt per Capita



**Table XV
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years**

Fiscal Year Ended	Population (1)	Total Personal Income (2)	Per Capita Personal Income (3)	Unemployment Rate (4)
2006	25,441	\$1,328,000,000	\$52,200	1.9%
2005	24,802	1,257,000,000	50,700	2.0%
2004	23,814	1,172,000,000	49,200	2.3%
2003	22,781	1,057,000,000	46,400	2.6%
2002	22,193	1,010,000,000	45,500	2.4%
2001	21,776	971,000,000	44,600	1.9%
2000	21,108	903,000,000	43,300	1.9%
1999	20,551	838,000,000	40,800	n/a
1998	19,960	747,000,000	37,400	n/a
1997	19,721	696,000,000	35,300	n/a

Other Statistics for 2005: ⁽²⁾

Jobs in area	4,334
Median age	42.6
% High school graduate	86%
% Bachelor's degree or higher	28%

- (1) Population at end of fiscal year estimated by VCMWD using average household size estimated by San Diego Association of Governments (SanDAG).
- (2) Source: Year 2000 from San Diego Association of Governments (SanDAG). Other years calculated using estimated per capita personal income. Millions of dollars.
- (3) Per capita personal income for 2000 calculated by SanDAG using population estimated for calendar year. Other years estimated using percentage change for San Diego region.
- (4) Source: State of California Employment Development Department for the Valley Center Census Designated Place (CDP) which is a close approximation of the VCMWD area.

Source: Valley Center Municipal Water District except as noted.

Per Capita Personal Income and Population

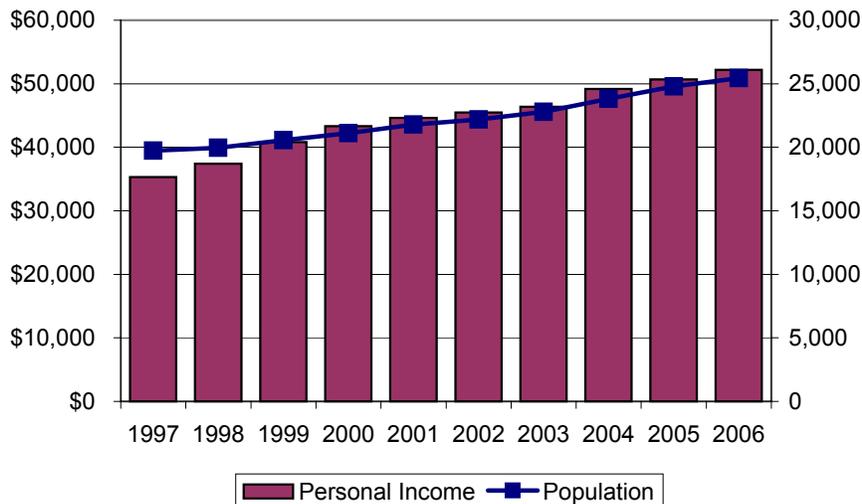


Table XVI
PRINCIPAL EMPLOYERS - COUNTY OF SAN DIEGO
Current Fiscal Year and Nine Years Prior

Fiscal year ended June 30, 2006			Fiscal year ended June 30, 1997		
Employer Name	Industry	Employees	Employer Name	Industry	Employees
Federal Government of State of California	Government	10,000+	City of San Diego	Government	10,000+
San Diego Unified School District	Education	10,000+	County of San Diego	Government	10,000+
University of California San Diego	Hospitals	10,000+	San Diego Unified School District	Education	10,000+
County of San Diego	Government	10,000+	Sharp Healthcare United States Government - Civilian	Healthcare Government	10,000+ 10,000+
Sharp Healthcare	Healthcare	10,000+	University of California San Diego	Education	10,000+
San Diego State University	Education	5,000-9,999	San Diego Community College District	Education	5,000-9,999
Kaiser Permanente Medical Care Program	Healthcare	5,000-9,999	Scripps Institution of Medicine & Science	Healthcare	5,000-9,999
Sempra	Utility	5,000-9,999	State of California	Government	5,000-9,999
SBC	Telecommunications	5,000-9,999	U.S. Postal Service - San Diego Division	Government	5,000-9,999
Qualcomm	Telecommunications	5,000-9,999	Cubic Corporation	Electronics	3,000-4,999
San Diego State University	Education	3,000-4,999	Kaiser Permanente	Healthcare	3,000-4,999
Jack in the Box	Restaurant	3,000-4,999	National Steel & Shipbuilding Co.	Shipbuilders	3,000-4,999
Science Applications International Corp	Research & Developmenbt	3,000-4,999	Pacific Bell	Telecommunications	3,000-4,999
Grossmont Union High School District	Education	3,000-4,999	Rohr Industries	Aerospace Manufacturer	3,000-4,999
Ace Parking Management	Services	3,000-4,999	SDG&E	Utility	3,000-4,999

