

Comprehensive Annual Financial Report

Fiscal Year Ending June 30, 2009

Valley Center Water District, Valley Center, CA

Comprehensive Annual Financial Report

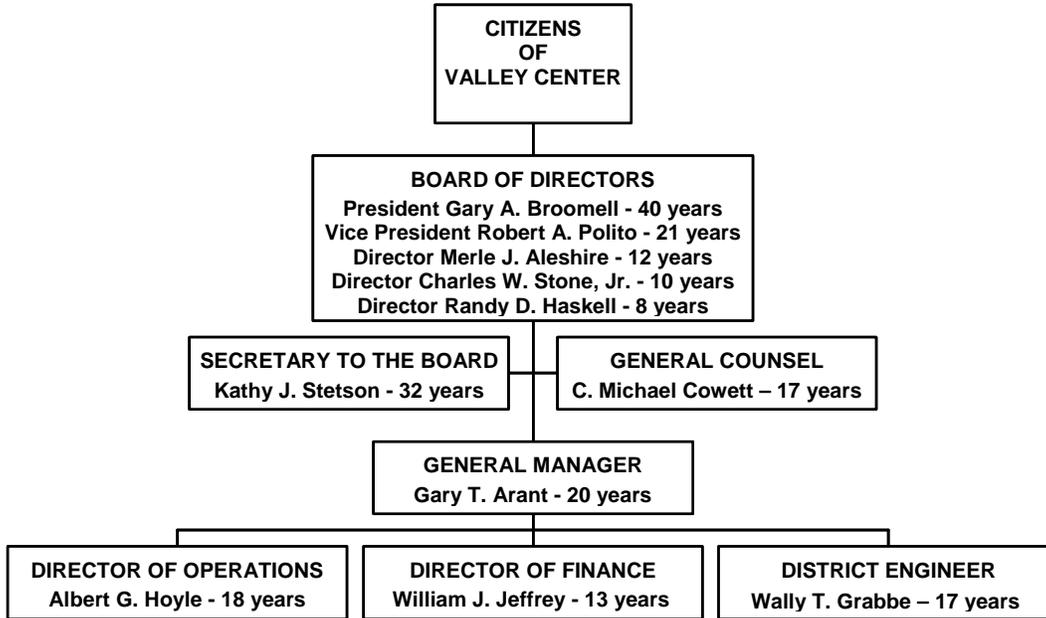
Prepared by:
The Finance Department
William J. Jeffrey, Director of Finance
James V. Pugh, Manager of Accounting

Fiscal Year Ending June 30, 2009

Valley Center Water District, Valley Center, CA

VALLEY CENTER WATER DISTRICT

ORGANIZATION CHART With Years of Service



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Valley Center Water District
California

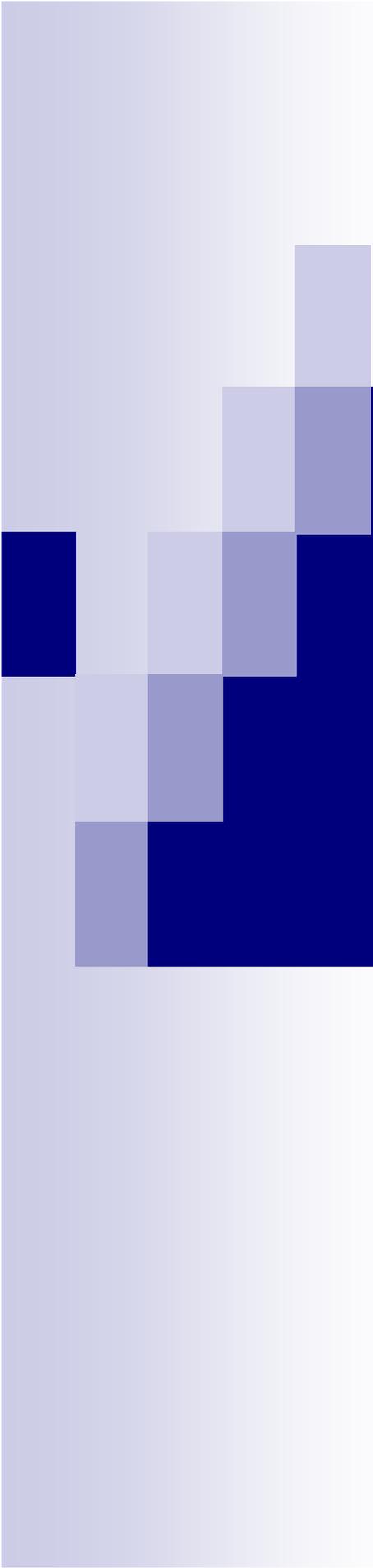
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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



President

Executive Director



Introductory Section



VALLEY CENTER WATER DISTRICT

A Public Agency Organized July 12, 1954

Board of Directors

Gary A. Broomell

President

Robert A. Polito

Vice President

Merle J. Aleshire

Director

Charles W. Stone, Jr.

Director

Randy D. Haskell

Director

December 7, 2009

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

We are pleased to present the Valley Center Water District's (District) Comprehensive Annual Financial Report for the year ended June 30, 2009. The purpose of the report is to provide the Board of Directors, our customers, and any other interested parties with reliable financial information about the District.

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.

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

PROFILE OF THE DISTRICT

DISTRICT FORMATION AND ORGANIZATION

Valley Center 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. Agricultural customers generate the largest demands on the system. Historically, 80-90% of water sold has been used to irrigate avocado and citrus groves as well as for many other agricultural purposes. Mandatory 30% agricultural water cutbacks, which began in January 2008, have reduced this figure to 72%.

A five-member Board of Directors, elected by geographic division, governs the District. The Board manages through an appointed general manager. Three department heads oversee the Finance, Engineering, and Operations Departments. There are currently 75 regular full-time employees working for the District.

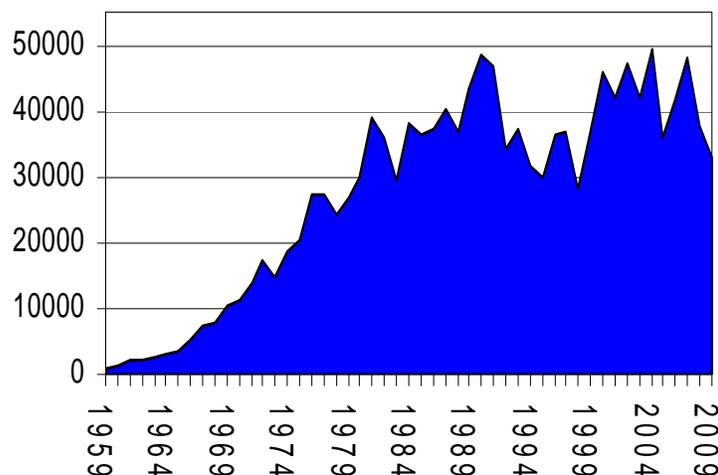
In fiscal year 2008-09 Valley Center Water District purchased 100% of its water from the San Diego County Water Authority (SDCWA or "Authority") at a cost of \$21.8 million, or 54% of District operating expenses. The Authority imports most of its water from the Metropolitan Water District of Southern California (MWD). The District sold 33,014 acre feet of water during the year ended June 30, 2009.

The District's water system includes 8 aqueduct connections, 42 enclosed reservoirs, 26 pumping stations and 297 miles of water main. The District is the fourth (out of 23) largest retailer of imported water within the San Diego County Water Authority behind the City of San Diego, Helix Water District, and Otay Water District.

In addition to water supply, the District provides wastewater collection, treatment, and disposal services for approximately 2,700 customers through two wastewater treatment facilities: the 440,000 gallon per day Lower Moosa Canyon Water Reclamation Facility at Circle R Drive near Old Highway 395 and the 70,000 gallon per day Woods Valley Ranch Wastewater Facility. The new Woods Valley Ranch permanent treatment facility completed start-up testing and was conditionally accepted for operation and maintenance. 100% of the effluent from the permanent facility is being discharged to the golf course storage ponds where it is used for irrigation of the golf course.

WATER SALES

In Acre Feet



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 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, 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 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 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.

ECONOMIC CONDITIONS

As of June 30, 2009, the estimated population of the District was 25,665. 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 2009 was 40.1 years and the median household income was \$94,864. 22% of the residents were under the age of 18 and 16% were age 65 or older.

From 2000 to 2009, the population increased 21.6%, and is forecast to increase an additional 119% by 2020. Median household income (adjusted for inflation) increased 11.7% from 2000 to 2009, and is expected to increase an additional 7.1% through 2020.

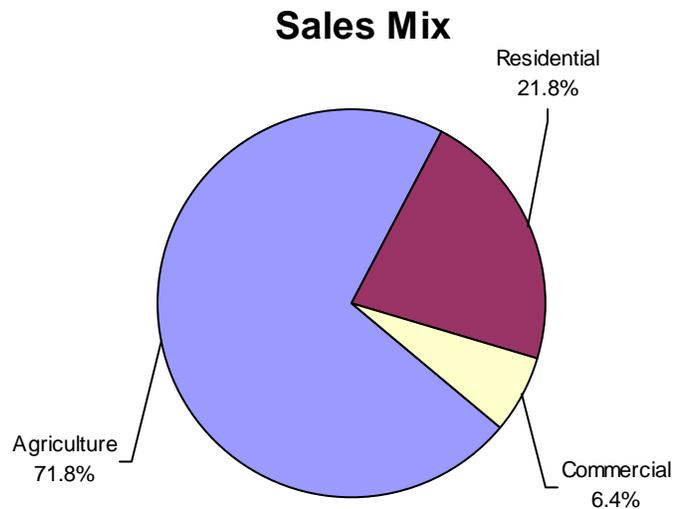
DISTRICT ECONOMIC RESULTS

The District sold 85 meters during 2008-09 which includes 34 fire meters. This raised the total number of meter connections within the District to 10,493. Of this total, 1,017 are fire meters and 697 are inactive, resulting in 8,779 water sales generating meters. This is a reduction of 6 active meters compared to 2007-08.

The District is currently processing 42 development projects totaling 2,869 units; 12 projects totaling 637 units are on hold pending action by the developers, 313 units are under construction, and 1,919 units are in planning or design. It is anticipated that approximately 25 new domestic meter connections, plus 25 new fire services, will be added during 2009-10.

Water sales for 2008-09 were 33,014 acre feet, down 4,622 acre feet or 12.3% from sales of 37,085 acre feet in 2007-08. The sales reduction is due to MWD implementing a mandatory 30% agricultural water cutback that took effect in January 2008. This wide fluctuation of water sales illustrates the influence that the agricultural community has on total water demand within the District.

Our agricultural customers purchased 72% of the District's total water sales in fiscal year 2008-09, similar to 76% in 1994-95, when rainfall totaled 34 inches. In comparison, total rainfall during 2008-09 was just over 14 inches. Over the previous ten year period 81% of the District's water sales was to agricultural users. As water is one of the largest production costs for farmers in San Diego County, wholesale water rate increases and the 30% cutback both keep agricultural users in the area continually working to develop and install 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 2009 discounts total \$251 per acre foot, based on water rates effective January 1, 2009. In October 2008, MWD announced that the IAWP will phase out by January 1, 2013.

As part of the MWD agricultural credit program, mandatory cut backs in agricultural deliveries were implemented by MWD in January 2008 due to water supply constraints in California. This program reduced water deliveries by 30% to agricultural customers from historical amounts. As

of January 2008 all agricultural customers, participating in the program, were assigned monthly water allocations. Usages above these monthly allocations call for severe penalties to be assessed on their monthly billings.



Example of the impact on local agriculture due to mandatory water supply reductions.

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, 2009, the District had \$360,000 in revenue bonds. No new debt was issued during the year just ended.

STRATEGIC PLAN PERFORMANCE MEASUREMENT STANDARDS RESULTS FOR CALENDAR YEAR ENDED DECEMBER 31, 2008

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 100% of the time.

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

Unknown water loss for calendar year 2008 was 6.2%.

3. DISCRETIONARY RESERVES – *Unrestricted or uncommitted reserves not anticipated to be used in the current fiscal year shall endeavor to beat a minimum three and maximum six months operating and maintenance expenses (excluding wholesale water and power purchases).*

At fiscal year end, June 30, 2009, our Discretionary Reserves, Operating and Pump Rate Stabilization, represent approximately 5 months operating and maintenance expenses.

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 14.2% of Municipal and Industrial and Certified Agricultural total commodity costs, respectively.

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

Our pump efficiency was 101% of the design criteria.

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

No projects have finalized in the current measurement period.

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 no lost time accidents.

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

At fiscal year end, June 30, 2009, our investment return was 1.656%, while the 12-month rolling average for U.S. Treasuries was 0.49%.

MAJOR INITIATIVES - EFFORTS AND ACCOMPLISHMENTS

Geographical Information System (GIS) – Staff continues to make enhancements to the overall core GIS viewer and foundation map. Use of the GIS maps and system has become wide-spread throughout the organization. GIS staff has continued to update existing information and has implemented many procedures for updating to ensure the most up-to-date data is available for enterprise-wide access. Progress continues in the easement scanning process and the development of map features for linkage to various map documents and records. GIS staff is assisting the Information Technology Division in the development of a work order and maintenance application that will integrate with the GIS. GIS staff is also actively pursuing technology for the development of web-based maps to publish information, projects status, etc., to the District's intranet site and possibly the District's internet site.

Supervisory Control and Data Acquisition (SCADA) System – Construction of the initial 14 SCADA sites (Phases 1 and 2 of a proposed seven phase project) is complete. The initial sites included the major pump station sites (Betsworth, Miller, Rainbow, Valley Center, Oat Hill, Paradise, and Couser) and the key reservoir sites (Red Mountain, Meadows, Country Club, Cool Valley, San Gabriel, and Paradise). Installation of the control panels and upgrading 16 motor starters at the various pump stations sites is also complete. The SCADA network has been enhanced with additional redundancy to provide the necessary reliability and protection against equipment and link failures. Network routing has also been improved to accommodate future needs for bandwidth and security.

Reducing the District's Carbon Footprint – Historically, the District has been proactive in reducing our energy consumption by upgrading and replacing the older pumping facilities with high efficiency pumps and motors. With the passage of AB 32, the District has accelerated and expanded its program to include all of our operational procedures and functions to explore means to reduce our carbon footprint.

A recyclable vehicle washing system to maintain the District's service fleet and automated hand washing systems were installed at the corporate facility. Programmable thermostats were also installed throughout the facility and practices were implemented to reduce energy consumption and increase savings.

Systems Operations continued with the District's pump and motor replacement program and developed energy management strategies and practices to reduce operational pumping costs and semi-peak and peak pumping demand charges, resulting in significant energy savings and providing funds for additional pump station replacements in the future. The new Automated Meter Reading change-out program of all the District's water meters was recently completed, reducing the frequent stops required for manual meter reading. In addition, an off-site fuel station was installed at the Moosa Wastewater Treatment Facility to improve the fleets fueling efficiencies. Improvements made to the Aeration and Aerobic Digester Basins at our Moosa Treatment Facility have improved the quality of the treated effluent and has markedly reduced our energy consumption. The District received grant funding for early implementation of installing diesel particulate filters on all but one of the District's diesel trucks. Finally, the District has increased our total miles per gallon average from 9.5 to 11.6 miles per gallon by purchasing more fuel efficient mid-size trucks; currently there are nine mid-sized trucks in the fleet, with the plan to purchase two more during 2009-10.

Lake Turner Solar Power Project – As of December 30, 2008, the 1.1 megawatt Lake Turner Solar Power Project was fully constructed and in commercial operation. Over the first six months of system operation, the District has documented \$23,353 in power savings compared to purchasing power from the grid. Also, the availability of solar power has provided added operational flexibility allowing the District to avoid the more expensive on peak and semi-peak power purchase periods, generating further savings.

Corporate Facility Solar Power Project – By the end of 2008-09, the Corporate Facility Solar Power Project was under design and efforts were being made by Solar Electric Solutions to finalize the financial arrangements. Power will be generated via a raised dual tracking photo voltaic generating carport system.

In the future, we will continue to look for areas where we can improve or eliminate our carbon footprint as new technologies or operational advancements become available.



Some of the over 6,300 solar panels generating 1.1 megawatts of power at Lake Turner.

Carlsbad Seawater Desalination Project – Progress continued on the public-private partnership between Poseidon Resources, the City of Carlsbad, the District, and five other contract agencies to gain approval, permitting, construction, and operation of a 56,000 acre foot per year seawater desalination facility in Carlsbad. The combined efforts of the “San Diego Desal Partners” helped to raise public awareness, acceptance, and political support for the project. During 2008-09, the project continued its progress through several regulatory permit hearings, re-hearings, and litigation filed by opposing environmental groups. At the end of the past fiscal year, the project was poised to receive final regulatory permits and then seek Local Resource Project funding assistance from Metropolitan Water District. Unfortunately, with the regulatory process and litigation delays, it is projected that the facility will not be on line until the end of 2012.

Information Technology Server Room Relocation – Construction for the new Information Technology server room started in May 2009. The new server room includes the necessary power, security, cooling, and fire suppression for the District's servers and communications equipment, and it provides adequate expansion capabilities for the foreseeable future. The project is scheduled to be completed by the end of 2009 calendar year.

