

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

**FISCAL YEAR ENDING JUNE 30, 2010
VALLEY CENTER, CA**

**VALLEY CENTER MUNICIPAL
WATER DISTRICT**
Valley Center, California

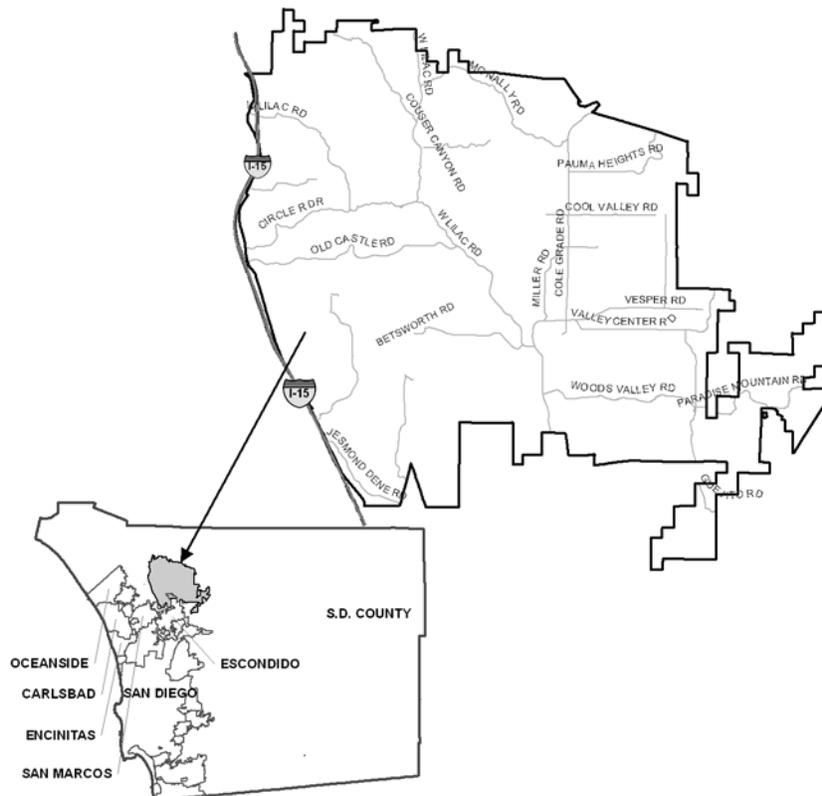
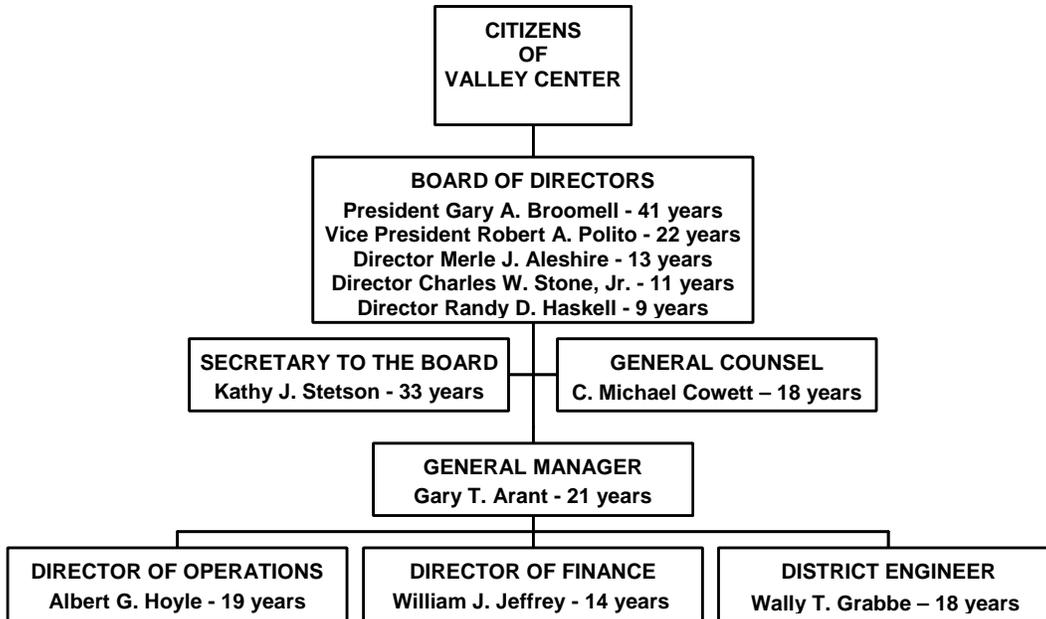
**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**
FISCAL YEAR ENDED JUNE 30, 2010

Prepared by:

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

VALLEY CENTER MUNICIPAL WATER DISTRICT

ORGANIZATION CHART With Years of Service



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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Valley Center Water District
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

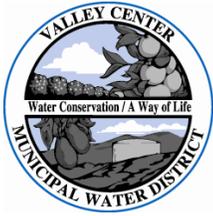
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

INTRODUCTORY **S**ECTION



VALLEY CENTER MUNICIPAL 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 6, 2010

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

We are pleased to present the Valley Center Municipal Water District's (District) Comprehensive Annual Financial Report for the year ended June 30, 2010. 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.

District policy requires that an independent certified public accounting firm, selected by the Board, audit the basic financial statements on an annual basis. Leaf & Cole, LLP has issued an unqualified ("clean") opinion on the District's basic financial statements for the fiscal year ended June 30, 2010. The independent auditor's report is located at the front of the Financial Section of this report.

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 Municipal Water District was founded on July 12, 1954, pursuant to the California Municipal Water District Law of 1911. The District encompasses approximately 100 square miles of land in northern San Diego County. The District provides water and wastewater services to its domestic, agricultural and commercial customers. Historically, the largest demand on the system has come from the District's agricultural customers. This continues to be the case, however, mandatory water cutbacks along with rapidly increasing water rates has seen the gradual decline in the local agricultural community. What once accounted for 90% of the District's water deliveries has dropped to 71%.

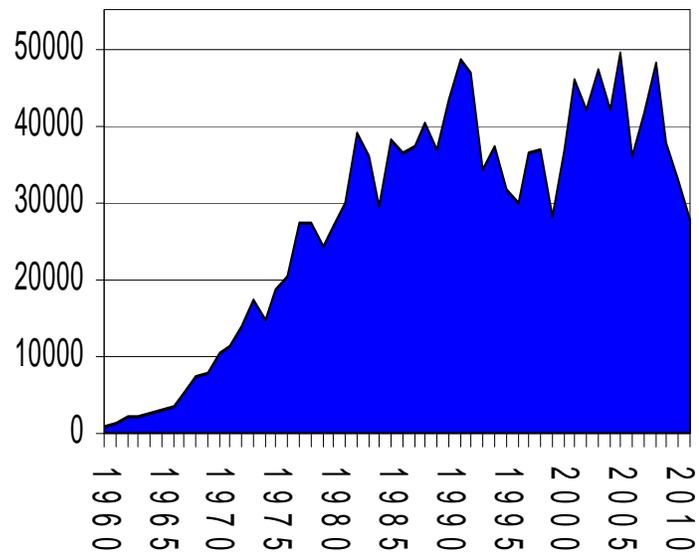
A five-member Board of Directors, elected by geographic division and serving staggered four-year terms, governs the District. The Board manages the District through an appointed general manager. The District's management team also includes three department heads that oversee the Finance, Engineering, and Operations Departments. There are currently 75 regular full-time employees working for the District.