Source: Courtesy of San Diego County Water Authority

**Table XVII
NUMBER OF EMPLOYEES
Last Ten Fiscal Years**

	Full-Time-Equivalent Employees Authorized as of June 30,									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Pumping	5.21	5.49	5.18	4.58	4.96	5.09	4.79	4.89	4.93	3.60
Water Systems Operations	37.14	37.37	35.92	33.71	31.70	31.74	31.45	28.49	28.20	27.94
Wastewater Collection and Treatment	5.07	3.93	3.63	3.66	3.27	3.07	2.72	3.36	4.41	4.16
Engineering	9.96	9.44	8.83	8.55	7.62	7.87	7.37	6.30	6.20	5.94
General and Administrative	13.00	13.00	13.00	12.95	12.00	11.60	11.05	10.80	10.50	10.25
Capital Outlay ⁽¹⁾	5.90	6.05	6.62	4.86	3.60	2.87	3.00	2.49	3.15	2.77
Developer Projects ⁽²⁾	3.72	2.72	2.32	1.69	1.85	1.26	0.63	0.68	0.62	1.14
Total Employees	80.00	78.00	75.50	70.00	65.00	63.50	61.00	57.00	58.00	55.80
Average Years of Service	10.91	10.25	11.56	11.75	12.81	12.96	13.00	13.76	12.85	12.59

(1) Capitalized into construction in progress.
(2) Charged to work in progress for others.