New District Website – The District website was redesigned and constructed in a new server system. The new website provides easier navigation and a consistent look and feel to the user. Updates to the website are managed with a content management system. The new District website is located at www.valleycenterwater.org.

Customer Online Account Access – Work has started to provide online account access for all District customers. The online account access will allow customers to access their billing information and provides information about their water usage and allocations.

Information Technology System Upgrades – Progress continued on upgrades to the District's Information Technology systems. Improvements were made to database servers to allow enhanced reporting capabilities for SCADA and financial data. Work was started to consolidate various databases and provide more efficient access to the data by the employees. The backbone of the main office network will be improved with added redundancy in conjunction with the server room relocation project.

Planning and Construction Projects

Transmission, Distribution, and Storage Facilities Improvements – In a cooperative effort with the County of San Diego, the 17,700 foot Valley Center Road Pipeline Replacement Project was constructed and placed into service; however, post-construction administrative work still remains. In addition, the Cole Grade Road Pipeline Replacement Project was constructed and placed into service replacing 1,000 feet of old piping that had recently experienced numerous failures. A preliminary design report for the Country Club Reservoir Cover replacement was completed and initial demolition plans and design of a floating cover began. Design work was completed for the Pfau Pump Station Improvements which included the demolition and removal of two existing 100 horsepower horizontal pumps, piping, and the installation of a package pump system consisting of four more efficient 50 horsepower pumps and an electrical control and SCADA panel. In addition, the District completed the purchase of a 20-acre parcel for future use as a reservoir site to provide for additional storage in the North Broadway area.

South Village Water Reclamation – Construction of the 70,000 gallons per day permanent wastewater treatment facility to serve the Woods Valley Ranch Subdivision was completed and conditionally accepted and the 50,000 gallons per day interim plant was removed. Final acceptance of the facility is pending completion of punch list items and passing performance tests. Record drawings are being prepared by the Developer's engineering design firm. Completion of the punch list items and final acceptance is expected by the end of 2009. Development interests in the service area requested, and the Board approved, District sponsorship of a \$10 million Financial Assistance Application



The entrance to the Woods Valley Wastewater Treatment facility.

for a State Revolving Fund loan for the expansion of the Woods Valley Ranch Water Reclamation facility to serve an additional 350 equivalent dwelling units (EDU's). Loan repayment would be from the formation of an assessment district consisting of property owners requesting service from the expanded facility. The application is being prepared by the developer's engineer with District staff currently reviewing it for submittal to the State Department of Water Resources in the fall of 2009. If approved, construction could possibly begin late 2010 or early 2011. The expansion would include constructing an 87,500 gallon per day expansion to the existing facility, a low pressure wastewater collection system, and a seasonal storage pond.

Lower Moosa Canyon Water Reclamation Facility – In anticipation of possible increased discharge requirements with the updated waste discharge permit, construction of improvements to the existing Aerobic Digester and the Aeration Basins were completed and placed into service. In addition, improvements and upgrades to the existing control and monitoring systems were completed to accommodate new equipment and increase facility redundancy.

Large Development Projects

Current and potentially long term hydrologic, legal, and regulatory conditions negatively impacting the quantity and reliability of water supplies from the State Water Project and Colorado River have hampered the progress of large developer projects. In response to the State's water shortage condition, the District has adopted policy amendments requiring developers of large projects to provide Water Supply Assessments for their projects and indicate viable sources of water. These measures are anticipated to lead to the development of additional local water supply projects to generate the water needed to support planned growth within the District. These projects consist, in part, of increased utilization of recycled water, development of groundwater supplies for either direct use in the potable system or possibly a non-potable system to offset imported water demands.

Live Oak Ranch – Due to current economic conditions in the housing market, the developer of the 146 lot Live Oak Ranch project, which is located at the intersection of Cobb Lane and Valley Center Road, has let District conceptual approvals expire without proceeding with the project. The District has reallocated funds previously approved for participation in the replacement of major water transmission main facilities located within the project.

Lilac Ranch – The 354 lot Lilac Ranch project is located along Keys Creek between Lilac and West Lilac Roads. While the developer is still pursuing County approvals and entitlements for the project, current economic conditions have caused the developer to slow progress on the project. The developer has let the conceptual approvals expire without proceeding with the project. The District has reallocated funds previously approved for participation in the replacement of major water transmission main facilities located within the project.

North Village – An 800 unit residential and commercial development is being proposed by two major property owners in the North Village area on Valley Center Road between Miller and Cole Grade Roads. A major use permit application for the wastewater treatment facility has been submitted for County and District review and comment. It is anticipated that a submittal for project concept approval will be presented for approval in calendar year 2010.

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 Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2008. 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. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Valley Center Water District has received a Certificate of Achievement each year since 1992. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

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:

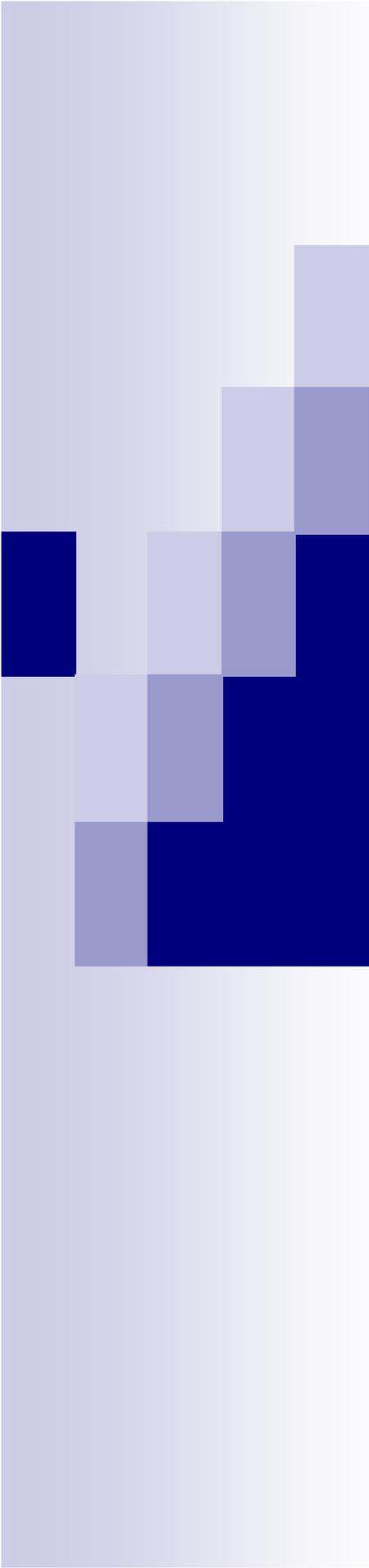


Gary T. Arant
General Manager



William J. Jeffrey
Director of Finance

*Our mission is to ensure customer satisfaction
through quality service at the lowest possible cost.*



Financial Section





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A Partnership of Professional Corporations

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

Independent Auditor's Report

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

We have audited the accompanying balance sheet of Valley Center Water District as of June 30, 2009, 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 Water District at June 30, 2009, 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 2009 combining schedule of balance sheets and the 2009 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, 2009, 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 Water District as of June 30, 2008, 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 2008 combining schedule of balance sheets and the 2008 combining schedule of revenues, expenses and changes in net assets are fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

Leaf & Cole LLP
San Diego, California
November 20, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Valley Center 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, 2009. 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 that 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.

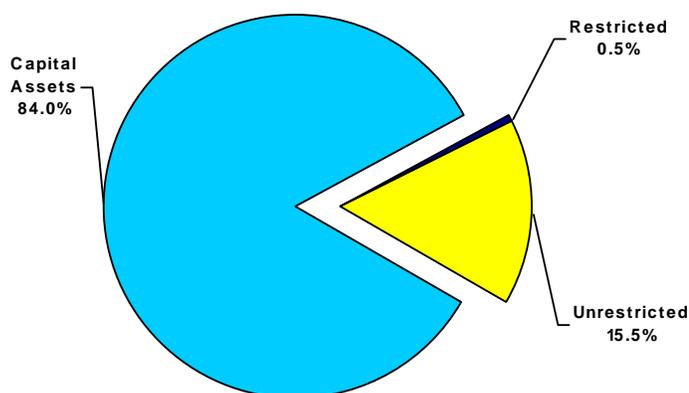
FINANCIAL HIGHLIGHTS

During the year ended June 30, 2009, net assets increased by \$10,527,504. Total revenues were \$51,085,746, which included operating revenues of \$35,355,240, nonoperating revenues of \$3,433,614, and capital contributions of \$12,296,892, including \$11,628,465 for the Woods Valley Ranch Wastewater Treatment Plant which was conditionally accepted and placed in service. Total revenues increased \$9,205,101 from the prior year. Total expenses increased \$1,410,742. For the year ended June 30, 2009, operating expenses exceeded operating revenues by \$5,162,257 compared to \$2,580,195 for the previous year. Nonoperating revenues of \$3,433,614 exceeded nonoperating expenses of \$40,745. Nonoperating revenues consist primarily of property taxes and assessments and investment income. Capital contributions of \$12,296,892 accounts for 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 2008 and 2009 from \$91,496,513 to \$102,024,017. This increase does not include a prior balance adjustment of \$2,491,415 for the Retirement Health Plan Liability reclassified to unrestricted net assets (as described in Note 14 to the financial statements) and designated for retirement health plan payments, as 2008 has been restated to include this figure. Net assets invested in capital assets, net of related debt, increased \$13,300,810, restricted net assets decreased \$148,391 with the expenditure of capacity fees, and unrestricted net assets decreased \$2,624,915 due to a net loss and to capital expenditures.

TOTAL NET ASSETS
Fiscal Year 2008-09



NET ASSETS

	2009	2008 (Restated)
Current Assets	\$ 26,583,976	\$ 27,421,912
Restricted assets	503,862	652,253
Capital assets	86,037,036	72,826,226
Total Assets	<u>113,124,874</u>	<u>100,900,391</u>
Current liabilities	9,799,506	8,261,346
Noncurrent liabilities	1,301,351	1,142,532
Total Liabilities	<u>11,100,857</u>	<u>9,403,878</u>
Net assets:		
Invested in capital assets, net of related debt	85,677,036	72,376,226
Restricted for facility expansion	503,862	652,253
Unrestricted	15,843,119	18,468,034
Total Net Assets	<u>102,024,017</u>	<u>91,496,513</u>
Total Liabilities and Net Assets	<u>\$ 113,124,874</u>	<u>\$ 100,900,391</u>

Change in Net Assets - The District's operating revenues decreased \$1,125,284, or 3.1% to \$35,355,240 as a result of decreased consumption attributed to the mandatory 30% agricultural water cutback.

The District's operating expenses increased \$1,456,778, or 3.7% to \$40,517,497. Operating expenses increased due to the increase in the price of water purchased, \$673,812, and to the increase in depreciation, \$389,876, primarily the depreciation associated with the Woods Valley Ranch Wastewater Treatment Facility.

The District's investment income decreased \$422,333. Yields during the year started at 3.26% and fell to 1.66% by year end. Investment income includes unrealized gains and losses on investments. Tax revenues were down slightly, \$46,780, or 1.7%, to \$2,764,166.

CHANGES IN NET ASSETS

	2009	<u>2008</u>
<u>Operating Revenues:</u>		
Water sales and pumping charges	\$32,825,911	\$33,815,913
Wastewater charges	1,576,437	1,561,495
Meter installation fees	155,358	128,342
Other water operating revenues	797,735	974,774
Total Operating Revenues	<u>35,355,240</u>	<u>36,480,524</u>
<u>Operating Expenses:</u>		
Cost of water sold	21,820,598	21,146,786
Energy and pumping costs	4,082,268	4,214,599
Water systems operations	4,821,920	4,695,861
Wastewater collection and treatment	866,812	748,447
Engineering	1,580,009	1,368,868
General and administrative	3,207,975	3,138,119
Depreciation	4,137,915	3,748,039
Total Operating Expenses 40,517,497	<u>40,517,497</u>	<u>39,060,719</u>
Operating Loss	<u>(5,162,257)</u>	<u>(2,580,195)</u>
<u>Nonoperating Revenues (Expenses):</u>		
Property taxes and assessments 2,764,166		2,810,946
Investment income	476,566	898,899
Other nonoperating revenues	192,882	256,550
Interest expense	(9,470)	(20,289)
Loss on disposal of assets	(31,275)	(66,492)
Total Nonoperating Revenues (Expenses)	<u>3,392,869</u>	<u>3,879,614</u>
Income (Loss) Before Contributions	(1,769,388)	1,299,419
Capital Contributions	<u>12,296,892</u>	<u>1,433,726</u>
Change in Net Assets	<u>10,527,504</u>	<u>2,733,145</u>
Net Assets at Beginning of Year	89,005,098	86,271,953
Prior Period Adjustment	<u>2,491,415</u>	<u>0</u>
Restated Net Assets at Beginning of Year	<u>91,496,513</u>	<u>86,271,953</u>
NET ASSETS AT END OF YEAR	<u><u>\$102,024,017</u></u>	<u><u>\$89,005,098</u></u>

ANALYSIS OF OPERATIONS

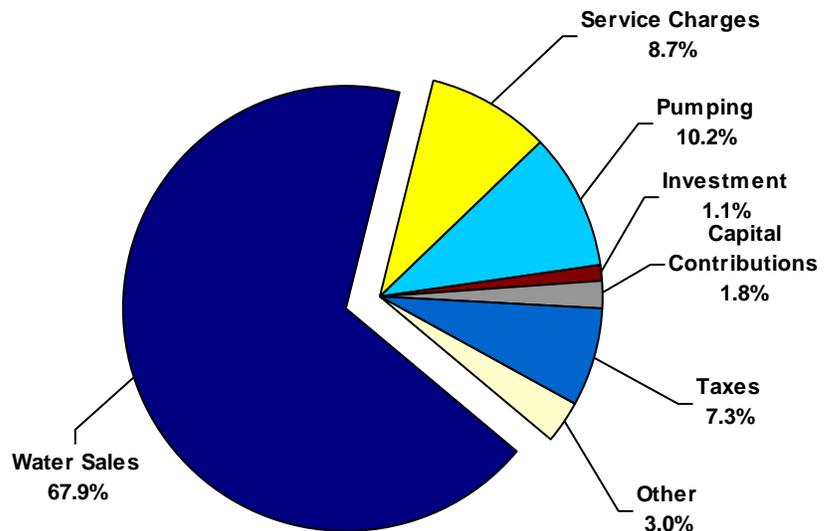
Water Operations

Revenues for the year ended June 30, 2009, totaled \$37,813,656, which is a decrease of \$1,738,164, or 4.4% from the prior year. Details of this decrease in revenues are as follows:

- Water sales revenue decreased by 1.3%, or \$338,254, from the prior year. There was a 12.3% decrease in the volume of water sold. In 2008-09, 33,014 acre feet of water were billed compared to 37,636 acre feet in the prior year. On January 1, 2009, water rate increases were 7.3% for domestic, 7.2% for the San Diego County Water Authority Special Agricultural Water Rate (SAWR), and 8.9% for the Metropolitan Water District Interim Agricultural Water Program (IAWP), due to increases in wholesale costs from the District's suppliers. Meter charges were basically unchanged, \$3,301,736 in 2008-09 compared to \$3,301,357 in 2008-09.

WATER OPERATIONS REVENUE

Fiscal Year 2008-09

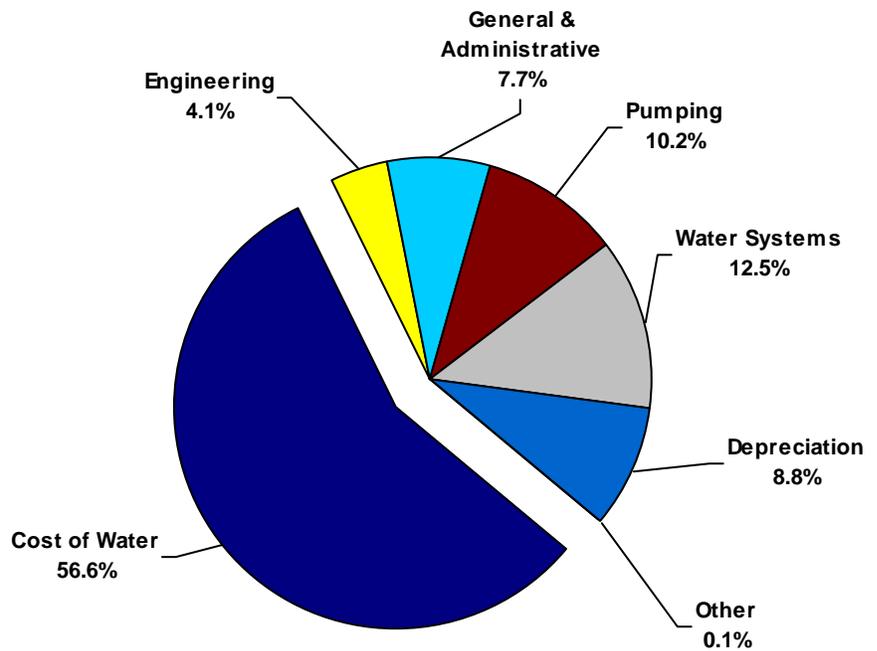


- Energy and pumping revenues were down 14.5%, or \$651,369, due to the decrease in the volume of water sold.
- Property taxes and assessments decreased by 1.7%, or \$46,780, from 2007-08 to 2008-09. Because of current economic conditions, assessed values increased only 0.2% over the previous year. The 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 47.4%, or \$369,437, from the prior year. During the course of the year, yields fell from 3.26% to 1.66% by the end of the year.
- Meter installation fees of \$155,358, showed an increase of \$27,016 over the prior year. This increase is due to a slight resurgence in meter sales associated with small developments.
- Other water operating revenues decreased \$177,240, or 18.2% in 2008-09. This includes \$237,547 in penalties associated with the 30% mandatory agricultural water cutback, as compared to \$77,608 for 2007-08. In addition, fiscal 2007-08 had \$344,198 in reimbursement for water used for the Pamoocha fire.
- Capital contributions, which vary based on developer projects, decreased by \$118,053 or 15.0% from the prior year.