In fiscal year 2009-10 Valley Center Municipal Water District purchased 100% of its water from the San Diego County Water Authority (SDCWA or "Authority") at a cost of \$23.9 million, or 56% of District operating expenses. The Authority imports most of its water from the Metropolitan Water District of Southern California (MWD). The District sold 27,837 acre feet of water during the year ended June 30, 2010. In comparison, 49,336 acre feet of water were delivered to District customers during the year ended June 30, 2004.

The District's water system includes 7 active aqueduct connections, 42 enclosed reservoirs, 26 pumping stations and 297 miles of water main.

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. 100% of the effluent from the Woods Valley Ranch facility is being discharged to the golf course storage ponds where it is used for irrigation of the golf course. Effluent from Lower Moosa Canyon is disposed of in percolation ponds, effectively recharging downstream aquifers.

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 Municipal Water District is primarily financially accountable. The District has established various self-balancing groups of accounts in order to enhance internal control and further the attainment of management objectives. The groups of accounts are identified in the District's books and records as General, Lower Moosa Wastewater Treatment, 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.

ACCOUNTING 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 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 Municipal Water District operates within a system of internal accounting controls established and continually reviewed by management to provide reasonable assurance that assets are adequately safeguarded and transactions are recorded correctly according to District policies and procedures. When establishing or reviewing control, management must consider the cost of the control and the value of the benefit derived from its utilization. Management normally maintains or implements only those controls whose value adequately exceeds their cost.

ECONOMIC CONDITIONS

Like much of the county, state, and country, the District continues to feel the effects of the slow down in the economy. Water sales are not only impacted by mandatory and voluntary water cutbacks, but also by the decline in developer projects and the lack of new housing starts. The District and surrounding area customer base is comprised of a mix of agricultural, domestic, commercial and miscellaneous water accounts. Various commercial crops include avocados, oranges, and lemons.

The water restrictions, coupled with rapidly increasing wholesale water rates, have driven many local growers to cease operations. According to a 2009 study by the California Avocado Commission, in 2005 there were 8,881 acres of productive avocados in Valley Center compared

to 6,667 in 2009, a reduction of 25%. Citrus growers have suffered similar circumstances. More recently farmers have taken up other crops, including ornamental floral products such as lavender and proteas, and grapes.

As of June 30, 2010, the estimated population of the District was 25,378. 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 of the residence was 41.2 years with a median household income of \$95,041. While much of the county and state is seeing double digit unemployment rates, the local rate as of June 30, 2010, was 5.2%.



Orange grove with every other row cut down to conserve water.

DISTRICT ECONOMIC RESULTS

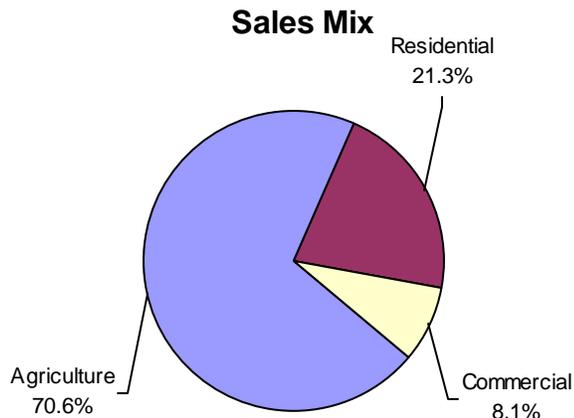
The District established 54 new meter accounts during 2009-10 which includes 13 fire meters and 29 for District facilities. This raised the total number of meter connections within the District to 10,556. Of this total, 1,031 are fire meters and 749 are inactive, resulting in 8,776 revenue generating water meters at the close of the fiscal year. This is a reduction of 3 active meters compared to 2008-09.

The District is currently processing 40 development projects totaling 2,200 units; 8 projects totaling 677 units are on hold pending action by the developers, 313 units are under construction, and 1,887 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 2010-11.

Water sales for 2009-10 were 27,837 acre feet, down 5,177 acre feet or 15.7% from sales of 33,014 acre feet in 2008-09. The sales reduction is due to mandatory and voluntary water cutbacks. Customers have reduced their water usage significantly below the requested reductions of 25% mandatory for Interim Agricultural Water Program, 13% mandatory for Special Agricultural Water Rate, and 8% voluntary for full price customers.

Sales are also impacted by current economic conditions and a depressed real estate market. 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 71% of the District's total water sales in fiscal year 2009-10 compared to the average of 79% of the District's water sales over the previous ten year period. As water is one of the largest production costs for farmers in San Diego County, rapidly increasing wholesale water rates and the mandatory cutback have significantly impacted growers in the local area. Many have discontinued operations, while others have significantly cut back and stumped their trees. In any event, agricultural users that remain in the area are continually working to develop and install more efficient cost effective 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 2010 discounts total \$238 per acre foot, based on water rates effective January 1, 2010. In October 2008, MWD announced that the IAWP will phase out by December 31, 2012.

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, at inception, 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.

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, at inception, 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.

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 \$265,000 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, 2009

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 2009 was 5.8%.

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, 2010, our Discretionary Reserves, Operating and Pump Rate Stabilization, represent 6 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 9.2% and 11.6% 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 101.5% of the design criteria.

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

Four projects completed with a cumulative total actual cost that was +3.4% of the Engineer’s estimate during the 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 99.952%.

8. COMPLIANCE WITH ALL STATE & FEDERAL REGULATIONS.

100%.

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

The District lost time accidents were 0.0007% of total hours worked.

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

Our weighted average return on all investments was 1.97%, while the 12-month rolling average for U.S. Treasuries was 1.01%.

MAJOR INITIATIVES - EFFORTS AND ACCOMPLISHMENTS

Geographical Information System (GIS) – District wide use of GIS has increased over the past year, resulting in favorable comments, suggestions for improvements to the viewer, and inquiries about making additional information available. Staff upgraded the GIS desktops to the latest versions available, and worked with a consultant to upgrade the Spatial Database Engine (SDE), which is used to manage spatial data. Progress was made in the easement scanning and indexing project which will result in a link from the GIS base map to the scanned easement document. Advances were made in the development of web-based maps to publish current project information and planning documents to the District's intranet, and possibly internet, sites.

Supervisory Control and Data Acquisition (SCADA) System – After construction of the initial 14 SCADA sites (Phases 1 and 2 of a proposed seven phase project) was completed, District staff has moved the project forward by completing an additional 8 sites. Sites that were completed were Circle R and Pfau pump stations, and Betsworth, McNally, Old Country Club, Circle R, and Lake Turner reservoirs, VC3 connection facility. The data radio 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 – The District continues to be very proactive in reducing our energy consumption by upgrading and replacing the older pumping facilities with high efficiency pumps and motors. 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, increase our productivity, efficiencies, and augment our energy investments.

The District completed construction at two pump stations that has significantly increased efficiencies which have resulted in considerable cost savings to the District. The Jesmond Dene Pump Station, originally constructed in 1955, was fully upgraded. Prior to reconstruction, the pump station efficiency was 87% of the design criteria. After reconstruction, pump efficiencies have been tested at 101% of design criteria. Pfau Pump Station was originally constructed in the late 1950's, and was operating at 80% of design efficiency criteria. After reconstruction, the pump station is 102% of the design efficiency criteria. Both projects were completed in-house.