Source: Valley Center Municipal Water District

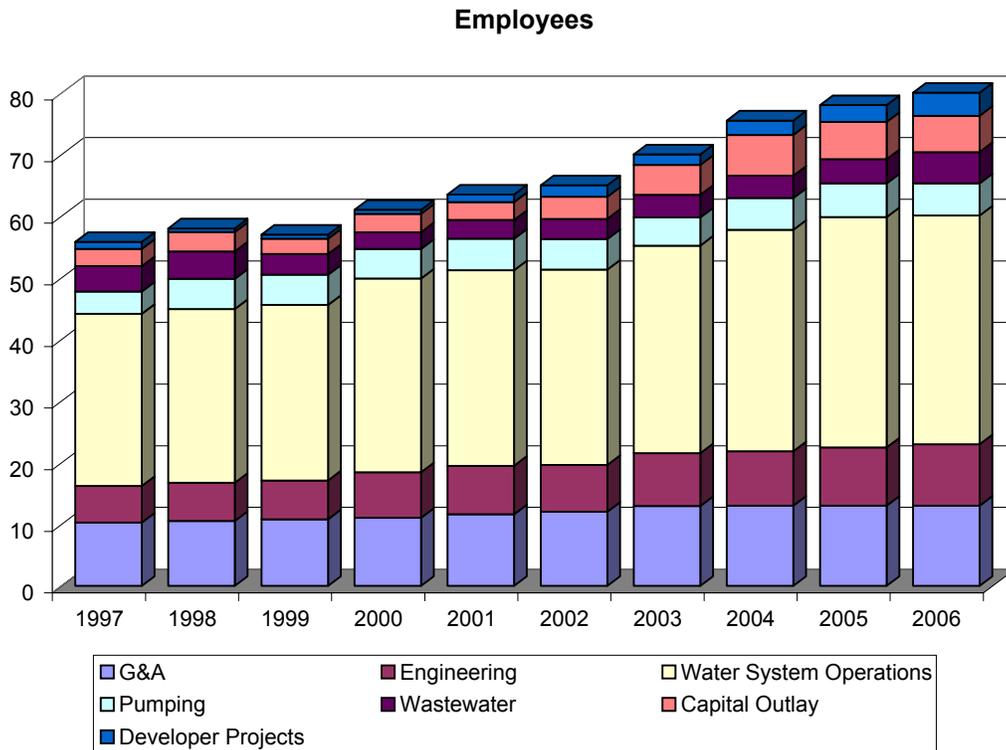


Table XVIII
Operating and Capital Indicators
Last Ten Fiscal Years

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Water:										
Service area (acres)	64,253	64,253	64,253	62,100	62,100	62,100	62,100	62,100	62,100	62,100
Miles of water main (8 inches and larger)	291	289	283	273	270	264	262	259	252	251
Number of enclosed reservoirs	42	41	41	41	41	41	40	40	40	39
Capacity of enclosed reservoirs (AFt)	421	415	415	415	415	415	407	407	407	405
Number of open reservoirs (non-potable)	1	1	1	1	1	1	1	1	1	1
Capacity of open reservoirs (AF)	1,612	1,612	1,612	1,612	1,612	1,612	1,612	1,612	1,612	1,612
Number of pump stations	26	26	26	26	26	26	26	26	26	26
Number of pumps	96	96	96	96	96	97	96	98	99	102
Total pump capacity (horsepower)	19,940	19,940	19,940	19,940	19,940	20,040	20,020	20,520	20,720	20,740
Number of service connections	10,251	9,853	9,175	8,482	8,299	8,120	7,960	7,785	7,565	7,443
Number of meters in service	9,621	9,217	8,537	7,841	7,643	7,458	7,285	7,051	6,787	6,653
Production peak (m.g.d.)	81.70	80.46	81.43	82.59	76.91	80.01	73.68	70.97	80.14	72.06
Average production (m.g.d.)	40.26	34.02	46.58	38.99	44.21	39.81	43.22	34.99	26.16	34.59
Total rainfall (inches)	13.47	33.96	11.18	18.87	4.88	12.98	6.71	9.37	36.49	12.63
Average daily temperature (F.)	63.8	62.3	64.2	62.0	61.6	61.8	62.7	60.7	61.8	63.7
Electricity purchased (1,000 kWh)	31,828	27,418	35,794	28,057	32,643	n/a	n/a	n/a	n/a	n/a
Natural gas purchased (1,000 therms)	347	368	576	923	914	n/a	n/a	n/a	n/a	n/a
Mainline repairs	21	42	23	19	19	35	21	n/a	n/a	n/a
Wastewater:										
Miles of sewer lines	54	53	52	46	46	46	46	45	45	45
Number of treatment plants	2	3	2	2	2	2	2	2	2	2
Maximum capacity of treatment plants (m.g.d.)	0.55	0.56	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54
Average dry weather flow (m.g.d.)	0.34	0.35	0.29	0.31	0.28	0.29	0.27	0.28	0.26	0.28
Number of sewer connections	2,600 ⁽¹⁾	2,685	2,599	2,563	2,453	2,271	2,321	2,257	2,114	2,114

AF - Acre feet
m.g.d. - Million gallons per day

(1) Net of 222 EDU's for Skyline Ranch reverted back to property owner in May 2006.

Source: Valley Center Municipal Water District

**VALLEY CENTER MUNICIPAL WATER DISTRICT EMPLOYEES
2005-06**

GARY ARANT
BARBARA BAKER
GERALD BARNETT
DAVID BEAN
RICHARD BEATH
TOMAS BORROEL
MICHAEL BULL
JEFFREY BURTON
CRISTI BUSH
FERNANDO CARRILLO
EARL COLIA
RAMIRO DE ALBA-JIMENEZ
ROMAN DE MANRIQUEZ
DANIEL DENTINO
CHARLENE DERESH
LAURIE DOERR
FRANCISCO DUMBRIQUE
COREY ELMENDORF
GREG FEIK
BRIAN FOWLER
IRENE FRANTZ
JORGE GARCIA
LAWRENCE 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
CHRISTINE JOHNSON
DOUGLAS JOHNSON
ROBERT JONES
DIANNE KILWEIN
THAD KLIMAS
CHRISTOPHER KRATZ
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
TIMOTHY PETER
THANG PHAM
JAMES PUGH
BETTY RANDOLPH
CLIFFORD REEH
THOMAS REGAN
ERIC RIVARD
ROY RUTHERFORD
ROBERTO SALAZAR
JULEE SCOTT
NICHOLAS SERINIS
YVETTE SERRATO
FRANCESCA SHOUGH
MOSES SHUBIN
ELIZABETH STEVENS
JOHN STETSON
KATHY STETSON
JAMES SULLINS
JARED THOMAS
DEBORAH TILLEY
ROBERT TRUESDALE
GERARD VILLALPANDO
JOHN VON BORSTEL
JESSICA WAGEMAN
DENNIS WILLIAMS
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