Expenses for the year ended June 30, 2009, totaled \$38,562,286, an increase of 2.2% or \$846,779. Certain significant expenses are as follows:

- The cost of water sold increased 3.2% over the prior year, while water deliveries decreased, because of higher wholesale water prices. In 2007-08, the District purchased 39,500 acre feet of water at an average price of \$535 per acre foot. In the current year, the District purchased 34,781 acre feet of water at an average price of \$627 per acre foot, an increase of 17.2% or \$92 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 SDCWA.

WATER OPERATIONS EXPENSES Fiscal Year 2008-09



- Agricultural rebates received were \$3,304,917 for fiscal year 2008-09, including \$1,168,329 from SDCWA on their melded water rate. This equates to a rebate of \$139 per acre foot. This cost reduction for agricultural water is passed through to the District's qualified agricultural customers.
- Energy and pumping costs associated with the distribution of water for the District decreased 4.1%, or \$168,435, due to the decrease in water deliveries, savings attributable to the Lake Turner Solar Project, reduced pump and motor maintenance expenses, and higher pump efficiencies.
- Water systems operations expenses increased 2.7%, or \$126,059, from the prior year due to increased labor offset by reduced facilities and equipment maintenance, outside services, training and education, and departmental operating supplies.
- Engineering expenses for 2008-09 were 15.4%, or \$211,141 higher than 2007-08. Increased labor was offset by lower outside service and departmental operating supplies.
- General and administrative expenses increased 1.1% or \$31,705 due to an increase in the write-off of uncollectible customer accounts in the amount of \$30,425.
- Depreciation expense in 2008-09 increased 0.5%, or \$18,533, from the prior year.
- Other nonoperating expenses were \$31,275 compared to the prior year of \$66,492. This represents a decrease in the undepreciated balance of assets which were replaced during the year.

WATER OPERATIONS CHANGES IN NET ASSETS

		2009	2008	Increase (Decrease)	Percent Change
REVENUES:					
Water	Sales	\$25,686,078	\$26,024,332	\$ (338,254)	(1.3) %
	Meter Service Charges	3,301,357	3,301,736	(379)	0.0 %
	Pumping and energy charges	3,838,476	4,489,845	(651,369)	(14.5) %
	Meter Installation Fees	155,358	128,342	27,016	21.1 %
	Other water operating revenues	797,534	974,774	(177,240)	(18.2) %
	Property taxes and assessments	2,764,166	2,810,946	(46,780)	(1.7) %
Invest	ment income	410,457	779,894	(369,437)	(47.4) %
	Other nonoperating revenues	192,882	256,550	(63,668)	(24.8) %
Capital	Contributions	667,348	785,401	(118,053)	(15.0) %
Total	revenues	<u>37,813,656</u>	<u>39,551,820</u>	<u>(1,738,164)</u>	<u>(4.4) %</u>
EXPENSES:					
	Cost of water sold	21,820,598	21,146,786	673,812	3.2 %
	Energy and pumping costs	3,929,693	4,098,128	(168,435)	(4.1) %
	Water systems operations	4,821,920	4,695,861	126,059	2.7 %
Engineering		1,580,009	1,368,868	211,141	15.4 %
	General and administrative	2,974,373	2,942,668	31,705	1.1 %
Depreciation		3,394,948	3,376,415	18,533	0.5 %
Interest	Expense	9,470	20,289	(10,819)	(53.3) %
	Other nonoperating expenses	31,275	66,492	(35,217)	(53.0) %
Total	expenses	<u>38,562,286</u>	<u>37,715,507</u>	<u>846,779</u>	<u>2.2 %</u>
	Change in Net Assets	<u>\$ (748,630)</u>	<u>\$ 1,836,313</u>	<u>\$ (2,584,943)</u>	<u>(140.8) %</u>

Wastewater Treatment Operations

The Lower Moosa Canyon Water Reclamation Facility serves 2,455 customers in a limited geographic area on the west side of the District. Total revenues were \$1,258,567, a reduction of \$230,584, or 15.5% from the prior year. This decrease is due to reduced contributed capital and lower investment income.

LOWER MOOSA CHANGES IN NET ASSETS

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
REVENUES:				
Wastewater charges	\$ 1,211,563	\$ 1,196,294	\$ 15,269	1.3 %
Investment income	45,925	84,418	(38,493)	(45.6) %
Capital contributions	<u>1,079</u>	<u>208,439</u>	<u>(207,360)</u>	<u>(99.5) %</u>
Total revenues	<u>1,258,567</u>	<u>1,489,151</u>	<u>(230,584)</u>	<u>(15.5) %</u>
EXPENSES:				
Energy and pumping costs	101,113	86,734	14,379	16.6 %
Wastewater collection and treatment	676,458	562,992	113,466	20.2 %
General and administrative	178,034	155,238	22,796	14.7 %
Depreciation	<u>354,209</u>	<u>349,855</u>	<u>4,354</u>	<u>1.2 %</u>
Total expenses	<u>1,309,814</u>	<u>1,154,819</u>	<u>154,995</u>	<u>13.4 %</u>
 Change in Net Assets	 <u>\$ (51,247)</u>	 <u>\$ 334,332</u>	 <u>\$ (385,579)</u>	 <u>(115.3) %</u>

Expenses for the year ended June 30, 2009, totaled \$1,309,814, an increase of 13.4% or \$154,995. Certain significant expenses are as follows:

- Energy and pumping costs were \$14,379 higher than the previous year due to increased connections along with higher electric rates.
- Wastewater collection and treatment costs were 20.2% higher than last year, or \$113,466. This increase is due to higher payroll, maintenance, and outside service costs.
- General and administrative expenses were 14.7% more than last year, or \$22,796. This is due to increased regulatory permit fees, insurance costs, and administrative overhead costs associated with the operation of the treatment plant.

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 Woods Valley Ranch Water Reclamation Facility is located in the south-central portion of the District. The new 70,000 gallon per day permanent facility completed start-up testing and was conditionally accepted for operation and maintenance. Service charges, and standby fees for those properties not yet connected to the wastewater system, are collected as a fixed charge special assessment on the property tax roll.

WOODS VALLEY RANCH CHANGES IN NET ASSETS

	2009	2008	Increase (Decrease)	Percent Change
REVENUES:				
Wastewater charges	\$ 364,874	\$ 365,201	\$ (327)	(0.1) %
Investment income	20,184	34,587	(14,403)	(41.6) %
Capital contributions	11,628,465	439,886	11,188,579	2543.5 %
Total revenues	<u>12,013,523</u>	<u>839,674</u>	<u>11,173,849</u>	<u>1330.7 %</u>
EXPENSES:				
Energy and pumping costs	51,462	29,737	21,725	73.1 %
Wastewater collection and treatment	190,354	185,455	4,899	2.6 %
General and administrative	55,568	40,213	15,355	38.2 %
Depreciation	388,758	21,769	366,989	1685.8 %
Total expenses	<u>686,142</u>	<u>277,174</u>	<u>408,968</u>	<u>1475.5 %</u>
Change in Net Assets	<u>\$11,327,381</u>	<u>\$ 562,500</u>	<u>\$10,764,881</u>	<u>1913.8 %</u>

- Total expenses were \$408,968 higher than the previous year. Increased depreciation expense, on the new permanent facility, accounts for \$366,989, or 89.7% of this increase.
- The increase in the change in net assets of \$10,764,881 is a result of the conditional acceptance for operations and maintenance of the permanent facility.

CAPITAL ASSETS

Capital assets include land, annexation fees, transmission and distribution system, general plant, and construction-in-progress. At June 30, 2009, the District had \$142,050,238 in capital assets with \$56,013,206 of accumulated depreciation. This represents a net increase (additions less deductions) of \$13,210,810, or 18.1% over the prior year. Significant additions include Valley Center Road Improvements, SCADA system improvements, Automatic Meter Reading, Paradise Reservoir #2 roof replacement and the Aeration System Upgrade at the Lower Moosa Treatment Facility. In addition, contributed assets included the Woods Valley Ranch Water Reclamation Facility and 1.3 miles of water mains.

CAPITAL ASSETS

	2009	2008
Land	\$ 4,056,656	\$ 3,371,493
Annexation fees	786,185	786,185
Construction-in-progress	2,156,119	8,824,230
Transmission and distribution system	122,291,582	102,353,028
General plant	12,759,696	10,496,585
Total	<u>\$142,050,238</u>	<u>\$125,831,521</u>

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

LONG-TERM DEBT

At June 30, 2009, the District had \$360,000 in revenue bonds, compared to \$450,000 in revenue bonds payable at June 30, 2008. No new debt was issued during the year. The District had no general obligation bonded debt at June 30, 2009. 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, 2009, the District had designated \$3,440,358 of its unrestricted net assets as a water operating reserve to mitigate the potential of these effects. This represents approximately three and one-half months operating and maintenance expenses. Including the pumping rate stabilization un-appropriated reserve fund would increase this to five months.

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 Water District's Finance Department at 29300 Valley Center Road, Valley Center, California 92082, or call (760) 749-1600.

**VALLEY CENTER WATER DISTRICT
BALANCE SHEET
JUNE 30, 2009**

ASSETS

Current assets: (Notes 1 and 2)

Cash and cash equivalents	\$ 15,009,376
Investments	3,123,998
Accounts receivable - water and wastewater, net	4,908,079
Interest receivable	80,224
Taxes Receivable	377
Other receivables	6,854
Inventory	897,682
Prepaid expenses and deposits	316,767
Work in progress for others	2,240,619
Total Current Assets	26,583,976

Noncurrent Assets: (Notes 1, 2 and 3)

Restricted Assets:

Cash and cash equivalents	110,518
Investments	393,344
Total Restricted Assets	503,862

Capital Assets: (Notes 1 and 4)

Nondepreciable capital assets	6,998,960
Depreciable capital assets, net	79,038,076
Total Capital Assets	86,037,036

Total Noncurrent Assets	86,540,898
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TOTAL ASSETS	\$ 113,124,874
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**VALLEY CENTER WATER DISTRICT
BALANCE SHEET (CONTINUED)
JUNE 30, 2009**

Current liabilities: (Note 1)

Accounts payable	\$ 6,396,244
Accrued payroll	177,031
Accrued compensated absences	608,600
Customer deposits	2,522,631
Current portion of long-term debt	95,000
Total Current Liabilities	9,799,506

Noncurrent Liabilities: (Notes 1, 3 and 5)

Long-term debt:

Revenue bonds	360,000
Less: Current portion above	(95,000)
Total Long-Term Debt	265,000

Other Noncurrent Liabilities:

Accrued compensated absences	1,036,351
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Total Noncurrent Liabilities	1,301,351
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Total Liabilities	11,100,857
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Commitments and Contingencies: (Notes 8, 9, 10, 11, 12 and 13)

Net Assets: (Note 7)

Investment in capital assets, net of related debt	85,677,036
Restricted for facility expansion	503,862
Unrestricted	15,843,119
Total Net Assets	102,024,017

TOTAL LIABILITIES AND NET ASSETS	\$ 113,124,874
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The accompanying notes are an integral part of the financial statements.

**VALLEY CENTER WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009**

Operating Revenues:

Water sales and pumping charges	\$ 32,825,911
Wastewater charges	1,576,437
Meter installation fees	155,358
Other water operating revenues	797,534
Total Operating Revenues	<u>35,355,240</u>

Operating Expenses:

Cost of water sold	21,820,598
Energy and pumping costs	4,082,268
Water systems operations	4,821,920
Wastewater collection and treatment	866,812
Engineering	1,580,009
General and administrative	3,207,975
Depreciation	4,137,915
Total Operating Expenses	<u>40,517,497</u>

Operating (Loss)	<u>(5,162,257)</u>
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Nonoperating Revenues and (Expenses):

Property taxes and assessments	2,764,166
Investment income	476,566
Other nonoperating revenues	192,882
Interest expense	(9,470)
Other nonoperating expenses	(31,275)
Total Nonoperating Revenues (Expenses)	<u>3,392,869</u>

(Loss) Before Contributions	(1,769,388)
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Capital Contributions	<u>12,296,892</u>
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Change in Net Assets	<u>10,527,504</u>
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Net Assets at Beginning of Year	89,005,098
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Prior Period Adjustment (Note 14)	<u>2,491,415</u>
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Restated Net Assets at Beginning of Year	<u>91,496,513</u>
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NET ASSETS AT END OF YEAR	<u><u>\$ 102,024,017</u></u>
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The accompanying notes are an integral part of the financial statements.

**VALLEY CENTER WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Cash Flow From Operating Activities:</u>	
Receipts from customers	\$ 34,977,775
Payments to suppliers for goods and services	(29,469,541)
Payments to employees for services	(5,690,148)
Change in work in progress for others	74,021
Change in customer deposits	(74,167)
Other nonoperating revenue	192,882
Net Cash Provided by Operating Activities	<u>10,822</u>
<u>Cash Flow From Noncapital Financing Activities:</u>	
Property taxes received	<u>2,767,988</u>
Net Cash Provided by Noncapital Financing Activities	<u>2,767,988</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Acquisition and construction of capital assets	(4,826,567)
Principal paid on long-term debt	(90,000)
Interest paid on bonds and long-term debt	(9,470)
Capital contributions received	239,499
Proceeds from disposition of capital assets	68,216
Net Cash Used in Capital and Related Financing Activities	<u>(4,618,322)</u>
<u>Cash Flows From Investing Activities:</u>	
Purchases of investments	(3,517,342)
Proceeds from maturities of investments	4,841,073
Investment income received	540,104
Net Cash Provided by Investing Activities	<u>1,863,835</u>
Net Increase in Cash and Cash Equivalents	24,323
Cash and Cash Equivalents at Beginning of Year	<u>15,095,571</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 15,119,894</u>

(Continued)

**VALLEY CENTER WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

Reconciliation of Operating Income (Loss) to Net

Cash Provided by Operating Activities:

Operating income (loss) \$ (5,162,257)

**Adjustments to reconcile operating income (loss)
to net cash provided by operating activities:**

Depreciation 4,1 37,915

Other nonoperating revenues 192,882

Change in current assets and liabilities:

Accounts receivable - water and wastewater, net (431,157)

Other receivables 53,692

Inventory 3,664

Prepaid expenses and deposits (80,661)

Work in progress for others 74,021

Accounts payable 1,021,363

Accrued payroll 39,008

Accrued compensated absences 236,519

Customer deposits (74,167)

Net Cash Provided by Operating Activities \$ 10,822

Cash and Cash Equivalents -

Financial Statement Classification

Cash and cash equivalents \$ 15,009,376

Restricted cash and cash equivalents 110,518

Total Cash and Cash Equivalents \$ 15,119,894

Noncash Investing, Capital and Financing Activities:

Customer contributions of capital assets \$ 12,057,394

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

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 1 - Summary of Significant Accounting Policies:

(a) Description of Reporting Entity

The Valley Center 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 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 Wastewater Treatment, and Woods Valley Ranch Wastewater. 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.

(d) Revenue Recognition

Revenues from water sales and pumping charges, meter installation fees, and wastewater 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, wastewater service, and connection and installation fees. Nonoperating revenues consist of property taxes and assessments, investment income, and special charges that can be used for either operating or capital purposes. Operating expenses include the cost of sales, operation, maintenance, and administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 1 - Summary of Significant Accounting Policies: (Continued)

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, 2009, was as follows:

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

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

(f) Cash and Cash Equivalents

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

(g) Investments

Investments are stated at their fair value, which represents the quoted or stated market value. Investments in external pools, which are not traded on a market, are valued at the stated fair value as represented by the external pool.

(h) Accounts Receivable - Water and Wastewater

Water and wastewater accounts receivable of \$4,908,079 have been reduced by an allowance for estimated uncollectible accounts in the amount of \$221,921 at June 30, 2009.

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 1 - Summary of Significant Accounting Policies: (Continued)

(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, 2009 inventory consists of the following:

Water inventory	\$ 90,739
Materials inventory	806,943
	\$ 897,682

(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.

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. Accrued compensated absences totaled \$1,644,951 at June 30, 2009. The District estimates the current portion to be \$608,600. The following is a detail:

	<u>Balance June 30, 2008</u>	<u>Earned</u>	<u>Used</u>	<u>Balance June 30, 2009</u>	<u>Current Portion</u>
Accrued compensated absences	\$ 1,408,432	\$ 684,549	\$ 448,030	\$ 1,644,951	\$ 608,600

(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.

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 1 - Summary of Significant Accounting Policies: (Continued)

(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.

Note 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.