Systems Operations has 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. For fiscal year 2009-10, staff implemented a number of cost-saving measures that will improve our efficiencies, productivity, and provide cost savings. Crews installed 9 solar tubes in the construction maintenance building to reduce the facility's lighting expenses, replaced the low-efficiency 30-horsepower re-circulating pump at Cobb Reservoir with a high-efficiency 15 horsepower re-circulating pump, incorporated two more mid-size trucks into our service fleet for improved mileage per gallon, installed programmable thermostats for all of the facilities buildings heating/AC units to reduce weekend and off-peak run times, and installed GPS devices on service and duty trucks to enable more efficient routing to work sites. At the Moosa facility, crews re-routed and looped the aeration line to reduce the need for 3 blowers. At the Woods Valley plant, equipment runs times were scaled back to only operate during peak flows and chlorine usage was cut 75% due to the new awning cover.

Due to current budget constraints, the District is currently exploring and evaluating a number of small scale solar projects for our mid-size pump stations, which may provide a greater return on investment than a major upgrade at a smaller pump station. Presently, staff is exploring a small-scale solar field at the Tyler Pump Station. Initial evaluations are encouraging with a relatively rapid payback range of 7-8 years for the small scale solar project, depending on the California Solar Incentives (CSI) availability. Staff has primarily identified fifteen potential small scale solar sites that would provide moderate savings and a higher return on our investments, if the funding is available.

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 and which will generate the greatest return on our investments.

Facility Upgrades – Staff completed a number of facility improvements for increased reliability, serviceability and productivity. We have also fully eliminated a number of very old abandon pump stations in an effort to reduce our liability in the event of a major pipeline failure.

The Vista Aleta PRV Station, originally constructed out of an abandoned pump station, was entirely upgraded to the District's current specifications for improved functionality, reliability, and serviceability. As mentioned previously, the Pfau and Jesmond Dene Pump Stations were completely refurbished. Crews also constructed a new Locker room and Meter Crew room for improved organization and productivity. Paradise #2 reservoir roof structure was redesigned and constructed and new internal and external epoxy coating was applied. West #1 and #2 reservoirs were epoxy coated, internally and externally. The District's Employee Parking Lot was re-paved with a crack resistant mesh to reduce the asphalt cracking and failure rate. The Islands and Meadows Lift Stations were re-landscaped for improved ornamentation of the neighborhood and a new awning cover was installed over the Woods Valley contact tank that significantly reduces our chlorine usage.

District staff has identified a number of old and partially de-constructed pumping facilities that were initially constructed in the late 1950's to the mid 1960's. Crews completed the demolition and removed all of the below and above grade piping and valving at the old Pala Loma, San Gabriel, and Ridge Ranch Pump Stations.

Water Quality – Recently, with the significant reduction of water flows into the Valley Center service area, the District has experienced increased water quality challenges and concerns. To combat this issue, we have significantly reduced our use of storage capacity to provide greater movement in our reservoirs and to reduce overall storage times. For the Pauma Heights Reservoir, staff installed a new outlet from the reservoir to the Tyler Pump Station to improve the reservoirs internal flows. Staff has also increased the reservoirs' cleaning frequencies to reduce the nitrification build-up within the reservoir structure.

With the majority of our reservoirs having only one inlet/outlet feed, District staff will continue to evaluate solutions to maintain and improve our water quality standards and to reduce our exposure to nitrification build-up. Through internal mixing devices or the new construction of separate inlet and outlet ports on the reservoirs, we are confident we will be able to preserve our water quality standards during this period of reduced flows.

Water Loss and Meter Replacement – In an effort to reduce our water loss from lower reading meters, the District has been very aggressive in changing out the top 2,000 users' water meter registers, with the newly supplied registers from our manufacturer. Staff has also incorporated additional meter maintenance programs to provide further field observation of our meters. Meter crews have also been assigned shift work, so a Meter Technician has worked a weekend shift in

an effort to detect any tampering or interference of water meters. We have been more aggressive in identifying remote blow-off appurtenances and installing security caps to reduce water theft. Crews have also evaluated and surveyed cross country water mains and their associated appurtenances, through our leak detection program, for potential cross-connections and will continue to aggressively monitor and inspect our distribution system through these various strategies.

Emergency Generation – Staff continues to appraise and install emergency generation at critical pump stations and SCADA and communication sites. Currently we are installing two stationary generators with auto transfer switching at Circle R and Red Mountain Pump Stations. We have expanded our emergency power implementation to include the critical communication sites that are essential for our radio network to function.

Carlsbad Seawater Desalination Project – Progress continued on the public-private partnership between Poseidon Resources, the City of Carlsbad, the District, and seven 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 2009-10, the project successfully weathered repeated legal and regulatory challenges from local environmental interest groups. The project also received approval to receive the critical MWD Sea Water Desal Program funding, affording up to a \$250 per acre foot support for each acre foot delivered. By the spring of 2010, however, it was apparent that with regional financial constraints and the deteriorating relationship between the SDCWA and MWD, much of the support funding needed to make the project viable would not be forthcoming. At this point efforts began to direct the project back to a direct water purchase relationship with the SDCWA. Realizing the importance of the project to the region’s water supply, on June 26, 2010, the SDCWA Board voted to explore negotiating a direct purchase agreement with Poseidon Resources for 56,000 acre feet annually of desalinated seawater from the Carlsbad Desalination Project. It is now anticipated that the project could be online by mid to late 2013.



Server racks in new IT server room.

Information Technology Server Room Relocation – A new server room was constructed with increased security, cooling capacity, and fire suppression for the District's servers and communications equipment. It provides adequate expansion capabilities for the foreseeable future. The project also consolidated network distribution facilities in the administration building for improved efficiency. The backbone of the main office network was improved with added redundancy and security.

Customer Online Account Access – The District now provides online account access for all District customers. The online account access allows customers to make payments online and access their billing information, water usage, and allocations at any time.

Information Technology System Upgrades – Improvements were made to database servers to allow enhanced reporting capabilities for SCADA and financial data. Work is continuing to consolidate various databases and provide more efficient access to the data by the employees. The backbone of the main office network was improved with added redundancy and security in conjunction with the server room relocation project. Work has started to replace critical servers with new hardware to provide increased speed, better reliability, and compatibility with future application development.

Phone System Upgrade – The District is installing a new Cisco Voice-over-IP phone system that provides many advantages over the old Nortel PBX. The new phone system communicates through the updated office network backbone and allows the District to easily install phones in its facilities over the wide area network. Enhancements to the call handling processes enable customer calls to be routed directly to the appropriate departments. The new phone system is scheduled to be installed in December, 2010.

Planning and Construction Projects

Transmission, Distribution, and Storage Facilities Improvements – Construction plans for the Country Club Reservoir Cover Replacement project were substantially completed and included initial demolition plans and design of a floating cover. Because of budgetary constraints, the existing roof structure will instead be reinforced and full replacement deferred. The Circle R Wastewater Line Replacement project, consisting of approximately 300 linear feet of 12-inch diameter gravity wastewater piping with a new 18-inch diameter pipeline was completed. Also completed was the Meadows Highline Replacement Project, which consisted of approximately 170 linear feet of 8-inch diameter gravity wastewater pipe. This Highline was very exposed to damage and the new line is incased in concrete for protection from rockfall and vandalism.

The District accepted into its system the Citrus Pointe Waterline Extension (373 LF of 8-inch diameter pipe) and the Butterfield Trails Extension (178 LF of 8-inch diameter water pipe). Conditional acceptance was given to the High Mountain Waterline (1,619 LF of 8-inch diameter water pipe), and the Steinbeck Subdivision (2,916 LF of 2- and 3-inch diameter pressure sewer pipe).

Local Water Supply Projects – Staff has evaluated the feasibility of several projects for the development of local water supplies to supplement imported water. A participation grant was received from the San Diego County Water Authority to evaluate the installation of a Water Reclamation Facility at the Welks Golf course to divert wastewater on its way to the Lower Moosa Canyon Wastewater Reclamation Facility for treatment and use on the golf course. The

project would offset approximately 90 acre feet per year of imported potable water currently being used for irrigation. Other projects including groundwater production, various recycled water projects, and non-potable distribution systems were evaluated. With this information, staff has been working with a federal lobbyist to pursue federal funding for these local water supply projects.