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 2 - Cash and Investments: (Continued)

(a) Authorized Investments (Continued)

Cash and investments held by the District were comprised of the following at June 30, 2009:

	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>	
		<u>Less Than 1</u>	<u>1 - 5</u>
Cash on Hand	\$ 1,200	\$ 1,200	\$
California Local Agency Investment Fund	7,355,316	7,355,316	
San Diego County Treasurer's Pooled Money Fund	5,001,632	5,001,632	
Open Ended Money Market Mutual Funds	2,514,387	2,514,387	
Demand Deposits	247,359	247,359	
Investments:			
United States Agency Securities	<u>3,517,342</u>	<u>1,033,289</u>	<u>2,484,053</u>
Total Cash and Investments	<u>\$ 18,637,236</u>	<u>\$ 16,153,183</u>	<u>\$ 2,484,053</u>
Financial Statement Classification:			
Cash and Cash Equivalents	\$ 15,009,376		
Investments	3,123,998		
Restricted cash and cash equivalents	110,518		
Restricted Investments	<u>393,344</u>		
Total	<u>\$ 18,637,236</u>		

(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 Home Loan Mortgage Corporation	11.5

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 2 - Cash and Investments: (Continued)

(c) Credit Risk

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

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

(d) Custodial Credit Risk

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

(e) Interest Rate Risk

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

(f) Foreign Currency Risk

The District is not exposed to foreign currency risk.

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 3 - Restricted Assets:

Restricted assets were provided by, and are to be used for, the following at June 30, 2009:

<u>Funding Source</u>	<u>Use</u>	
Capacity fees	Facility expansion	\$ <u>503,862</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.

Note 4 - Capital Assets:

Capital assets consist of the following:

	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2009</u>
Capital Assets Not Being Depreciated:				
Land	\$ 3,371,493	\$ 685,163	\$	\$ 4,056,656
Annexation fees	786,185			786,185
Construction in progress	8,824,230	5,237,023	(11,905,134)	2,156,119
	<u>12,981,908</u>	<u>5,922,186</u>	<u>(11,905,134)</u>	<u>6,998,960</u>
Capital Assets Being Depreciated:				
Transmission and distribution system	102,353,028	20,999,876	(1,061,322)	122,291,582
General plant	10,496,585	2,431,289	(168,178)	12,759,696
	<u>112,849,613</u>	<u>23,431,165</u>	<u>(1,229,500)</u>	<u>135,051,278</u>
Less Accumulated Depreciation:				
Transmission and distribution system	(47,252,274)	(3,063,409)	961,830	(49,353,853)
General Plant	(5,753,021)	(1,074,506)	168,178	(6,659,349)
	<u>(53,005,295)</u>	<u>(4,137,915)</u>	<u>1,130,008</u>	<u>(56,013,202)</u>
Net Capital Assets Being Depreciated	<u>59,844,318</u>	<u>19,293,250</u>	<u>(99,492)</u>	<u>79,038,076</u>
Net Capital Assets	<u>\$ 72,826,226</u>	<u>\$ 25,215,436</u>	<u>\$ 12,004,626</u>	<u>\$ 86,037,036</u>

Depreciation totaled \$4,137,915 for the year ended June 30, 2009.

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 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, 2009, total \$360,000. Varying amounts of principal plus interest at 5% (as of June 30, 2009) 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, 2008</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>	<u>Current Portion</u>
Revenue Bonds	\$ 450,000	\$ (90,000)	\$ 360,000	\$ 95,000

Aggregate maturities of the revenue bond for fiscal years subsequent to June 30, 2009, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 95,000	\$ 5,929	\$ 100,929
2011	100,000	3,886	103,886
2012	110,000	1,693	111,693
2013	55,000	-	55,000
	<u>\$ 360,000</u>	<u>\$ 11,508</u>	<u>\$ 371,508</u>

Note 6 - Special Assessment Bonds:

On February 5, 1997, Valley Center 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, 2009 totaled \$990,000.

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 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 7 - 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, 2009:

Post-retirement health care cost	\$ 2,009,894
Master plan system improvements	7,139,084
Operating reserve	3,565,348
Pumping rate stabilization	1,137,309
Wastewater capital replacement reserves	910,174
Unrestricted and undesignated net assets	38,845
Vehicle replacement	806,794
Agricultural rebate	235,671
Unrestricted Net Assets	<u>\$ 15,843,119</u>

Note 8 - 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), a cost-sharing 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 provisions, is established by State statutes within the Public Employees’ Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS’ annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

(b) Funding Policy

Effective August 17, 2008, the District’s employees make contributions of 6.487% of their covered salary. The District has elected to make contributions on behalf of its employees of the remainder of 8% 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, 2009, was 25.498%. 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, 2009, the District’s annual pension cost and actual contribution was \$1,523,081. The required contribution for the fiscal year ended June 30, 2009, was determined as part of the June 30, 2006, actuarial valuation.

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 8 - Defined Benefit Pension Plan: (Continued)

(c) Annual Pension Costs (Continued)

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

Valuation Date	June 30, 2007
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 component of 3.00% and an annual production growth of 0.25%

The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. All changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. In addition all gains or losses are tracked and amortized over a rolling 30-year period. Finally, if a pool's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability.

At the time of joining a risk pool, a side fund was created to account for the difference between the funded status of the pool and the funded status of the District's Plan. The side fund for the District's Plan as of June 30, 2008 was a negative \$11,270,973.

The side fund will be credited, on an annual basis, with the actuarial investment return assumption. This assumption is currently 7.75%. The negative side fund caused the District's required employer contribution rate noted above to be increased by the amortization of the side fund. In the absence of subsequent contract amendments of funding changes, the side fund will disappear at the end of the amortization period. The amortization period remaining as of June 30, 2008, was 24 years.

Fiscal Year	Required Contributions for Last Three Years		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2006	\$ 1,298,576	100%	\$ -0-
June 30, 2007	1,394,443	100%	-0-
June 30, 2008	1,439,802	100%	-0-

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 9 - Post Employment Benefits:

During the year ended June 30, 2009, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 45, which changed the accounting and financial reporting used by the District for postemployment benefits. Previously, the cost of such benefits was recognized by the District using an actuarial accrual method that differed from that prescribed by GASB Statement No. 45.

The District's employees participate in one of two retiree health benefit plans depending on their date of hire. Employees hired before July 1, 2008, participate in a defined benefit plan, while those hired after June 30, 2008, participate in a defined contributions plan.

(a) Defined Benefits Plan:

Plan Description

The District's Board of Directors adopted the Retiree's 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. The Plan was closed to employees hired after June 30, 2008.

In May 2009, the District established an irrevocable trust fund through the California Employers' Retiree Benefits Trust (CERBT), an agent multiple-employer postemployment healthcare trust administered by CalPERS.

The District provides a contribution for continuation of medical coverage for the eligible retirees and eligible spouses, if elected by the retiree. Retirees may be eligible to continue dental and vision coverage on a self-pay basis. In order to participate in the plan, an employee must have at least five years of employment with the District and his or her attained age plus accrued Benefit Units at termination must equal at least 65. Benefit Units are earned based upon the hours worked during a plan year including leave during the year of termination. The District's payment percentage applicable to a plan designated by the District ("Designated Plan") varies based on the sum of the eligible employee's age and Benefits Units at termination. The Designated Plan means the HMO plan offered from time to time by the District or an alternative similar plan designated at the discretion of the District. An eligible employee may elect to participate in the Plan under one of three participant options (Full Spousal Benefits, Reduced Spousal Benefits, and No Spousal Benefits). An election of a participant option is irrevocable once made. Spouse coverage may continue upon death of the retiree. District Directors are not eligible to participate in the Plan unless independently eligible as an employee of the District or as a spouse of an eligible employee.

CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for CERBT. That report may be obtained from CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 9 - Post Employment Benefits: (Continued)

Funding Policy and Annual OPEB Costs

The contribution requirements of the District are established and may be amended annually by the Board of Directors. The District's annual other post employment benefit (OPEB) cost (expense) for the Plan is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's Board of Directors has established a policy of fully funding the ARC. The current ARC rate is 8.9% of annual covered payroll. The following table shows the components of the District's annual OPEB cost for the current year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation for the year ended June 30, 2009.

Annual required contribution	\$ 476,396
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	476,396
Contributions (including benefits paid)	<u>(481,522)</u>
(Decrease) in net OPEB obligation	(5,126)
Net OPEB obligation - beginning of year	-
Net OPEB obligation (Asset) - end of year	<u>\$ (5,126)</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2009 and the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	N/A	N/A	N/A
June 30, 2008	N/A	N/A	N/A
June 30, 2009	\$ 476,396	100%	-0-

Funding Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the Plan was not yet funded. The District's actuarial accrued liability for benefits at June 30, 2008 was \$3,553,907 and the covered payroll (annual payroll of active employees covered by the Plan) was \$5,341,000, with a ratio of the UAAL to the covered payroll of 66.54%. In June 2009, the District sent \$383,066 to the CERBT trust account and made benefit payments of \$98,456 for a total contribution of \$481,522.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Liability Accrued Liability Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Status (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
June 30, 2008	-	\$ 3,553,907	\$ 3,553,907	0.0%	\$ 5,341,000	66.54%

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 9 - Post Employment Benefits: (Continued)

Funding Status and Funding Progress (Continued)

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Through CERBT, the District is required to perform an actuarial valuation every two years.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the formal Plan document and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefits and costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefits obligations is the Projected Unit Credit with Service Prorate Method. The actuarial assumptions included a 7.75% investment rate of return, which is the assumed rate of the expected long-term investment returns on Plan assets calculated based on the funded level of the Plan at the valuation date, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements of .5% per year to an ultimate rate of 5% after the eleventh year. Both rates include a 3.0% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll over 30 years. It is assumed the District's payroll will increase 3.25% per year.

(b) Defined Contribution Plan:

Employees hired on or after July 1, 2008, participate in a new a defined contribution plan, the Retiree Welfare Benefits Plan. The District administers the Plan through an agreement with ICMA Retirement Corporation (ICMA-RC) in the form of its VantageCare Retirement Health Savings Plan. The Plan is intended to assist employees with their qualifying medical expenses and premiums upon separation from the District.

The plan was established by the District's Board of Directors pursuant to Internal Revenue Code section 115, and may be amended by the Board from time to time.

Employees contribute 1% of their annual covered payroll to the plan, and any sick leave accrued at termination. The District contribution is 1.15% of annual covered payroll plus \$30 per participant. The District has no payment obligation once the employee separates from the District.

During the year ended June 30, 2009, employee contributions were \$771 and District contributions were \$1,085, for a total of \$1,856.

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 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.

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, 2009, was \$212,028. There were no instances in the past three years where a settlement exceeded the District's coverage.

Note 11 - Economic Dependency:

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

Note 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, 2009, the total unpaid amount on these contracts was \$375,565.

(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.

Note 13 - New Governmental Accounting Standards:

GASB No. 49

In November 2006, the Governmental Accounting Standards Board issued Statement No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligations." This pronouncement is effective for periods beginning after December 15, 2007. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This pronouncement did not have a material effect on the financial statements of the District for the year ended June 30, 2009.

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 13 - New Governmental Accounting Standards: (Continued)

GASB No. 51

In June 2007, the Governmental Accounting Standards Board issued Statement No. 51 “Accounting and Financial Reporting for Intangible Assets.” This pronouncement is effective for periods beginning after June 15, 2009. Retroactive reporting of these intangible assets is encouraged but not required. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The District has not determined the effect on the financial statements in the year of adoption.

GASB No. 52

In November 2007, the Governmental Accounting Standards Board issued Statement No. 52 “Land and Other Real Estate Held as Investments by Endowments”. This pronouncement is effective for periods beginning after June 15, 2008, with earlier application encouraged. The Statement requires endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The District has no endowments at June 30, 2009.

GASB No. 53

In June 2008, the Governmental Accounting Standards Board issued Statement No. 53 “Accounting and Financial Reporting for Derivative Investments”. This pronouncement is effective for periods beginning after June 15, 2009 with earlier application encouraged. The Statement requires governments to measure most derivative instruments at fair value in their financial statements that are prepared on the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. The District has no derivative instruments at June 30, 2009.

GASB No. 54

In March 2009, the Government Accounting Standards Board issued Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This pronouncement is effective for periods beginning after June 15, 2010, with early implementation encouraged. This pronouncement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting information in reporting fund balance information is identifying amounts that are considered non-spendable, such as fund balance associated with inventories. This statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific accounts can be spent. Fund balance reclassifications made to conform to the provisions of this statement should be applied retroactively by restating fund balance for all periods presented. The District has no governmental funds at June 30, 2009.

**VALLEY CENTER WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 13 - New Governmental Accounting Standards: (Continued)

GASB No. 55

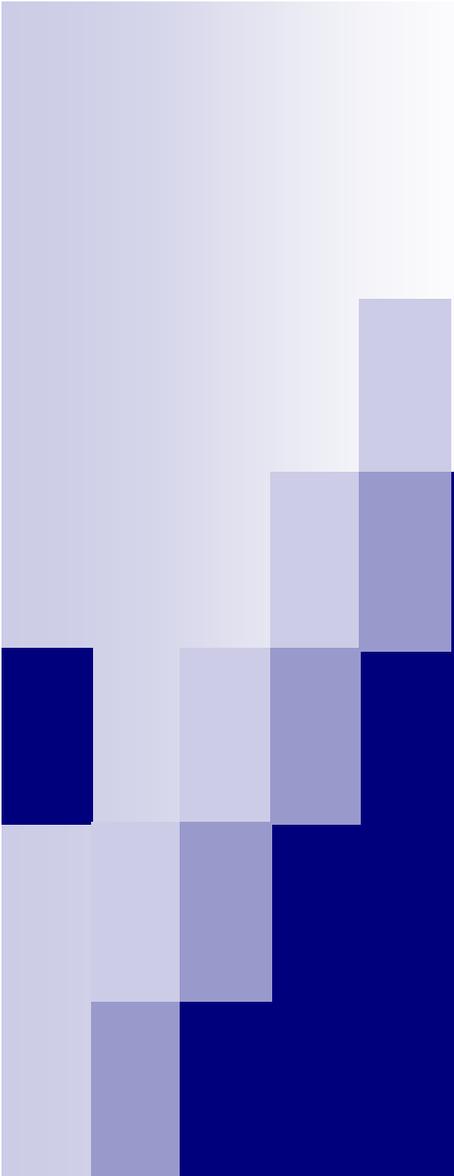
In March 2009, the Government Accounting Standards Board issued Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." The requirements of this statement were effective upon its issuance. This pronouncement incorporated the hierarchy of generally accepted accounting principles (GAAP) for state and local government into the Governmental Accounting Standards Board's (GASB) authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP and the framework for selecting those principles. This pronouncement had no effect on the financial statements of the District for the year ended June 30, 2009.

GASB No. 56

In March 2009, the Government Accounting Standards Board issued Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards." The requirements of this statement were effective upon its issuance. This statement does not establish new accounting standard but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. This pronouncement addresses three issues not included in the authoritative literature that establishes accounting principles - related party transactions, going concern considerations, and subsequent events. This pronouncement had no effect on the financial statements of the District for the year ended June 30, 2009.

Note 14 - Prior Period Adjustment

As Discussed in Note 9, Post Employment Benefits, the District implemented GASB Statement No. 45, "Accounting and Financial Reporting for Employers for Postemployment Benefits other than Pensions (OPEB)." The District's net OPEB obligation is defined as the cumulative difference between annual OPEB costs and the District's contributions to the plan, including the OPEB liability at asset transition. Because retroactive application of the measurement requirements of this statement was not required, the District's OPEB liability at the beginning of the transition year was set to zero. This resulted in a decrease of the previously stated benefit plan liability and an increase in unrestricted net assets of \$2,491,415.