Large Development Projects

Current and potentially long term hydrologic, legal, environmental, 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 major subdivisions 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.

North Village – A residential and commercial development of 800 equivalent dwelling units (EDUs) is being proposed by two major property owners in the North Village area on Valley Center Road between Miller and Cole Grade Roads. Staff provided comments and met with County staff on the Major Use Permit application for a water reclamation facility to serve the project that was submitted for approval by the developers. The project would be designed and constructed to allow expansion to sufficient capacity to provide wastewater service to the North Village properties in accordance with land use designations identified in the San Diego County's proposed General Plan Update.

South Village Water Reclamation – A financial assistance application for a \$13.85 million dollar State Revolving Fund (SFR) loan for the expansion of the Woods Valley Ranch Water Reclamation Facility was completed and submitted to the State Water Resources Control Board (SWRCB). Approval is pending SWRCB staff review. Property owners in the service area requested and funded the preparation and submittal of the application. If funding is secured, the proposed expansion would provide wastewater service for an additional 350 equivalent dwelling units (EDU's) in the South Village area of the District. The expansion project would include constructing an 87,500 gallon per day expansion to the existing facility, a low pressure wastewater collection system, a seasonal storage pond, and would potentially produce 98 additional acre feet of recycled water annually. Loan repayment would be funded from the formation of an assessment district consisting of those property owners requesting service from the expanded facility. If approved, construction could possibly begin late 2011 to mid 2012.

AWARDS & ACKNOWLEDGEMENTS

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Valley Center Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2009. 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 Municipal 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.*



In Memoriam

C. Michael Cowett, General Counsel
Valley Center Municipal Water District
January 1993 to October 2010

“Whereas, during the term of office as General Counsel, Mr. Cowett did faithfully and effectively serve the Board and District as a most trusted advisor; and...

Now, Therefore, Be It Resolved, the Board of Directors of the Valley Center Municipal Water District does recognize and commemorate the accomplishments and contributions of C. Michael Cowett as its General Counsel, water community leader, and outstanding Water Lawyer.”

An Excerpt from Resolution 2010-39, Passed and Adopted by the Valley Center Municipal Water District Board of Directors on December 6, 2010.

FINANCIAL
SECTION



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

Steven W. Northcote, C.P.A.
Michael S. Schreibman, C.P.A.
Michael J. Zizzi, C.P.A.
Julie A. Firl, C.P.A.
Nicholas M. Gines, C.P.A.

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

Independent Auditor's Report

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

We have audited the accompanying balance sheet of Valley Center Municipal Water District as of June 30, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Center Municipal Water District at June 30, 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on Valley Center Municipal Water District's financial statements as a whole. The introductory section, combining schedules of balance sheets 2010, combining schedules of revenues, expenses and changes in net assets 2010, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining schedules of balance sheets 2010 and the combining schedules of revenues, expenses and changes in net assets 2010 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

We also have previously audited, in accordance with auditing standards generally accepted in the United States and the State Controller's Minimum Audit Requirements for California Special Districts, Valley Center Municipal Water District's basic financial statements for the year ended June 30, 2009, which are not presented with the accompanying financial statements. In our report dated November 20, 2009, we expressed an unqualified opinion the District's financial statements. In our opinion, the combining schedules of balance sheets 2009 and combining schedules of revenues, expenses and changes in net assets 2009 are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2009, taken as a whole.

Leaf & Cole LLP

San Diego, California
December 6, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Valley Center Municipal Water District's Comprehensive Annual Financial Report presents management's discussion and analysis of the District's financial performance for the fiscal year ended June 30, 2010. 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.

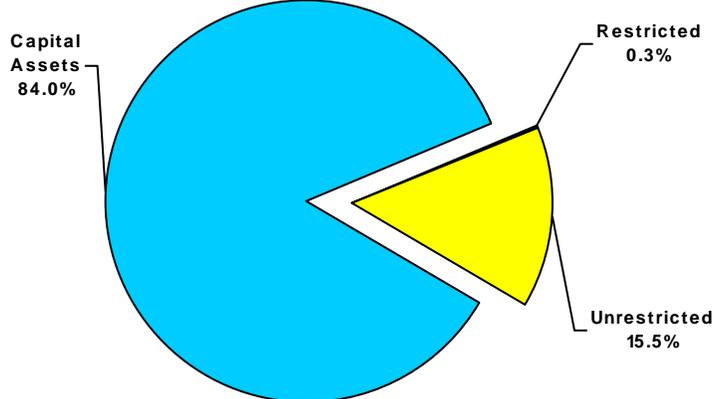
FINANCIAL HIGHLIGHTS

During the year ended June 30, 2010, net assets decreased by \$3,576,825, including depreciation expense of \$5,003,462. Total revenues were \$38,951,364, which included operating revenues of \$35,521,669, nonoperating revenues of \$3,024,512, and capital contributions of \$405,183. Total revenues decreased \$12,134,382 due to reduced capital contributions from the prior year which included the conditional acceptance of the \$11,628,465 Woods Valley Ranch Wastewater Treatment Plant. Total expenses increased \$1,969,947. For the year ended June 30, 2010, operating expenses exceeded operating revenues by \$6,949,445 compared to \$5,162,257 for the previous year. Nonoperating revenues of \$3,024,512 exceeded nonoperating expenses of \$57,075. Nonoperating revenues consist primarily of property taxes and assessments and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT

Net Assets - Net assets decreased between fiscal years ending 2009 and 2010 from \$101,969,523 to \$98,392,698. This decrease does not include a prior balance adjustment of \$54,494 for the restatement of a feasibility study previously capitalized as construction in progress and now expensed in accordance with the new GASB Statement No. 51. Net assets invested in capital assets, net of related debt, decreased \$1,852,568, restricted net assets decreased \$235,637 with the expenditure of capacity fees, and unrestricted net assets decreased \$1,488,620.

TOTAL NET ASSETS
Fiscal Year 2009-10



NET ASSETS

	2010	2009 (Restated)
Current Assets	\$ 24,114,265	\$ 26,583,976
Restricted assets	268,225	503,862
Capital assets	84,089,468	85,982,542
Total Assets	108,471,958	113,070,380
Current liabilities	8,858,832	9,799,506
Noncurrent liabilities	1,220,428	1,301,351
Total Liabilities	10,079,260	11,100,857
Net assets:		
Invested in capital assets, net of related debt	83,824,468	85,622,542
Restricted for facility expansion	268,225	503,862
Unrestricted	14,300,005	15,843,119
Total Net Assets	98,392,698	101,969,523
Total Liabilities and Net Assets	\$ 108,471,958	\$ 113,070,380

Change in Net Assets - The District's operating revenues were \$35,521,669 for the year, \$166,429 or 0.5% higher than the previous year.

The District's operating expenses increased \$1,953,617, or 4.8% to \$42,471,114. Operating expenses increased due to the increase in the price of water purchased, \$2,064,212 and depreciation, \$865,546. These increases were offset by lower energy and pumping costs of \$1,138,226.

The District's investment income decreased \$256,077. Yields during the year started at 1.89% and fell to 1.38% by year end. Investment income includes unrealized gains and losses on investments. Tax revenues were down, \$168,556, or 6.1%, to \$2,595,610, due to reduced property valuation within the District.

CHANGES IN NET ASSETS

	<u>2010</u>	<u>2009</u>
<u>Operating Revenues:</u>		
Water sales and pumping charges	\$32,960,179	\$32,825,911
Wastewater charges	1,675,877	1,576,437
Meter installation fees	87,065	155,358
Other water operating revenues	798,548	797,534
Total Operating Revenues	<u>35,521,669</u>	<u>35,355,240</u>
<u>Operating Expenses:</u>		
Cost of water sold	23,884,810	21,820,598
Energy and pumping costs	2,944,042	4,082,268
Water systems operations	5,133,042	4,821,920
Wastewater collection and treatment	841,443	866,812
Engineering	1,591,578	1,580,009
General and administrative	3,072,738	3,207,975
Depreciation	5,003,461	4,137,915
Total Operating Expenses	<u>42,471,114</u>	<u>40,517,497</u>
Operating Loss	<u>(6,949,445)</u>	<u>(5,162,257)</u>
<u>Nonoperating Revenues (Expenses):</u>		
Property taxes and assessments	2,595,610	2,764,166
Investment income	220,489	476,566
Other nonoperating revenues	208,413	192,882
Interest expense	(5,929)	(9,470)
Loss on disposal of assets	(51,146)	(31,275)
Total Nonoperating Revenues (Expenses)	<u>2,967,437</u>	<u>3,392,869</u>
Income (Loss) Before Contributions	(3,982,008)	(1,769,388)
Capital Contributions	<u>405,183</u>	<u>12,296,892</u>
Change in Net Assets	<u>(3,576,825)</u>	<u>10,527,504</u>
Net Assets at Beginning of Year	101,969,523	89,005,098
Restatement	<u>-</u>	<u>2,436,921</u>
Restated Net Assets at Beginning of Year	<u>101,969,523</u>	<u>91,442,019</u>
NET ASSETS AT END OF YEAR	<u>\$98,392,698</u>	<u>\$101,969,523</u>

ANALYSIS OF OPERATIONS

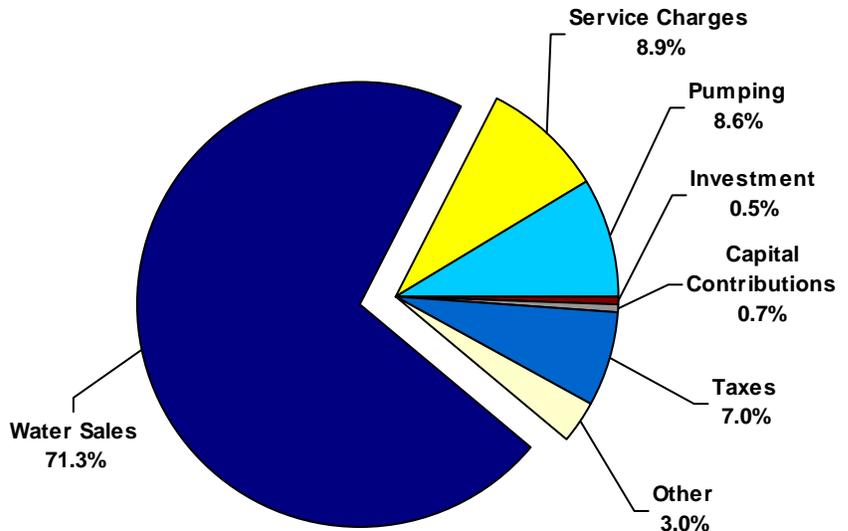
Water Operations

Revenues for the year ended June 30, 2010, totaled \$37,103,246, which is a decrease of \$710,410, or 1.9% from the prior year. Details of this decrease in revenues are as follows:

- Water sales revenue increased by 3.0%, or \$780,901, from the prior year. There was a 15.7% decrease in the volume of water sold. In 2009-10, 27,837 acre feet of water were billed compared to 33,014 acre feet in the prior year. On January 1, 2010, water rate increases were 14.8% for domestic, 15.3% for the San Diego County Water Authority Special Agricultural Water Rate (SAWR), and 21.8% 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, \$3,301,357 in 2008-09 compared to \$3,305,235 in 2009-10.

WATER OPERATIONS REVENUE

Fiscal Year 2009-10

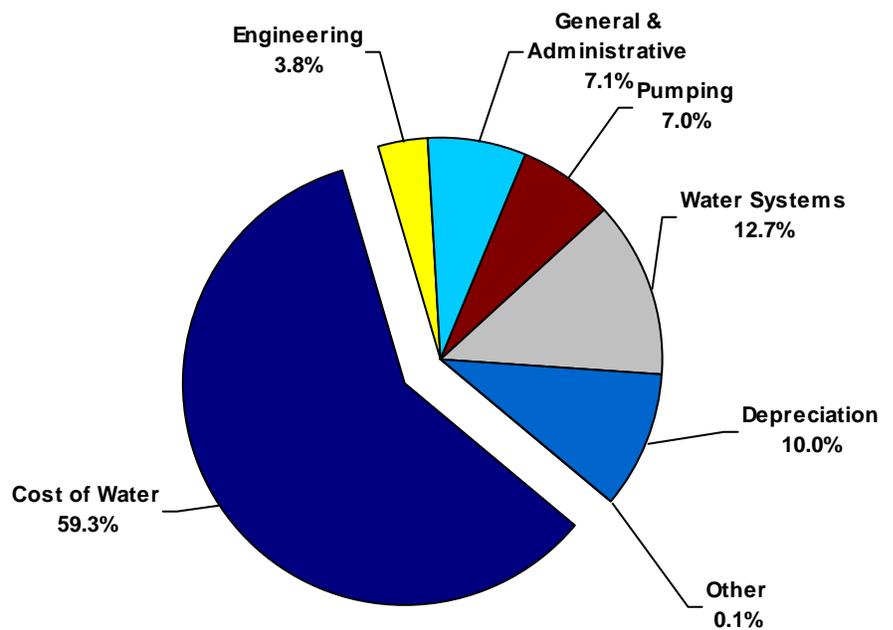


- Energy and pumping revenues were down 16.9%, or \$650,511, due to the decrease in the volume of water sold.
- Property taxes and assessments decreased by 6.1%, or \$168,556, from 2008-09 to 2009-10. Because of current economic conditions, assessed values decreased 5.4% from the previous year. The District 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 53.4%, or \$219,009, from the prior year. The decrease is a result of lower yields earned during the year coupled with lower cash balances.
- Current economic conditions, the lack of housing starts and development projects, are evident in a decrease in meter installation fees within the District of \$68,293, down 44.0% from the prior year.
- Other water operating revenues were unchanged \$798,548 in 2009-10 compared to \$797,735 in 2008-09.
- Capital contributions, which vary based on developer projects, decreased by \$405,365 or 60.7% from the prior year.

Expenses for the year ended June 30, 2010, totaled \$40,277,002, an increase of 4.4% or \$1,714,716. Certain significant expenses are as follows:

- The cost of water sold increased 9.5% over the prior year, while water deliveries decreased, because of higher wholesale water prices. In 2008-09, the District purchased 34,781 acre feet of water at an average price of \$627 per acre foot. In the current year, the District purchased 29,522 acre feet of water at an average price of \$809 per acre foot, an increase of 29.0% or \$182 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 that the District must pay regardless of water sales. 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 2009-10



- Agricultural discounts received were \$1,956,309 for fiscal year 2009-10, including \$964,044 from SDCWA on their melded water rate. This equates to a rebate of \$99 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 28.5%, or \$1,119,380, due to lower demand, energy management strategies, and higher pump efficiencies.
- Water systems operations expenses increased 6.5%, or \$311,121, from the prior year due to increased labor offset by reduced facilities and equipment maintenance, training and education, and departmental operating supplies.
- Engineering expenses for 2009-10 were 2.8%, or \$44,543 lower than 2008-09. This is a result of lower labor offset by higher outside service and capital planning expenses.
- General and administrative expenses decreased 4.4% or \$129,845 due to a reduction in the write-off of uncollectible customer accounts in the amount of \$129,708.
- Depreciation expense in 2009-10 increased 18.8%, or \$637,979, from the prior year.
- Other nonoperating expenses were \$29,988 compared to the prior year of \$31,275.