Combining Schedules

**VALLEY CENTER WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS
JUNE 30, 2009**

	ASSETS			
	<u>Total</u>	<u>General</u>	<u>Lower Moosa Wastewater</u>	<u>Woods Valley Ranch Wastewater</u>
<u>Current assets:</u>				
Cash and cash equivalents	\$ 15,009,376	\$ 13,137,671	\$ 1,021,691	\$ 850,014
Investments	3,123,998	3,123,998	-	-
Accounts receivable - water and wastewater, net	4,908,079	4,908,079	-	-
Interest receivable	80,224	80,224	-	-
Taxes receivable	377	377	-	-
Other receivables	6,854	6,854	-	-
Inventories	897,682	897,682	-	-
Prepaid expenses and deposits	316,767	316,767	-	-
Work in progress for others	2,240,619	2,198,985	-	41,634
Total Current Assets	<u>26,583,976</u>	<u>24,670,637</u>	<u>1,021,691</u>	<u>891,648</u>
<u>Noncurrent Assets:</u>				
 <u>Restricted Assets:</u>				
Cash and cash equivalents	110,518	-	110,518	-
Investments	393,344	393,344	-	-
Total Restricted Assets	<u>503,862</u>	<u>393,344</u>	<u>110,518</u>	<u>-</u>
 <u>Capital Assets:</u>				
Nondepreciable capital assets	6,998,960	5,492,804	225,703	1,280,453
Depreciable capital assets, net	79,038,076	60,422,709	7,299,503	11,315,864
Total Capital Assets	<u>86,037,036</u>	<u>65,915,513</u>	<u>7,525,206</u>	<u>12,596,317</u>
Total Noncurrent Assets	<u>86,540,898</u>	<u>66,308,857</u>	<u>7,635,724</u>	<u>12,596,317</u>
TOTAL ASSETS	<u>\$ 113,124,874</u>	<u>\$ 90,979,494</u>	<u>\$ 8,657,415</u>	<u>\$ 13,487,965</u>

**VALLEY CENTER WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS (CONTINUED)
JUNE 30, 2009**

LIABILITIES AND NET ASSETS

	<u>Total</u>	<u>General</u>	<u>Lower Moosa Wastewater</u>	<u>Woods Valley Ranch Wastewater</u>
<u>Current liabilities:</u>				
Accounts payable	\$ 6,396,244	\$ 6,396,244	\$ -	\$ -
Accrued payroll	177,031	177,031	-	-
Accrued compensated absences	608,600	608,600	-	-
Customer deposits	2,522,631	2,520,881	1,750	-
Current portion of long-term debt	95,000	95,000	-	-
Total Current Liabilities	<u>9,799,506</u>	<u>9,797,756</u>	<u>1,750</u>	<u>-</u>
<u>Noncurrent Liabilities:</u>				
Long-term debt:				
Revenue bonds	360,000	360,000	-	-
Less: Current portion above	<u>(95,000)</u>	<u>(95,000)</u>	<u>-</u>	<u>-</u>
Total Long-Term Debt	<u>265,000</u>	<u>265,000</u>	<u>-</u>	<u>-</u>
Other Noncurrent Liabilities:				
Accrued compensated absences	<u>1,036,351</u>	<u>1,036,351</u>	<u>-</u>	<u>-</u>
Total Noncurrent Liabilities	<u>1,301,351</u>	<u>1,301,351</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>11,100,857</u>	<u>11,099,107</u>	<u>1,750</u>	<u>-</u>
<u>Net Assets:</u>				
Investment in capital assets, net of related debt	85,677,036	65,555,513	7,525,206	12,596,317
Restricted for facility expansion	503,862	393,344	110,518	-
Unrestricted	<u>15,843,119</u>	<u>13,931,530</u>	<u>1,019,941</u>	<u>891,648</u>
Total Net Assets	<u>102,024,017</u>	<u>79,880,387</u>	<u>8,655,665</u>	<u>13,487,965</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 113,124,874</u>	<u>\$ 90,979,494</u>	<u>\$ 8,657,415</u>	<u>\$ 13,487,965</u>

**VALLEY CENTER WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS
JUNE 30, 2008**

	ASSETS			
	<u>Total</u>	<u>General</u>	<u>Lower Moosa Wastewater</u>	<u>Woods Valley Ranch Wastewater</u>
<u>Current assets:</u>				
Cash and cash equivalents	\$ 14,986,132	\$ 12,180,246	\$ 2,017,870	\$ 788,016
Investments	1,806,844	1,806,844	-	-
Accounts receivable - water and wastewater, net	4,476,922	4,476,922	-	-
Interest receivable	143,762	143,762	-	-
Taxes Receivable	4,199	4,199	-	-
Other receivables	60,546	60,546	-	-
Inventories	901,346	901,346	-	-
Prepaid expenses and deposits	236,106	236,106	-	-
Work in progress for others	2,314,640	2,296,143	-	18,497
Total Current Assets	<u>24,930,497</u>	<u>22,106,114</u>	<u>2,017,870</u>	<u>806,513</u>
<u>Noncurrent Assets:</u>				
Restricted Assets:				
Cash and cash equivalents	109,439	-	109,439	-
Investments	3,034,229	3,034,229	-	-
Total Restricted Assets	<u>3,143,668</u>	<u>3,034,229</u>	<u>109,439</u>	<u>-</u>
Capital Assets:				
Nondepreciable capital assets	12,981,908	11,939,803	472,491	569,614
Depreciable capital assets, net	59,844,318	52,952,249	6,107,612	784,457
Total Capital Assets	<u>72,826,226</u>	<u>64,892,052</u>	<u>6,580,103</u>	<u>1,354,071</u>
Total Noncurrent Assets	<u>75,969,894</u>	<u>67,926,281</u>	<u>6,689,542</u>	<u>1,354,071</u>
TOTAL ASSETS	<u>\$ 100,900,391</u>	<u>\$ 90,032,395</u>	<u>\$ 8,707,412</u>	<u>\$ 2,160,584</u>

**VALLEY CENTER WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS (CONTINUED)
JUNE 30, 2008**

LIABILITIES AND NET ASSETS

	<u>Total</u>	<u>General</u>	<u>Lower Moosa Wastewater</u>	<u>Woods Valley Ranch Wastewater</u>
<u>Current liabilities:</u>				
Accounts payable	\$ 4,810,625	\$ 4,810,625	\$ -	\$ -
Accrued payroll	138,023	138,023	-	-
Accrued compensated absences	630,900	630,900	-	-
Customer deposits	2,596,798	2,596,298	500	-
Current portion of long-term debt	85,000	85,000	-	-
Total Current Liabilities	<u>8,261,346</u>	<u>8,260,846</u>	<u>500</u>	<u>-</u>
<u>Noncurrent Liabilities:</u>				
Liabilities Payable From Restricted Assets:				
Benefit plan liability	<u>2,491,415</u>	<u>2,491,415</u>	<u>-</u>	<u>-</u>
Long-term debt:				
Revenue bonds	450,000	450,000		
Less: Current portion above	<u>(85,000)</u>	<u>(85,000)</u>		
Total Long-Term Debt	<u>365,000</u>	<u>365,000</u>	<u>-</u>	<u>-</u>
Other Noncurrent Liabilities:				
Accrued compensated absences	<u>777,532</u>	<u>777,532</u>		
Total Noncurrent Liabilities	<u>3,633,947</u>	<u>3,633,947</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>11,895,293</u>	<u>11,894,793</u>	<u>500</u>	<u>-</u>
<u>Net Assets:</u>				
Investment in capital assets, net of related debt	72,376,226	64,442,052	6,580,103	1,354,071
Restricted for facility expansion	652,253	542,814	109,439	-
Unrestricted	<u>15,976,619</u>	<u>13,152,736</u>	<u>2,017,370</u>	<u>806,513</u>
Total Net Assets	<u>89,005,098</u>	<u>78,137,602</u>	<u>8,706,912</u>	<u>2,160,584</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 100,900,391</u>	<u>\$ 90,032,395</u>	<u>\$ 8,707,412</u>	<u>\$ 2,160,584</u>

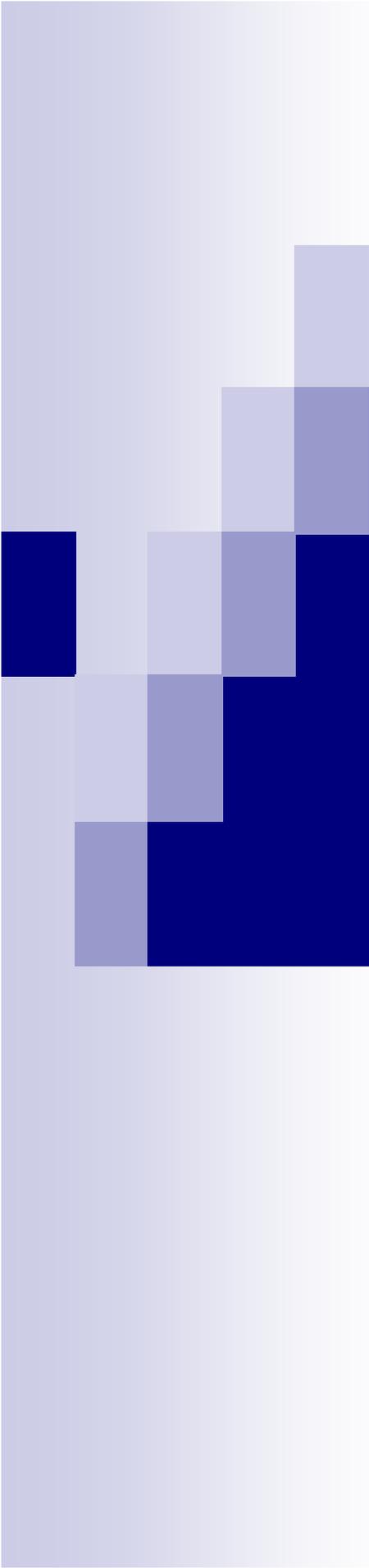
VALLEY CENTER WATER DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
<u>Operating Revenues:</u>				
Water sales and pumping charges	\$ 32,825,911	\$ 32,825,911	\$ -	\$ -
Wastewater charges	1,576,437	-	1,211,563	364,874
Meter installation fees	155,358	155,358	-	-
Other water operating revenues	797,534	797,534	-	-
Total Operating Revenues	<u>35,355,240</u>	<u>33,778,803</u>	<u>1,211,563</u>	<u>364,874</u>
<u>Operating Expenses:</u>				
Cost of water sold	21,820,598	21,820,598	-	-
Energy and pumping costs	4,082,268	3,929,693	101,113	51,462
Water systems operations	4,821,920	4,821,920	-	-
Wastewater collection and treatment	866,812	-	676,458	190,354
Engineering	1,580,009	1,580,009	-	-
General and administrative	3,207,975	2,974,373	178,034	55,568
Depreciation	4,137,915	3,394,948	354,209	388,758
Total Operating Expenses	<u>40,517,497</u>	<u>38,521,541</u>	<u>1,309,814</u>	<u>686,142</u>
Operating Income (Loss)	<u>(5,162,257)</u>	<u>(4,742,738)</u>	<u>(98,251)</u>	<u>(321,268)</u>
<u>Nonoperating Revenues and (Expenses):</u>				
Property taxes and assessments	2,764,166	2,764,166	-	-
Investment income	476,566	410,457	45,925	20,184
Other nonoperating revenues	192,882	192,882	-	-
Interest expense	(9,470)	(9,470)	-	-
Other nonoperating expenses	(31,275)	(31,275)	-	-
Total Nonoperating Revenues (Expenses)	<u>3,392,869</u>	<u>3,326,760</u>	<u>45,925</u>	<u>20,184</u>
Income (Loss) Before Contributions	(1,769,388)	(1,415,978)	(52,326)	(301,084)
Capital Contributions	<u>12,296,892</u>	<u>667,348</u>	<u>1,079</u>	<u>11,628,465</u>
Change in Net Assets	<u>10,527,504</u>	<u>(748,630)</u>	<u>(51,247)</u>	<u>11,327,381</u>
Net Assets at Beginning of Year	89,005,098	78,137,602	8,706,912	2,160,584
Adjustments to Prior Balance	<u>2,491,415</u>	<u>2,491,415</u>	-	-
Restated Net Assets at Beginning of Year	<u>91,496,513</u>	<u>80,629,017</u>	<u>8,706,912</u>	<u>2,160,584</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 102,024,017</u></u>	<u><u>\$ 79,880,387</u></u>	<u><u>\$ 8,655,665</u></u>	<u><u>\$ 13,487,965</u></u>

VALLEY CENTER WATER DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
<u>Operating Revenues:</u>				
Water sales and pumping charges	\$ 33,815,913	\$ 33,815,913	\$ -	\$ -
Wastewater charges	1,561,495	-	1,196,294	365,201
Meter installation fees	128,342	128,342	-	-
Other water operating revenues	974,774	974,774	-	-
Total Operating Revenues	<u>36,480,524</u>	<u>34,919,029</u>	<u>1,196,294</u>	<u>365,201</u>
<u>Operating Expenses:</u>				
Cost of water sold	21,146,786	21,146,786	-	-
Energy and pumping costs	4,214,599	4,098,128	86,734	29,737
Water systems operations	4,695,861	4,695,861	-	-
Wastewater collection and treatment	748,447	-	562,992	185,455
Engineering	1,368,868	1,368,868	-	-
General and administrative	3,138,119	2,942,668	155,238	40,213
Depreciation	3,748,039	3,376,415	349,855	21,769
Total Operating Expenses	<u>39,060,719</u>	<u>37,628,726</u>	<u>1,154,819</u>	<u>277,174</u>
Operating Income (Loss)	<u>(2,580,195)</u>	<u>(2,709,697)</u>	<u>41,475</u>	<u>88,027</u>
<u>Nonoperating Revenues and (Expenses):</u>				
Property taxes and assessments	2,810,946	2,810,946	-	-
Investment income	898,899	779,894	84,418	34,587
Other nonoperating revenues	256,550	256,550	-	-
Interest expense	(20,289)	(20,289)	-	-
Other nonoperating expenses	(66,492)	(66,492)	-	-
Total Nonoperating Revenues (Expenses)	<u>3,879,614</u>	<u>3,760,609</u>	<u>84,418</u>	<u>34,587</u>
Income (Loss) Before Contributions	1,299,419	1,050,912	125,893	122,614
Capital contributions	<u>1,433,726</u>	<u>785,401</u>	<u>208,439</u>	<u>439,886</u>
Change in Net Assets	2,733,145	1,836,313	334,332	562,500
Net Assets at Beginning of Year	<u>86,271,953</u>	<u>76,301,289</u>	<u>8,372,580</u>	<u>1,598,084</u>
NET ASSETS AT END OF YEAR	<u>\$ 89,005,098</u>	<u>\$ 78,137,602</u>	<u>\$ 8,706,912</u>	<u>\$ 2,160,584</u>





Statistical Section

STATISTICAL SECTION

This part of the Valley Center Municipal Water District's (the "District") comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

CONTENTS	PAGE
Financial Trends	43
<i>These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.</i>	
Revenue Capacity	46
<i>These schedules contain information to help the reader access the District's two most significant local revenue sources, water sales and property levies.</i>	
Debt Capacity	55
<i>These schedules present information to help the reader access the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	57
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.</i>	
Operating Information	59
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Table I
NET ASSETS BY COMPONENT
Last Ten Fiscal Years

	Fiscal year ended				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Primary government					
Invested in capital assets, net of related debt	\$ 85,677,036	\$ 72,376,226	\$ 68,354,318	\$ 62,887,148	\$ 61,272,644
Restricted	503,862	652,253	1,300,411	2,363,055	2,112,513
Unrestricted	15,843,119	15,976,619	16,617,224	16,292,789	16,996,464
Total primary government net assets	<u>\$ 102,024,017</u>	<u>\$ 89,005,098</u>	<u>\$ 86,271,953</u>	<u>\$ 81,542,992</u>	<u>\$ 80,381,621</u>

	Fiscal year ended				
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Primary government					
Invested in capital assets, net of related debt	\$ 56,324,985	\$ 49,471,743	\$ 48,032,138		
Restricted	1,340,938	1,104,843	103,304		
Unrestricted	22,079,945	21,594,937	20,967,206		
Total primary government net assets	<u>\$ 79,745,868</u>	<u>\$ 72,171,523</u>	<u>\$ 69,102,648</u>	<u>\$ -</u>	<u>\$ -</u>

Fund equity ⁽¹⁾					
Contributed capital				\$ 14,401,673	\$ 14,589,162
Retained earnings				49,956,617	51,743,710
Total fund equity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,358,290</u>	<u>\$ 66,332,872</u>

(1) Per GASB Statement No. 34, classifications of Net Assets changed in fiscal year ended 2002 to represent Fund Equity as Net Assets and to present Restricted, Unrestricted, and Invested in Capital Assets categories.