WATER OPERATIONS CHANGES IN NET ASSETS

	2010	2009	Increase (Decrease)	Percent Change
REVENUES:				
Water Sales	\$26,466,979	\$25,686,078	\$ 780,901	3.0 %
Meter Service Charges	3,305,235	3,301,357	3,878	0.1 %
Pumping and energy charges	3,187,965	3,838,476	(650,511)	(16.9) %
Meter Installation Fees	87,065	155,358	(68,293)	(44.0) %
Other water operating revenues	798,548	797,534	1,014	0.1 %
Property taxes and assessments	2,595,610	2,764,166	(168,556)	(6.1) %
Investment income	191,448	410,457	(219,009)	(53.4) %
Other nonoperating revenues	208,413	192,882	15,531	8.1 %
Capital Contributions	261,983	667,348	(405,365)	(60.7) %
Total revenues	<u>37,103,246</u>	<u>37,813,656</u>	<u>(710,410)</u>	<u>(1.9) %</u>
EXPENSES:				
Cost of water sold	23,884,810	21,820,598	2,064,212	9.5 %
Energy and pumping costs	2,810,313	3,929,693	(1,119,380)	(28.5) %
Water systems operations	5,133,041	4,821,920	311,121	6.5 %
Engineering	1,535,466	1,580,009	(44,543)	(2.8) %
General and administrative	2,844,528	2,974,373	(129,845)	(4.4) %
Depreciation	4,032,927	3,394,948	637,979	18.8 %
Interest Expense	5,929	9,470	(3,541)	(37.4) %
Other nonoperating expenses	29,988	31,275	(1,287)	(4.1) %
Total expenses	<u>40,277,002</u>	<u>38,562,286</u>	<u>1,714,716</u>	<u>4.4 %</u>
Change in Net Assets	<u>\$(3,173,756)</u>	<u>\$ (748,630)</u>	<u>\$(2,425,126)</u>	<u>(323.9) %</u>

Wastewater Treatment Operations

The Lower Moosa Canyon Water Reclamation Facility serves 2,452 customers in a limited geographic area on the west side of the District. Total revenues were \$1,463,855, an increase of \$205,288, or 16.3% from the prior year. This increase is due to higher contributed capital and service charges, offset by lower investment income. The service charge increase is attributable to a 9.9% fee increase effective September 2009.

LOWER MOOSA CHANGES IN NET ASSETS

	2010	2009 (Restated)	Increase (Decrease)	Percent Change
REVENUES:				
Wastewater charges	\$ 1,304,519	\$ 1,211,563	\$ 92,956	7.7 %
Investment income	16,136	45,925	(29,789)	(64.9) %
Capital contributions	143,200	1,079	142,121	13171.5 %
Total revenues	<u>1,463,855</u>	<u>1,258,567</u>	<u>205,288</u>	<u>16.3 %</u>
EXPENSES:				
Energy and pumping costs	85,594	101,113	(15,519)	(15.3) %
Wastewater collection and treatment	657,474	676,458	(18,984)	(2.8) %
Engineering	56,112	54,494	1,618	3.0 %
General and administrative	169,210	178,034	(8,824)	(5.0) %
Depreciation	397,995	354,209	43,786	12.4 %
Other nonoperating expenses	21,158	-	21,158	100.0 %
Total expenses	<u>1,387,543</u>	<u>1,364,308</u>	<u>23,235</u>	<u>1.7 %</u>
Change in Net Assets	<u>\$ 76,312</u>	<u>\$ (105,741)</u>	<u>\$ 182,053</u>	<u>172.2 %</u>

Expenses for the year ended June 30, 2010, totaled \$1,387,543, an increase of 1.7% or \$23,235. Certain significant expenses are as follows:

- Energy and pumping costs were \$15,519 lower than the previous year due to aeration system upgrades. The diffuser system is able to distribute air more evenly, using less air and fewer blowers.
- Wastewater collection and treatment costs were 2.8% lower than last year, or \$18,984. This decrease is due to lower labor, maintenance, and outside service costs.
- General and administrative expenses were 5.0% less than last year, or \$8,824. This is due to lower regulatory permit fees and insurance costs.
- The engineering expense represents charges for the Welk Skimming Plant feasibility study. Other nonoperating expense represents the undepreciated balance of assets written off during the year.

Assessment District No. 96-1 issued bonds in February 1997 under the Improvement Act of 1915 to fund part of the expansion of the Moosa facility. These bonds are not a general obligation of the District and are not presented in this report.

The Woods Valley Ranch Water Reclamation Facility is located in the south-central portion of the District. Total revenue, net of capital contributions, was basically unchanged from the prior year. 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

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
REVENUES:				
Wastewater charges	\$ 371,358	\$ 364,874	\$ 6,484	1.8 %
Investment income	12,905	20,184	(7,279)	(36.1) %
Capital contributions	<u>0</u>	<u>11,628,465</u>	<u>(11,628,465)</u>	<u>(100.0) %</u>
Total revenues	<u>384,263</u>	<u>12,013,523</u>	<u>(11,629,260)</u>	<u>(96.8) %</u>
EXPENSES:				
Energy and pumping costs	48,135	51,462	(3,327)	(6.5) %
Wastewater collection and treatment	183,969	190,354	(6,385)	(3.4) %
General and administrative	59,000	55,568	3,432	6.2 %
Depreciation	<u>572,540</u>	<u>388,758</u>	<u>183,782</u>	<u>47.3 %</u>
Total expenses	<u>863,644</u>	<u>686,142</u>	<u>177,502</u>	<u>25.9 %</u>
Change in Net Assets	<u>\$(479,381)</u>	<u>\$11,327,381</u>	<u>\$(11,806,762)</u>	<u>(104.2) %</u>

- Total expenses were \$177,502 higher than the previous year. Increased depreciation expense on the new treatment plant is the main reason for this increase.
- The decrease in the change in net assets of \$11,806,762 is a result of reduced capital contributions. Conditional acceptance for operations and maintenance of the permanent facility was done in the prior year.

CAPITAL ASSETS

Capital assets include land, annexation fees, transmission and distribution system, general plant, and construction-in-progress. At June 30, 2010, the District had \$143,875,753 in capital assets with \$59,786,285 of accumulated depreciation. This represents a net decrease (additions less deductions) of \$1,947,568, or 2.3% over the prior year. Significant additions include land for the future Reidy Canyon reservoir, SCADA system improvements, Pfau Pump Station upgrades, reservoir recoatings, and the Wastewater Transmission Line replacement from the Meadows.