Source: Valley Center Water District

Net Assets / Fund Equity

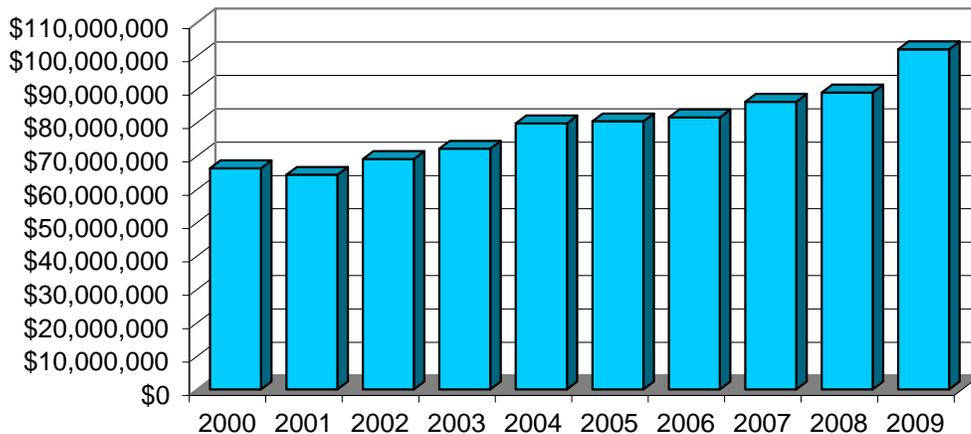


Table II
CHANGES IN NET ASSETS
Last Ten Fiscal Years

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Operating Revenues:										
Water sales ⁽¹⁾⁽³⁾	\$ 28,987,435	\$29,326,068	\$33,074,620	\$27,880,263	\$ 22,330,102	\$27,636,793	\$23,154,449	\$25,814,798	\$ 22,618,159	\$25,108,504
Pumping charges	3,838,476	4,489,845	5,668,077	4,542,651	3,842,082	5,251,814	4,864,087	5,995,290	3,680,327	3,454,067
Wastewater charges	1,576,437	1,561,495	1,501,180	1,516,327	1,476,617	1,142,242	996,551	783,632	637,280	522,761
Meter installation fees	155,358	128,342	210,145	474,070	479,791	546,437	241,218	176,456	147,515	171,129
Other water operating revenues	797,534	974,774	502,240	567,040	320,187	277,930	254,118	301,490	235,867	210,456
Total operating revenues	\$ 35,355,240	\$36,480,524	\$40,956,262	\$34,980,351	\$ 28,448,779	\$34,855,216	\$29,510,423	\$33,071,666	\$ 27,319,148	\$29,466,917
Operating Expenses:										
Cost of water sold ⁽²⁾	\$ 21,820,598	\$21,146,786	\$24,526,923	\$20,902,095	\$ 17,202,614	\$20,475,081	\$18,179,621	\$20,245,538	\$ 19,374,345	\$20,266,611
Energy and pumping costs	4,082,268	4,214,599	5,027,801	4,506,674	3,927,593	4,510,435	4,244,840	4,066,764	5,808,455	3,249,934
Water systems operations	4,821,920	4,695,861	4,477,871	4,125,970	3,900,188	3,235,666	2,935,531	2,699,794	2,714,061	2,353,394
Wastewater collection and treatment	866,812	748,447	784,551	641,189	638,092	551,085	432,270	365,518	387,476	275,825
Engineering	1,580,009	1,368,868	1,308,093	1,208,598	1,164,938	947,818	828,884	673,468	673,504	604,677
General and administrative	3,207,975	3,138,119	2,913,737	2,780,531	2,779,509	2,497,208	2,049,869	1,943,113	1,815,537	1,594,982
Depreciation	4,137,915	3,748,039	3,567,080	3,174,992	2,914,462	2,849,745	2,596,666	2,401,004	2,273,538	2,136,247
Total operating expenses	\$ 40,517,497	\$39,060,719	\$42,606,056	\$37,340,049	\$ 32,527,396	\$35,067,038	\$31,267,681	\$32,395,199	\$ 33,046,916	\$30,481,670
Operating Income (Loss)	\$ (5,162,257)	\$ (2,580,195)	\$ (1,649,794)	\$ (2,359,698)	\$ (4,078,617)	\$ (211,822)	\$ (1,757,258)	\$ 676,467	\$ (5,727,768)	\$ (1,014,753)
Nonoperating Revenues and (Expenses):										
Property taxes and assessments	\$ 2,764,166	\$ 2,810,946	\$ 2,667,856	\$ 1,363,904	\$ 1,061,881	\$ 1,946,806	\$ 1,801,576	\$ 1,703,844	\$ 1,620,418	\$ 1,644,952
Investment income	476,566	898,899	1,003,835	564,566	575,887	220,553	557,188	899,579	1,665,958	1,276,155
Other nonoperating revenues ⁽⁴⁾	192,882	256,550	551,289	225,686	887,902	574,795	680,093	111,756	93,306	65,255
Interest expense	(9,470)	(20,289)	(28,791)	(28,564)	(23,099)	(51,573)	(87,541)	(94,322)	(117,294)	(121,885)
Other nonoperating expenses ⁽⁵⁾	(31,275)	(66,492)	(1,339)	(190,155)	(91,909)	(12,404)	(28,677)	(299,794)	(10,341)	(12,281)
Total Nonoperating Revenues and (Expenses)	\$ 3,392,869	\$ 3,879,614	\$ 4,192,850	\$ 1,935,437	\$ 2,410,662	\$ 2,678,177	\$ 2,922,639	\$ 2,321,063	\$ 3,252,047	\$ 2,852,196
Income (Loss) Before Contributions	\$ (1,769,388)	\$ 1,299,419	\$ 2,543,056	\$ (424,261)	\$ (1,667,955)	\$ 2,466,355	\$ 1,165,381	\$ 2,997,530	\$ (2,475,721)	\$ 1,837,443
Capital contributions ⁽⁶⁾	12,296,892	1,433,726	2,185,905	1,585,632	2,303,708	5,107,990	1,903,494	1,746,828	501,139	1,134,538
Change in Net Assets	\$ 10,527,504	\$ 2,733,145	\$ 4,728,961	\$ 1,161,371	\$ 635,753	\$ 7,574,345	\$ 3,068,875	\$ 4,744,358	\$ (1,974,582)	\$ 2,971,981
Net Assets at Beginning of Year	\$ 89,005,098	\$86,271,953	\$81,542,992	\$80,381,621	\$ 79,745,868	\$72,171,523	\$69,102,648	\$64,358,290	\$ 66,332,872	\$63,360,891
Prior Period Adjustment ⁽⁷⁾	\$ 2,491,415	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restated Net Assets at Beginning of Year	\$ 91,496,513	\$86,271,953	\$81,542,992	\$80,381,621	\$ 79,745,868	\$72,171,523	\$69,102,648	\$64,358,290	\$ 66,332,872	\$63,360,891
NET ASSETS AT END OF YEAR	\$102,024,017	\$89,005,098	\$86,271,953	\$81,542,992	\$ 80,381,621	\$79,745,868	\$72,171,523	\$69,102,648	\$ 64,358,290	\$66,332,872

(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 and \$635,111 in 2003.

(3) Net of credits for Metropolitan Water District refunds of \$554,111 in 2001.

(4) Includes energy settlement of \$248,270 in 2007, \$473,798 in 2005, \$421,1554 in 2004, and \$556,444 in 2003.

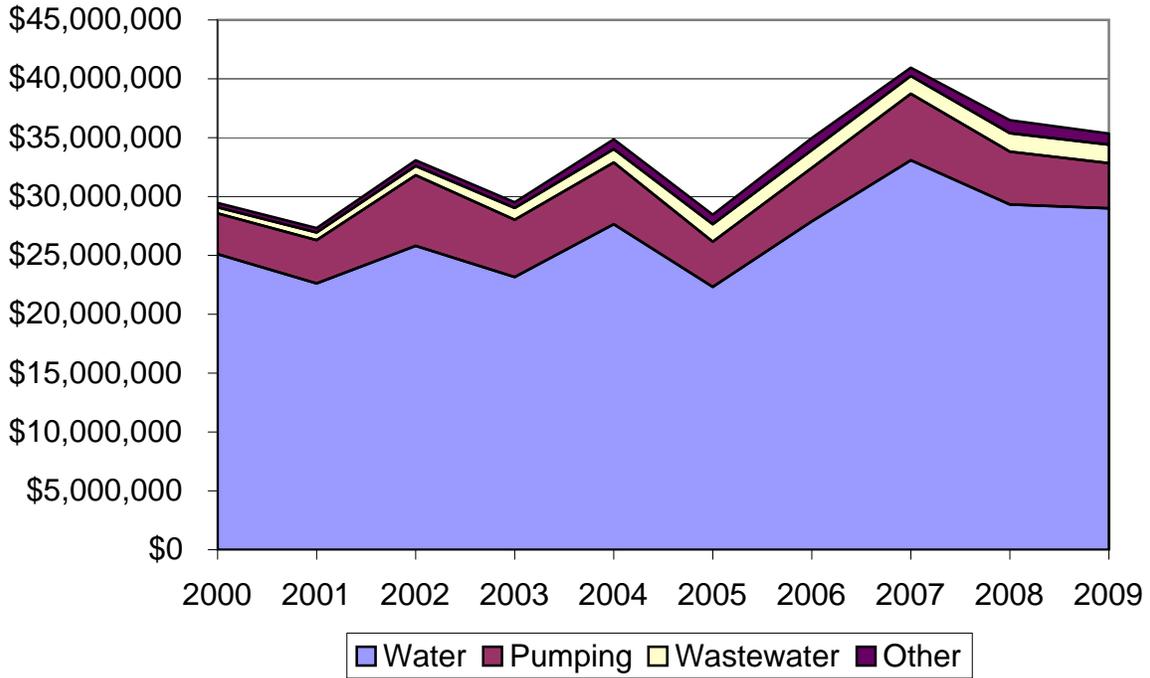
(5) Includes loss on termination of projects and disposition of assets.

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

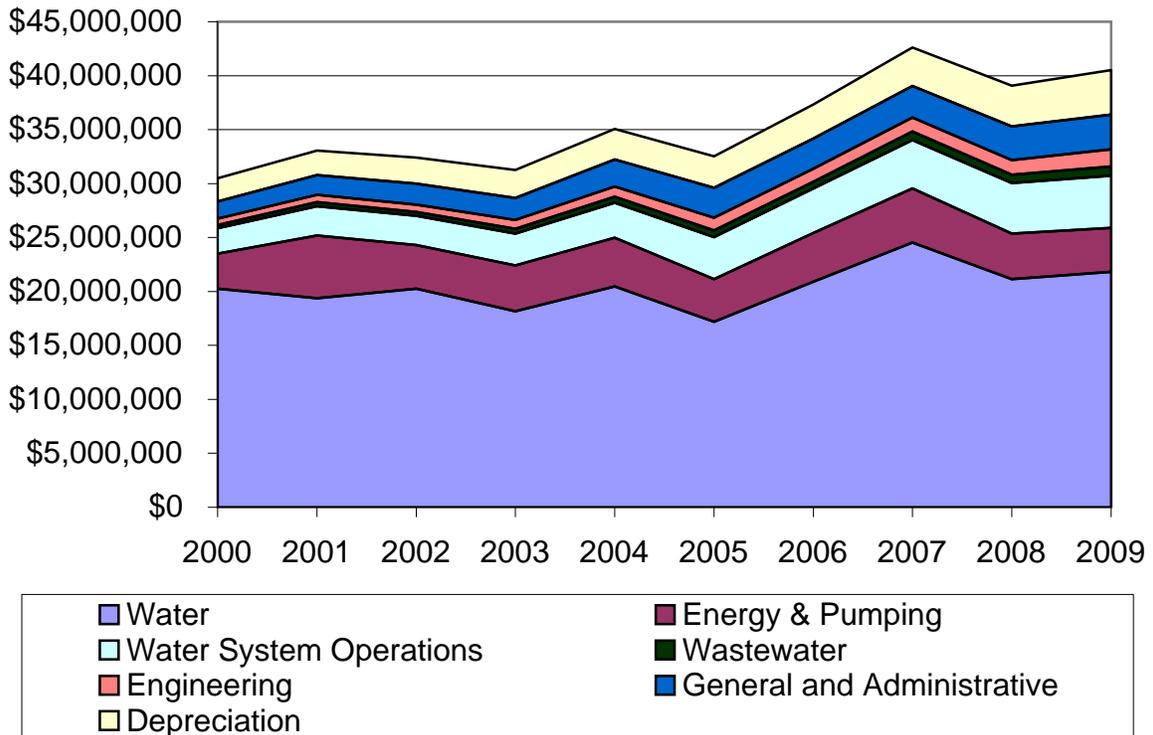
(7) Adjustment to prior balance of \$2,491,415 in 2009 per GASB 45 for Retirement Health Plan Liability recorded as expense in prior years.

Source: Valley Center Water District

Operating Revenues



Operating Expenses



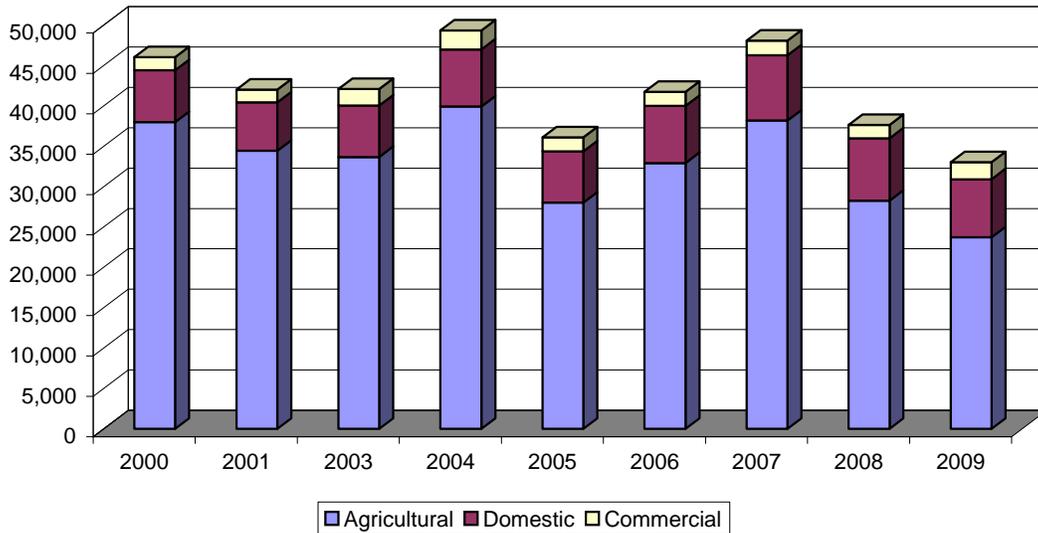
**Table III
WATER SALES BY USER TYPE (1)(2)
Last Ten Fiscal Years**

Fiscal Year Ended	Domestic		Commercial		Certified Agricultural (4)		Total		Average Direct Rate (3)
	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	
2009	\$8,840,040	7,187.3	\$2,196,162	2,104.7	\$17,951,233	23,722.1	\$28,987,435	33,014.1	\$ 878
2008	8,667,234	7,725.8	1,570,149	1,653.5	19,088,685	28,256.7	29,326,068	37,636.0	779
2007	8,452,264	8,088.4	1,591,979	1,829.0	23,030,377	38,167.6	33,074,620	48,085.0	688
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

- (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.
- (3) Calculated average rate, including commodity and monthly meter charges. See Table IX for actual rates.
- (4) Includes only sales under interruptible agricultural water rates.

Source: Valley Center Water District

Water Sales



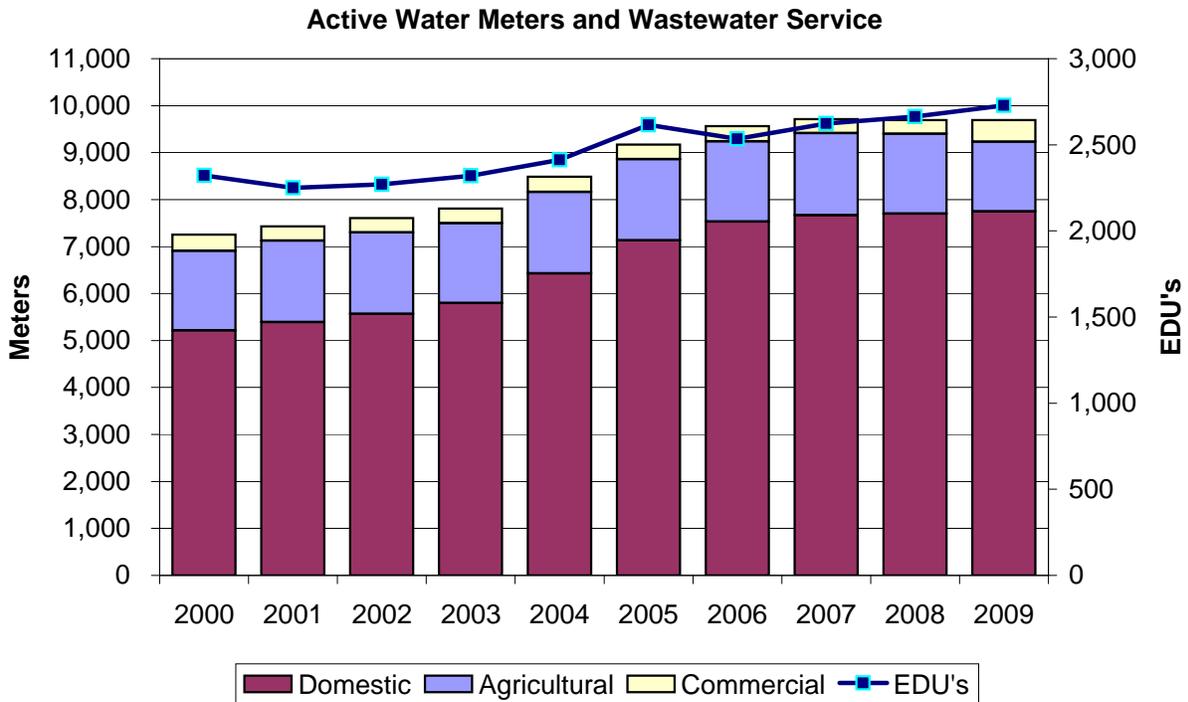
**Table IV
ACTIVE WATER METERS AND WASTEWATER SERVICES
Last Ten Fiscal Years**

Fiscal Year Ended	Domestic	Commercial	Certified Agricultural ⁽²⁾	Total Active	All Inactive Meters	Total	Wastewater EDUs
2009	7,749	461	1,480	9,690	803	10,493	2,729
2008	7,699	297	1,700	9,696	712	10,408	2,663
2007	7,667	299	1,746	9,712	639	10,351	2,624
2006	7,533	325	1,709	9,567	613	10,180	2,535 (1)
2005	7,134	313	1,725	9,172	617	9,789	2,615
2004	6,427	326	1,732	8,485	635	9,120	2,412
2003	5,801	307	1,699	7,807	628	8,435	2,321
2002	5,569	306	1,734	7,609	642	8,251	2,270
2001	5,395	303	1,732	7,430	657	8,087	2,250
2000	5,216	345	1,696	7,257	673	7,930	2,322

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

(2) Includes only meters participating in an interruptible agricultural water rate.