CAPITAL ASSETS

	<u>2010</u>	<u>2009</u>
Land	\$ 4,518,097	\$ 4,056,656
Annexation fees	786,185	786,185
Construction-in-progress	2,589,982	2,156,119
Transmission and distribution system	122,692,044	122,291,582
General plant	<u>13,289,445</u>	<u>12,759,696</u>
Total	<u>\$143,875,753</u>	<u>\$142,050,238</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, 2010, the District had \$265,000 in revenue bonds, compared to \$360,000 in revenue bonds payable at June 30, 2009. No new debt was issued during the year. The District had no general obligation bonded debt at June 30, 2010. 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, 2010, the District had designated \$3,803,843 of its unrestricted net assets as a water operating reserve to mitigate the potential of these effects. This represents approximately four and one-third months operating and maintenance expenses. Including the pumping rate stabilization un-appropriated reserve fund increases this to six 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 Municipal Water District's Finance Department at 29300 Valley Center Road, Valley Center, California 92082, or call (760) 749-1600.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
BALANCE SHEET
JUNE 30, 2010**

ASSETS

Current Assets: (Notes 1 and 2)

Cash and cash equivalents	\$ 9,259,846
Investments	5,934,724
Accounts receivable - water and wastewater, net	5,505,839
Interest receivable	44,769
Taxes receivable	1,955
Other receivables	41,217
Inventory	823,803
Prepaid expenses and deposits	387,719
Work in progress for others	2,105,861
Total Current Assets	24,105,733

Noncurrent Assets: (Notes 1, 2 and 3)

Restricted Assets:

Cash and cash equivalents	110,518
Investments	157,707
Total Restricted Assets	268,225

Capital Assets: (Notes 1 and 4)

Nondepreciable capital assets	7,894,264
Depreciable capital assets, net	76,195,204
Total Capital Assets	84,089,468

Other Noncurrent Assets: (Note 9)

Net OPEB obligation	8,532
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Total Noncurrent Assets	84,366,225
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TOTAL ASSETS	\$ 108,471,958
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The accompanying notes are an integral part of the financial statements.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
BALANCE SHEET (CONTINUED)
JUNE 30, 2010**

LIABILITIES AND NET ASSETS

Current Liabilities: (Note 1)

Accounts payable	\$ 5,667,043
Accrued payroll	188,717
Accrued compensated absences	647,100
Customer deposits	2,255,972
Current portion of long-term debt	100,000
Total Current Liabilities	8,858,832

Noncurrent Liabilities: (Notes 1 and 5)

Long-Term Debt:

Revenue bonds	265,000
Less: Current portion above	(100,000)
Total Long-Term Debt	165,000

Other Noncurrent Liabilities:

Accrued compensated absences	1,055,428
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Total Noncurrent Liabilities	1,220,428
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Total Liabilities	10,079,260
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Commitments and Contingencies: (Notes 8, 9, 10, 11, 12 and 13)

Net Assets: (Notes 7 and 14)

Investment in capital assets, net of related debt	83,824,468
Restricted for facility expansion	268,225
Unrestricted	14,300,005
Total Net Assets	98,392,698

TOTAL LIABILITIES AND NET ASSETS	\$ 108,471,958
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The accompanying notes are an integral part of the financial statements.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

Operating Revenues:

Water sales and pumping charges	\$ 32,960,179
Wastewater charges	1,675,877
Meter installation fees	87,065
Other water operating revenues	798,548
Total Operating Revenues	<u>35,521,669</u>

Operating Expenses:

Cost of water sold	23,884,810
Energy and pumping costs	2,944,042
Water systems operations	5,133,041
Wastewater collection and treatment	841,443
Engineering	1,591,578
General and administrative	3,072,738
Depreciation	5,003,462
Total Operating Expenses	<u>42,471,114</u>

Operating (Loss)	<u>(6,949,445)</u>
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Nonoperating Revenues and (Expenses):

Property taxes and assessments	2,595,610
Investment income	220,489
Other nonoperating revenues	208,413
Interest expense	(5,929)
Other nonoperating expenses	(51,146)
Total Nonoperating Revenues (Expenses)	<u>2,967,437</u>

(Loss) Before Contributions	(3,982,008)
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Capital Contributions	<u>405,183</u>
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Change in Net Assets	(3,576,825)
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Net Assets at Beginning of Year, as Restated (Note 14)	<u>101,969,523</u>
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NET ASSETS AT END OF YEAR	<u>\$ 98,392,698</u>
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The accompanying notes are an integral part of the financial statements.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

Cash Flow From Operating Activities:

Receipts from customers	\$ 34,889,546
Payments to suppliers for goods and services	(31,178,239)
Payments to employees for services	(5,958,314)
Change in work in progress for others	134,758
Change in customer deposits	(266,659)
Other nonoperating revenue	208,413
Net Cash Used in Operating Activities	<u>(2,170,495)</u>

Cash Flow From Noncapital Financing Activities:

Property taxes received	<u>2,594,032</u>
Net Cash Provided by Noncapital Financing Activities	<u>2,594,032</u>

Cash Flows From Capital and Related Financing Activities:

Acquisition and construction of capital assets	(3,730,649)
Principal paid on long-term debt	(95,000)
Interest paid on bonds and long-term debt	(5,929)
Capital contributions refunded	(56,526)
Proceeds from disposition of capital assets	42,714
Net Cash Used in Capital and Related Financing Activities	<u>(3,845,390)</u>

Cash Flows From Investing Activities:

Purchases of investments	(12,665,598)
Proceeds from maturities of investments	10,090,509
Investment income received	255,944
Net OPEP obligation	(8,532)
Net Cash Used in Investing Activities	<u>(2,327,677)</u>

Net Decrease in Cash and Cash Equivalents	(5,749,530)
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Cash and Cash Equivalents at Beginning of Year	<u>15,119,894</u>
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CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 9,370,364</u></u>
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(Continued)

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Reconciliation of Operating Income (Loss) to Net

Cash Used in Operating Activities:

Operating income (loss) \$ (6,949,445)

**Adjustments to reconcile operating income (loss)
to net cash used in operating activities:**

Depreciation 5,003,462

Other nonoperating revenues 208,413

Change in current assets and liabilities:

Accounts receivable - water and wastewater, net (597,760)

Other receivables (34,363)

Inventory 73,879

Prepaid expenses and deposits (70,952)

Work in progress for others 134,758

Accounts payable 258,909

Accrued payroll 11,686

Accrued compensated absences 57,577

Customer deposits (266,659)

Net Cash Used in Operating Activities \$ (2,170,495)

Cash and Cash Equivalents -

Financial Statement Classification

Cash and cash equivalents \$ 9,259,846

Restricted cash and cash equivalents 110,518

Total Cash and Cash Equivalents \$ 9,370,364

Noncash Investing, Capital and Financing Activities:

Customer contributions of capital assets \$ 461,709

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

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 1 - Summary of Significant Accounting Policies:

(a) Description of Reporting Entity

The Valley Center Municipal Water District (the "District") is a governmental corporation governed by an elected five-member board of directors. The District was incorporated July 12, 1954, under the provisions of the California 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 MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010, 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 \$5,505,839 have been reduced by an allowance for estimated uncollectible accounts in the amount of \$196,738 at June 30, 2010.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010, inventory consists of the following:

Water inventory	\$ 112,446
Materials inventory	711,357
	\$ 823,803

(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	2 - 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 \$1,702,528 at June 30, 2010. The District estimates the current portion to be \$647,100. The following is a detail:

	Balance June 30, 2009	Earned	Used	Balance June 30, 2010	Current Portion
Accrued compensated absences	\$ 1,644,951	\$ 549,572	\$ 491,995	\$ 1,702,528	\$ 647,100

(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 MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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.

(g) Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 6, 2010, the date the financial statements were available to be issued.