Source: Valley Center Water District

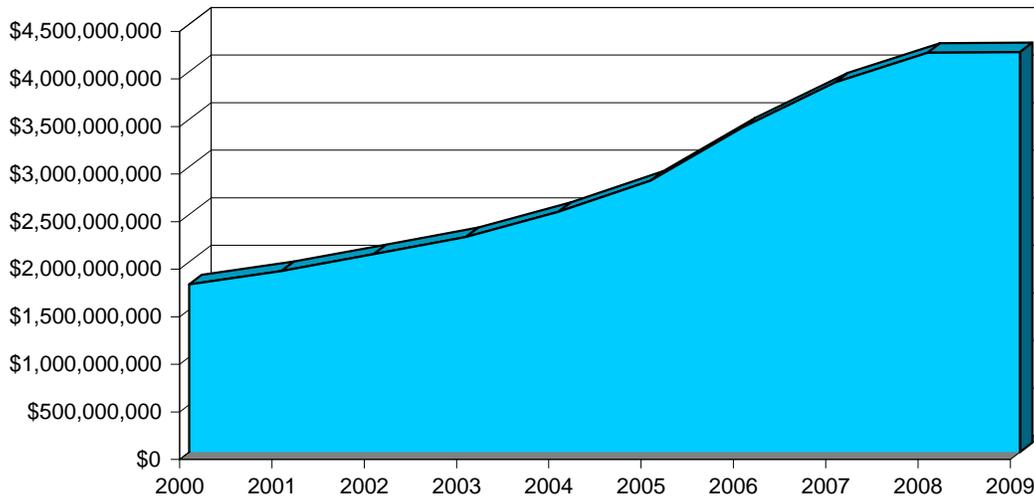


**Table V
ASSESSED VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years**

Fiscal Year Ended	Secured			Net Assessed Value	Assessed Unsecured Value	Total Assessed Value	Tax Rate
	Real Property	Personal Property	Exemptions				
2009	\$4,226,310,595	\$375,035	\$19,968,104	\$4,206,717,526	\$30,378,264	\$4,237,095,790	0
2008	4,226,755,026	283,045	24,891,870	4,202,146,201	26,580,918	4,228,727,119	0
2007	3,910,428,520	325,217	20,317,262	3,890,436,475	23,202,625	3,913,639,100	0
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

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 ⁽⁶⁾	Total Levy			
2009	\$2,240,385	\$1,139,600	\$3,379,985	\$3,353,350	\$26,635	0%
2008	2,293,346	1,091,130	3,384,476	3,344,856	39,620	0%
2007	2,154,285	1,076,625	3,230,910	3,195,668	35,242	0%
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%

- (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 remits to the District 100% of the secured property taxes and special assessments assessed. The County of San Diego then pursues collection of any remaining delinquencies through the Teeter Plan.
- (5) Property Taxes net of \$1,097,331 each year as a result of SB1096 Property Tax Shift.
- (6) Includes special assessments for limited obligation bonds.

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

Property Tax Collections

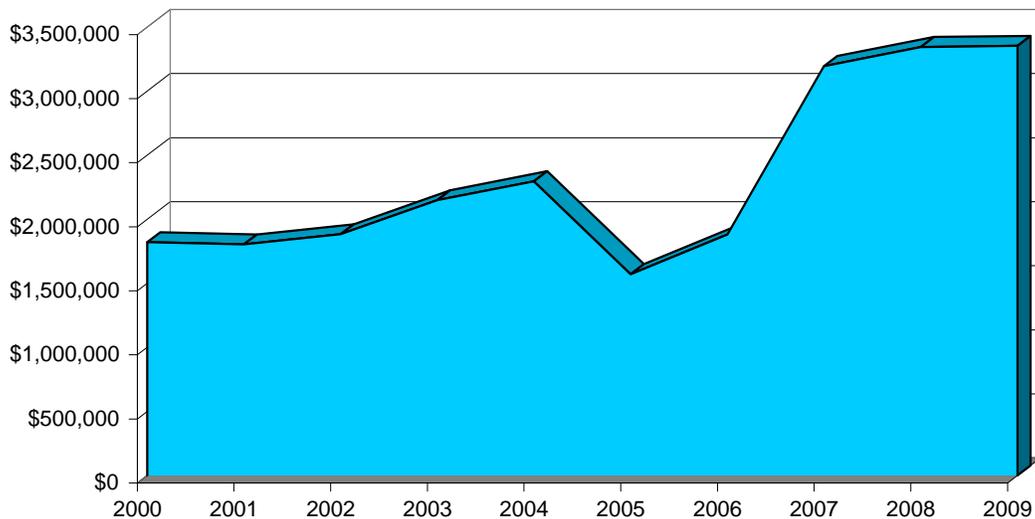


Table VII
DIRECT AND OVERLAPPING BONDED DEBT (1)
June 30, 2009

2008-09 Assessed Valuation: \$4,237,095,790

	Total Debt		District's Share of
	<u>6/30/2009</u>	<u>% Applicable (1)</u>	<u>Debt 6/30/08</u>
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			
Metropolitan Water District	\$293,425,000	0.229	\$671,943
Palomar Pomerado Hospital District	418,568,319	7.833	32,786,456
Palomar Community College District	151,750,000	5.217	7,916,798
Escondido Union High School District	32,432,978	7.533	2,443,176
Fallbrook Union High School District	17,520,071	1.385	242,653
Bonsall Union School District	16,844,680	3.812	642,119
Escondido Union School District	54,654,622	7.833	4,281,097
Valley Center-Pauma Unified School District	2,581,648	81.678	2,108,638
Valley Center-Pauma Unified School District Community Facilities District No. 2003-1	9,690,000	100.000	9,690,000
City of Escondido	81,800,000	0.051	41,718
Valley Center Water District	0	100.000	0
Valley Center Water District Assessment District No. 96-1	990,000	100.000	990,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			<u><u>\$61,814,598</u></u>
OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	\$ 462,405,000	1.186	\$5,484,123
San Diego County Pension Obligations	986,677,916	1.186	11,702,000
San Diego County Superintendent of Schools Certificates of Participation	16,395,000	1.186	194,445
Palomar Community College District Certificates of Participation	7,300,000	5.217	380,841
Escondido Union High School District Certificates of Participation	9,870,000	7.533	743,507
Bonsall Union School District Certificates of Participation	2,075,000	3.812	79,099
Escondido Union School District Certificates of Participation	29,070,000	7.833	2,277,053
City of Escondido Certificates of Participation	73,827,090	0.051	37,652
TOTAL OVERLAPPING GENERAL FUND DEBT			<u><u>\$20,898,720</u></u>
COMBINED TOTAL DEBT			<u><u>\$82,713,318 (2)</u></u>
Ratios to Assessed Valuation:			
Direct Debt	0.00%		
Total Direct and Overlapping Tax and Assessment Debt	1.46%		
Combined Total Debt	1.95%		

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: \$0

2008-09 TYPICAL TOTAL TAX RATE (TRA 94-075): 1.07281

(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.

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

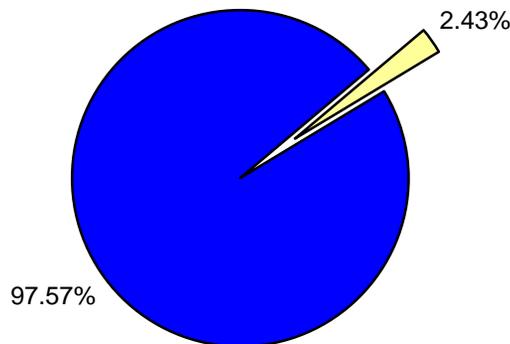
Fiscal year ended June 30, 2009

<u>Property Owner</u>	<u>Cumulative Net Assessed Value</u>	<u>Percent of District Total Net Assessed Value</u>
Welk Resort Platinum Owners Association	\$37,807,102	0.89%
Rimrock Springs LLC	17,173,570	0.41%
Perricone Sam Survivors Trust	8,923,549	0.21%
Lilac Ranch LLC	8,582,367	0.20%
Welk Resort Group Inc	7,273,202	0.17%
Bell Family Trust	6,351,163	0.15%
Live Oak Ranch Development LLC	4,648,735	0.11%
Trimark Pacific Sherwood LLC	4,010,614	0.09%
Richard & Lora L Stevens Revocable Trust	4,702,034	0.11%
Meadow Lake Country Club LLC	3,650,000	0.09%
Total Top Ten Property Owners	\$103,122,336	2.43%
Other Property Owners	\$4,133,973,454	97.57%
Total Assessed Valuation	\$4,237,095,790	100.00%

Data Source: 2008 Master Property Records from San Diego County Used for 2008-09 Property Taxes

Data for the period ended June 30, 2000, is not available.

PRINCIPAL PROPERTY OWNERS



■ Total Top Ten Property Owners ■ Other Property Owners

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

Fiscal Year Ended ⁽¹⁾	Commodity Charge ⁽²⁾									Monthly Meter Charge ⁽⁴⁾	
	Domestic			IAWP ⁽⁵⁾			SAWR ⁽⁶⁾			3/4" Meter	1" Meter ⁽³⁾
	MWD/ SDCWA Wholesale	VCWD	Total	MWD/ SDCWA Wholesale	VCWD	Total	MWD/ SDCWA Wholesale	VCWD	Total		
2009	\$872	\$102	\$974	\$621	\$102	\$723	\$752	\$102	\$854	\$20.50	\$28.00
2008	806	102	908	562	102	664	-	-	-	20.50	28.00
2007	731	102	833	524	102	626	-	-	-	20.50	28.00
2006	666	93	759	461	93	554	-	-	-	19.50	27.00
2005	619	87	706	442	87	529	-	-	-	18.75	26.00
2004	577	74	651	416	74	490	-	-	-	15.75	22.00
2003	550	72	622	398	72	470	-	-	-	15.75	22.00
2002	550	72	622	398	72	470	-	-	-	15.75	22.00
2001	545	72	617	398	72	470	-	-	-	15.75	22.00
2000	547	72	619	400	72	472	-	-	-	15.75	22.00

(1) Rate as of January 1.

(2) Excludes pumping charges.

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

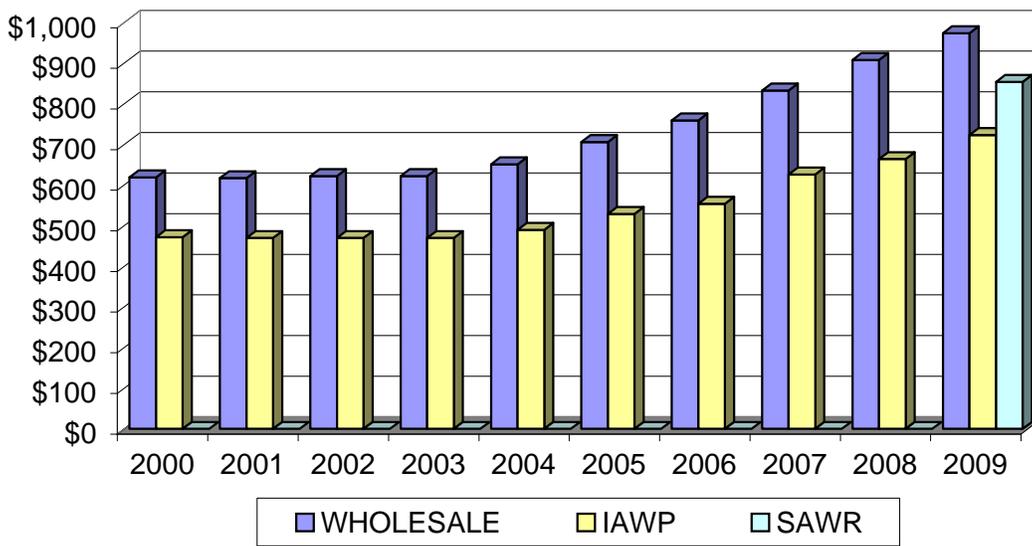
(4) Excludes SDCWA Infrastructure Access Charge.

(5) Interim Agricultural Water Program. To be phased out by MWD on December 31, 2012.

(6) Special Agricultural Water Rate implemented by SDCWA effective January 1, 2009.

Source: Valley Center Water District

Domestic Water Rates



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

Fiscal Year Ended ⁽¹⁾	Moosa Gravity	Moosa Pressure	Woods Valley Ranch
2009	\$40.50	\$74.00	\$98.60
2008	40.50	74.00	98.60
2007	40.50	74.00	98.60
2006	38.00	70.50	98.60
2005	37.00	68.00	98.60
2004	34.00	64.00	50.00 (3)
2003	28.00	57.00	50.00 (3)
2002	28.00	48.20	N/A
2001	25.00	44.20	N/A
2000	19.50	34.50	N/A

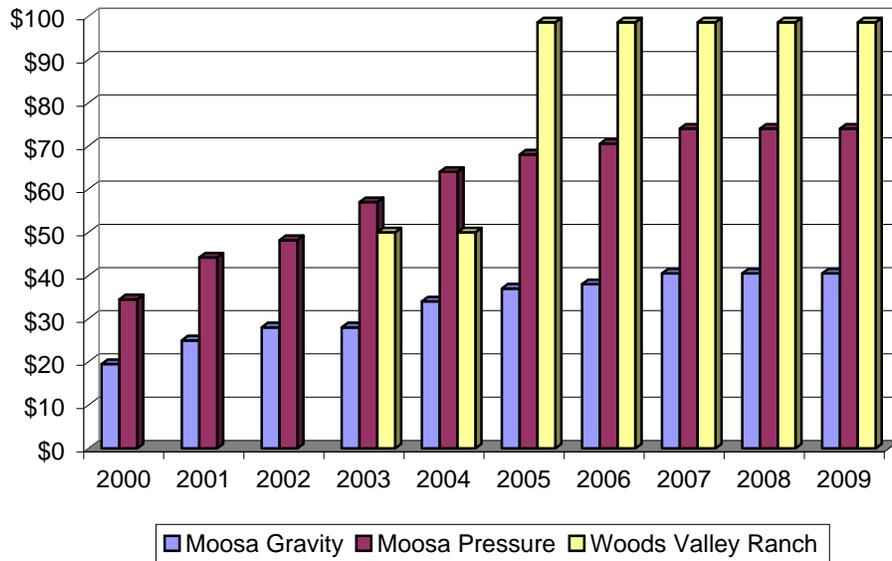
(1) Rate as of January 1.

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

(3) Woods Valley Ranch rate for 2003 and 2004 used to fund operating reserve only.

Source: Valley Center Water District

Wastewater Rates

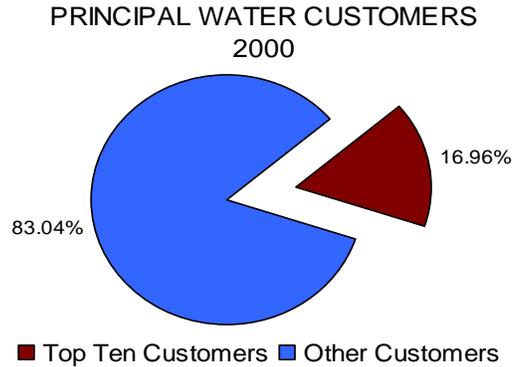
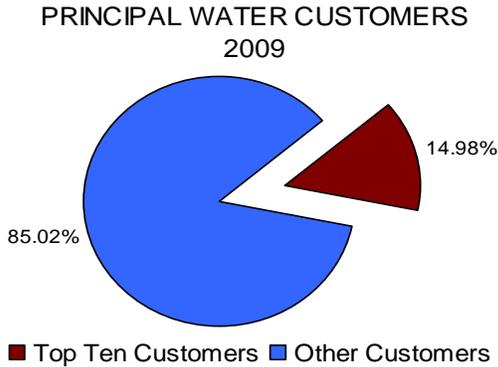


**Table XI
PRINCIPAL WATER CUSTOMERS
Current Fiscal Year and Nine Years Prior**

Fiscal year ended June 30, 2009		
<u>Customer</u>	<u>Usage in Acre Feet</u>	<u>Percent of Water Sold</u>
Stehly, N. J. C.	864.2	2.62%
BSTCO	721.5	2.19%
Grandon Ranch Corp.	548.6	1.66%
Harlan Beck & Associates	523.6	1.59%
Coykendall, H. C. J.	520.0	1.58%
Segal, G.	397.9	1.21%
Gray Cor Farms	385.0	1.17%
Rancho Sereno	373.1	1.13%
Rancho Trio	308.4	0.93%
Rancho Erico	295.6	0.90%
<hr/>		
Total Top Ten Customers	4,937.9	14.98%
Other Customers	28,076.2	85.02%
<hr/>		
Total Water Sales	33,014.1	100.00%

Fiscal year ended June 30, 2000		
<u>Customer</u>	<u>Usage in Acre Feet</u>	<u>Percent of Water Sold</u>
Sierra Pacific Farms	1,243.7	2.70%
Stehly, N. J. C.	1,187.0	2.58%
BSTCO	1,068.2	2.32%
Harlan Beck & Associates	941.5	2.05%
P-K-B Farms	631.6	1.37%
Paradise Leased	582.2	1.27%
DeJong, John	570.8	1.24%
Segal, G.	558.8	1.21%
Coykendall, H. C. J.	513.4	1.12%
Rancho Sereno	504.0	1.10%
<hr/>		
Total Top Ten Customers	7,801.2	16.96%
Other Customers	38,215.4	83.04%
<hr/>		
Total Water Sales	46,016.6	100.00%

Source: Valley Center Water District



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

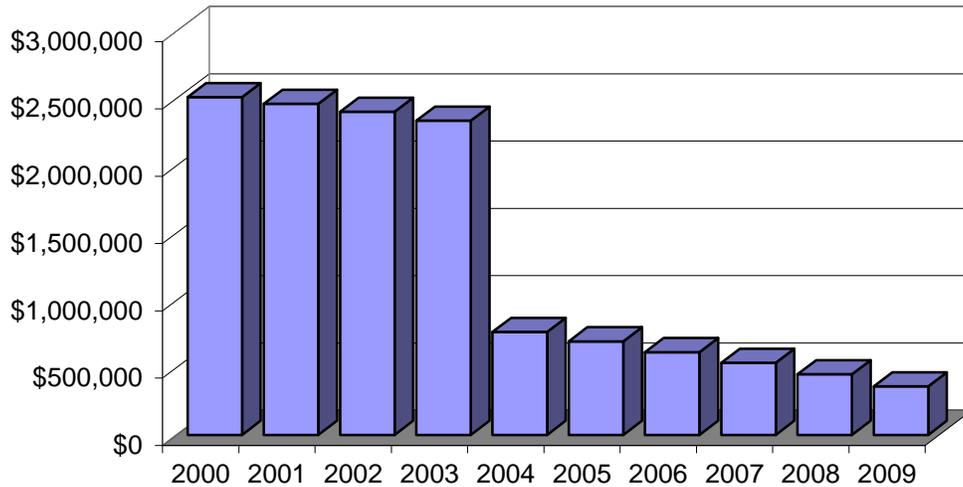
<u>Fiscal Year Ended</u>	<u>General Obligation Bonds ⁽²⁾</u>	<u>Revenue Bonds</u>	<u>Term Loan</u>	<u>Total</u>	<u>Percentage of Personal Income ⁽¹⁾</u>	<u>Per Capita ⁽¹⁾</u>
2009	\$0	\$360,000	\$0	360,000	0.02%	14
2008	0	450,000	0	450,000	0.03%	18
2007	0	535,000	0	535,000	0.04%	21
2006	0	615,000	0	615,000	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

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

(2) The District has had no General Obligation Bonded Debt since 1999.

Source: Valley Center Water District

Outstanding Debt



**Table XIII
PLEDGED-REVENUE COVERAGE
Last Ten Fiscal Years**

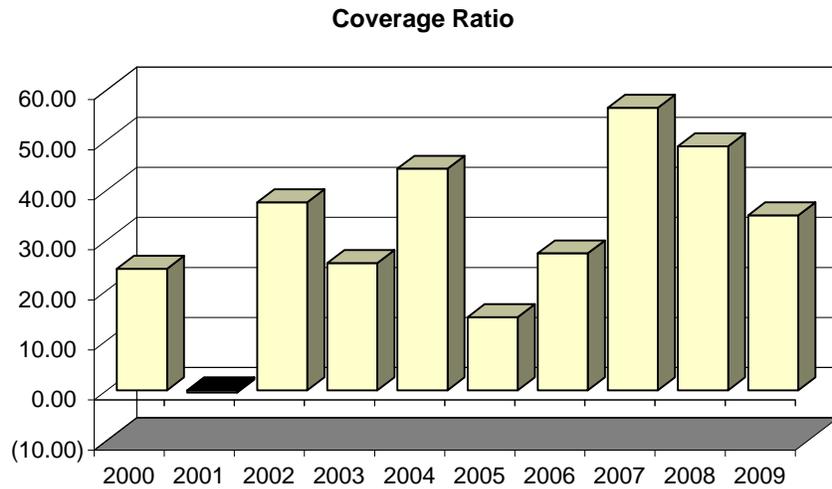
Fiscal Year Ended	Operating Revenues ⁽¹⁾	Nonoperating Revenues ⁽¹⁾	Gross Revenues	Less:		Net Available Revenues	Debt Service			Coverage Ratio
				Operating Expenses ⁽¹⁾⁽²⁾			Principal	Interest	Total	
2009	\$35,355,240	\$3,433,614	\$38,788,854	\$35,312,680		\$3,476,174	\$90,000	\$9,470	\$99,470	34.95
2008	36,480,524	3,966,395	40,446,919	35,312,680		5,134,239	85,000	20,289	105,289	48.76
2007	40,956,262	4,222,980	45,179,242	39,038,976		6,140,266	80,000	28,791	108,791	56.44
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

(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 Water District



**Table XIV
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)
2009	25,665	\$1,578,000,000	\$61,500	4.7%
2008	25,679	1,407,000,000	54,800	2.7%
2007	25,665	1,353,000,000	52,700	2.1%
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%

Other Statistics: ⁽⁵⁾

Jobs in area (2000 Census)	4,695
Median age (2009)	40.1
% High school graduate (2000 Census)	86%
% Bachelor's degree or higher (2000 Census)	28%

- (1) Population at end of fiscal year estimated by VCWD 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.
- (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.
- (5) Source: San Diego Association of Governments (SanDAG)

Source: Valley Center Water District except as noted.

Per Capita Personal Income and Population

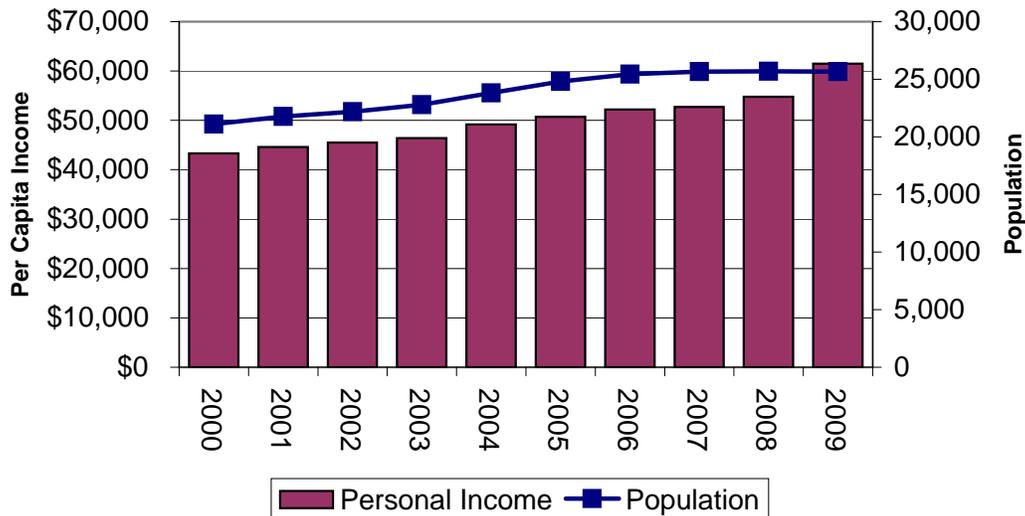


Table XV
PRINCIPAL EMPLOYERS - COUNTY OF SAN DIEGO
Current Fiscal Year and Nine Years Prior

Fiscal year ended June 30, 2009			Fiscal year ended June 30, 2000		
Employer Name	Industry	Employees	Employer Name	Industry	Employees
Federal Government	Government	10,000+	City of San Diego	Government	10,000+
State of California	Government	10,000+	County of San Diego	Government	10,000+
University of California San Diego	Education	10,000+	San Diego Unified School District	Education	10,000+
County of San Diego	Government	10,000+	University of California San Diego	Education	10,000+
City of San Diego	Government	10,000+	Sharp Healthcare	Healthcare	10,000+
San Diego Unified School District	Education	10,000+	Qualcomm	Telecommunications	5,000-9,999
Sharp Healthcare	Healthcare	10,000+	Scripps Healthcare	Healthcare	5,000-9,999
Scripps Health	Healthcare	10,000+	National Steel & Shipbuilding Co.	Shipbuilders	5,000-9,999
Qualcomm	Telecommunications	5,000-9,999	U.S. Postal Service - San Diego Division	Government	5,000-9,999
Kaiser Foundation Hospital	Healthcare	5,000-9,999	Kaiser Permanente	Healthcare	3,000-4,999
San Diego State University	Education	5,000-9,999	Science Applications International Co.	Research & Development	3,000-4,999
U.S. Postal Service - San Diego Division	Government	5,000-9,999	SDG&E/Sempra	Utility	3,000-4,999
AT&T Inc.	Telecommunications	5,000-9,999	San Diego Community College District	Education	3,000-4,999
Sempra Energy	Utility	5,000-9,999	Solar Turbine	Telecommunications	3,000-4,999

Source: 2009 from San Diego Source, 2000 courtesy of San Diego County Water Authority

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

	Full-Time-Equivalent Employees Authorized as of June 30,									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Pumping	5.24	5.54	5.59	5.21	5.49	5.18	4.58	4.96	5.09	4.79
Water Systems Operations	36.14	39.14	39.34	37.14	37.37	35.92	33.71	31.70	31.74	31.45
Wastewater Collection and Treatment	6.11	5.91	4.90	5.07	3.93	3.63	3.66	3.27	3.07	2.72
Engineering	11.27	13.52	12.90	9.96	9.44	8.83	8.55	7.62	7.87	7.37
General and Administrative	13.00	15.00	14.00	13.00	13.00	13.00	12.95	12.00	11.60	11.05
Capital Outlay ⁽¹⁾	3.31	6.21	5.42	5.90	6.05	6.62	4.86	3.60	2.87	3.00
Developer Projects ⁽²⁾	4.93	4.68	3.85	3.72	2.72	2.32	1.69	1.85	1.26	0.63
Total Employees⁽³⁾	80.00	90.00	86.00	80.00	78.00	75.50	70.00	65.00	63.50	61.00
Average Years of Service	10.24	9.07	9.37	10.91	10.25	11.56	11.75	12.81	12.96	13.00

(1) Capitalized into construction in progress.

(2) Charged to work in progress for others.

(3) Authorized number of budgeted employees by year. For Fiscal Year 2008 and 2009, actual number of employees was 78.

Source: Valley Center Water District

Employees

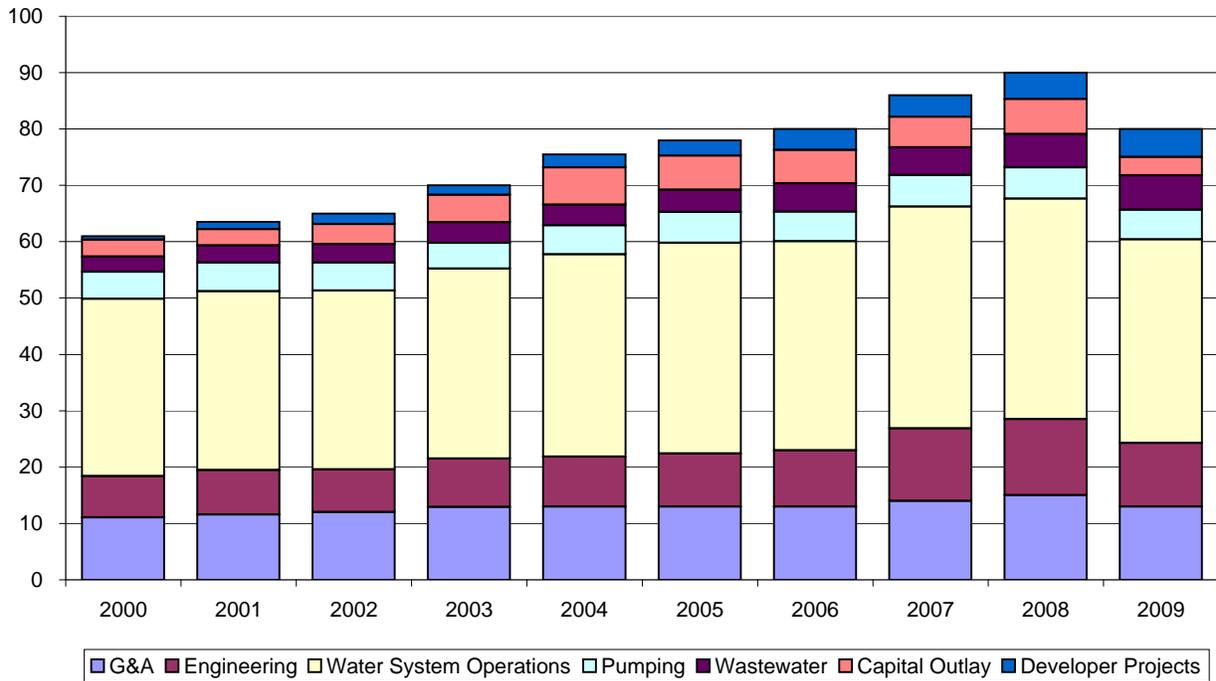


Table XVII
Operating and Capital Indicators
Last Ten Fiscal Years

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Water:										
Service area (acres)	64,253	64,253	64,253	64,253	64,253	64,253	62,100	62,100	62,100	62,100
Miles of water main (8 inches and larger)	297	295	294	291	289	283	273	270	264	262
Number of enclosed reservoirs	42	42	42	42	41	41	41	41	41	40
Capacity of enclosed reservoirs (AF)	421	421	421	421	415	415	415	415	415	407
Number of open reservoirs (emergency water only)	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	96	96	96	97	96
Total pump capacity (horsepower)	19,785	19,940	19,940	19,940	19,940	19,940	19,940	19,940	20,040	20,020
Number of service connections	10,493	10,408	10,392	10,251	9,853	9,175	8,482	8,299	8,120	7,960
Number of meters in service	9,690	9,696	9,745	9,621	9,217	8,537	7,841	7,643	7,458	7,285
Production peak (m.g.d.)	53.96	78.90	84.98	81.70	80.46	81.43	82.59	76.91	80.01	73.68
Average production (m.g.d.)	30.33	35.12	45.04	40.26	34.02	46.58	38.99	44.21	39.81	43.22
Total rainfall (inches)	14.10	19.33	7.56	13.47	33.96	11.18	18.87	4.88	12.98	6.71
Average daily temperature (F.)	62.7	63.3	63.1	63.8	62.3	64.2	62.0	61.6	61.8	62.7
Electricity purchased (1,000 kWh)	25,362	29,839	36,000	31,828	27,418	35,794	28,057	32,643	n/a	n/a
Natural gas purchased (1,000 therms)	190	209	362	347	368	576	923	914	n/a	n/a
Mainline repairs	31	39	37	21	42	23	19	19	35	21
Wastewater:										
Miles of sewer lines	56	56	55	54	53	52	46	46	46	46
Number of treatment plants	2	2	2	2	3	2	2	2	2	2
Maximum capacity of treatment plants (m.g.d.)	0.57	0.55	0.55	0.55	0.56	0.54	0.54	0.54	0.54	0.54
Average dry weather flow (m.g.d.)	0.35	0.37	0.34	0.34	0.35	0.29	0.31	0.28	0.29	0.27
Number of sewer connections	2,729	2,663	2,689	2,600 ⁽¹⁾	2,685	2,599	2,563	2,453	2,271	2,321

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 Water District

**VALLEY CENTER WATER DISTRICT EMPLOYEES
2008-09**

PAUL ADRIAN
GARY ARANT
BARBARA BAKER
GERALD BARNETT
RICHARD BEATH
TOMAS BORROEL
CALVIN BREWER
MICHAEL BULL
RONALD BURKE
JEFFREY BURTON
FERNANDO CARRILLO
DANIELLE CATTANEO
EARL COLIA
RAMIRO DE ALBA-JIMENEZ
ROMAN DE MANRIQUEZ
DANIEL DENTINO
CHARLENE DERESH
FRANCISCO DUMBRIQUE
COREY ELMENDORF
GREG FEIK
PATRICIA GARCIA
LUIZ GONZALEZ
TROY GOSWICK
WALLY GRABBE
DENNIS HESKETT
CLARENCE HICKS
ALBERT HOYLE

RYAN HUGHES
TONY JACQUEZ
WILLIAM JEFFREY
CHRISTINE JOHNSON
DOUGLAS JOHNSON
DIANNE KILWEIN
THAD KLIMAS
CHRISTOPHER KRATZ
ERIC LAVENTURE
RICHARD LEARUE
ANTHONY LOPRESTI
BRIAN LOVELADY
RYAN MADSON
JOHN MARTINEAU
MARLENE MARTINEZ
JAMIE MARTINEZ
ANNE MASLEY
ESTHER MAY
WILLIAM MORRIS
ISMAEL NAVARRO
JESON NIKRASCH
EDWARD OLSON
GABRIELA OLSON
ROBERT PANEK
TIMOTHY PETER
THANG PHAM
ANDO PILVE

JAMES PUGH
BETTY RANDOLPH
CLIFFORD REEH
THOMAS REGAN
ERIC RIVARD
ROY RUTHERFORD
ROBERTO SALAZAR
JULEE SCOTT
YVETTE SERRATO
FRANCESCA SHOUGH
DANIEL SHUBIN
MOSES SHUBIN
TIMOTHY SJOBRING
ELIZABETH STEPHENS
JOHN STETSON
KATHY STETSON
JAMES SULLINS
JARED THOMAS
DEBORAH TILLEY
ROBERT TRUESDALE
GLENDA VALENZUELA
PAUL VILLALOBOS
GERARD VILLALPANDO
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