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 MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010:

	<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	4,171,816	4,171,816	-
San Diego County Treasurer's Pooled Money Fund	5,062,244	5,062,244	-
Open Ended Money Market Mutual Funds	87,435	87,435	-
Demand Deposits	47,669	47,669	-
Investments:			
United States Agency Securities	5,434,305	100,125	5,334,180
Certificates of Deposit	658,126	-	658,126
Total Cash and Investments	<u>\$ 15,462,795</u>	<u>\$ 9,470,489</u>	<u>\$ 5,992,306</u>
Financial Statement Classification:			
Cash and Cash Equivalents	\$ 9,259,846		
Investments	5,934,724		
Restricted cash and cash equivalents	110,518		
Restricted Investments	157,707		
Total	<u>\$ 15,462,795</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 National Mortgage Association	30.9
Federal Home Loan Bank	24.2
Federal Home Loan Mortgage Corporation	21.8
Federal Farm Credit Bank	12.4

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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
Federal Farm Credit Bank	AAA	Aaa

(d) Custodial Credit Risk

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

(e) Interest Rate Risk

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

(f) Foreign Currency Risk

The District is not exposed to foreign currency risk.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 3 - Restricted Assets:

Restricted assets were provided by, and are to be used for, the following at June 30, 2010:

<u>Funding Source</u>	<u>Use</u>	
Capacity fees	Facility expansion	\$ <u>268,225</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, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2010</u>
Capital Assets Not Being Depreciated:				
Land	\$ 4,056,656	\$ 461,441	\$ -	\$ 4,518,097
Annexation fees	786,185	-	-	786,185
Construction in progress	<u>2,156,119</u>	<u>2,763,893</u>	<u>(2,330,030)</u>	<u>2,589,982</u>
	<u>6,998,960</u>	<u>3,225,334</u>	<u>(2,330,030)</u>	<u>7,894,264</u>
Capital Assets Being Depreciated:				
Transmission and distribution system	122,291,582	1,631,290	(1,230,828)	122,692,044
General plant	<u>12,759,696</u>	<u>623,159</u>	<u>(93,410)</u>	<u>13,289,445</u>
	<u>135,051,278</u>	<u>2,254,449</u>	<u>(1,324,238)</u>	<u>135,981,489</u>
Less Accumulated Depreciation:				
Transmission and distribution system	(49,353,853)	(3,474,456)	1,136,968	(51,691,341)
General Plant	<u>(6,659,349)</u>	<u>(1,529,006)</u>	<u>93,411</u>	<u>(8,094,944)</u>
	<u>(56,013,202)</u>	<u>(5,003,462)</u>	<u>1,230,379</u>	<u>(59,786,285)</u>
Net Capital Assets Being Depreciated	<u>79,038,076</u>	<u>(2,749,013)</u>	<u>(93,859)</u>	<u>76,195,204</u>
Net Capital Assets	<u>\$ 86,037,036</u>	<u>\$ 476,321</u>	<u>\$ (2,423,889)</u>	<u>\$ 84,089,468</u>

Depreciation totaled \$5,003,462 for the year ended June 30, 2010.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010, total \$265,000. Varying amounts of principal plus interest at 2.015% (as of June 30, 2010) 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, 2009</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>	<u>Current Portion</u>
Revenue Bonds	\$ 360,000	\$ (95,000)	\$ 265,000	\$ 100,000

Aggregate maturities of the revenue bond for fiscal years subsequent to June 30, 2010, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 100,000	3,886	103,886
2012	110,000	1,693	111,693
2013	55,000	-	55,000
	<u>\$ 265,000</u>	<u>\$ 5,579</u>	<u>\$ 270,579</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, 2010, totaled \$905,000.

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010:

Capital improvements	\$ 5,907,944
Operating reserve	3,947,793
Post-retirement health care cost	1,520,468
Pumping rate stabilization	1,503,344
Wastewater capital replacement reserves	1,184,785
Agricultural rebate	235,671
Unrestricted Net Assets	<u>\$ 14,300,005</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 years ended June 30, 2010 and 2009, was 25.498% and 19.568%, respectively. 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 years ended June 30, 2010, 2009 and 2008, the District’s annual pension cost and actual contribution were \$1,555,802, \$1,523,081 and \$1,439,802, respectively, which were equal to the required contributions each year. The required contribution for the fiscal year ended June 30, 2010, was determined as part of the June 30, 2007, actuarial valuation.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2008
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	17 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

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 is for the District's Plan as of June 20 2009 was a negative \$11,258,347.

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 amended of funding changes, the side fund will disappear at the end of the amortization period. The amortization period remaining as of June 30, 2009, was 23 years.

Required Contributions for Last Three Years

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2007	\$ 1,394,443	100%	\$ -
June 30, 2008	1,439,802	100%	-
June 30, 2009	1,523,081	100%	-

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 9 - Post Employment Benefits:

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 contribution 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 MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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 beginning in fiscal year June 30, 2009. 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, 2010.

Annual required contribution	\$ 489,426
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	489,426
Contributions (including benefits paid)	(492,832)
(Decrease) in net OPEB obligation	(3,406)
Net OPEB obligation - beginning of year	(5,126)
Net OPEB obligation (Asset) - end of year	\$ (8,532)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2010 and the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	\$ N/A	N/A	N/A
June 30, 2009	476,396	101.8%	(5,126)
June 30, 2010	489,426	100.7%	(8,532)

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 Unfunded Accrued Actuarial Liability (UAAL) to the covered payroll of 66.54%.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability Project Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (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 MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 9 - Post Employment Benefits: (Continued)

Funding Status and Funding Progress (Continued)

In June 2010, the District sent \$372,798 to the CERBT trust account and made benefit payments of \$120,034 for a total contribution of \$492,832. The net OPEB obligation asset totaled \$8,532 at June 30, 2010.

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 using the level dollar method on a closed basis. The remaining amortization period at June 30, 2010 is 28 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 defined contribution plan, Retiree Welfare Benefits Plan. The District administers the plan through an agreement with ICMA-RC.

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, 2010, employee contributions were \$1,747 and District contributions were \$2,093 for a total of \$3,840.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010, was \$230,609. 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, 2010, the total unpaid amount on these contracts was \$298,841.

(b) Litigation

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 13 - Proposition 1A Securitization Program:

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California State legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the District was \$173,978. The borrowing was repaid by the State of California during the year ended June 30, 2010.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority (“California Communities”), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds (“Prop 1A Bonds”) to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The District participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

Note 14 - New Governmental Accounting Standards:

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.

To comply with GASB 51, certain adjustments resulting in a restatement in net assets with a corresponding entry to capital assets at June 30, 2009, were made during the current year which resulted in a restatement of previously reported amounts as follows:

	June 30, 2009 <u>As Previously Reported</u>	<u>Adjustments</u>	June 30, 2009 <u>As Restated</u>
Statement of Net Assets:			
Investment in capital assets, net of related debt	\$ 85,677,036	\$ (54,494)	\$ 85,622,542
Restricted for facility expansion	503,862	-	503,862
Unrestricted	15,843,119	-	15,843,119
Total Net Assets	<u>\$ 102,024,017</u>	<u>\$ (54,494)</u>	<u>\$ 101,969,523</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 14 - New Governmental Accounting Standards: (Continued)

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, 2010.

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, 2010.

GASB No. 57

In December 2009, the Government Accounting Standards Board issued Statement No. 57. “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”. This Statement amends Statement No. 45. “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 members to use the alternate measurement method, at its option, regardless of the number of total plan members in the agent-multiple employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, this Statement also amends a requirement in Statement No. 43. “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,” that a defined benefit OPEB plan obtained an actuarial valuation. The amendment permits the requirement to be satisfied for an agent-multiple employer OPEB plan by reporting an aggregation of results of actuarial valuation of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible.

In addition, the Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan’s financial reporting requirements. This pronouncement did not have a material effect on the financial statements of the District for the year ended June 30, 2010.

Note 14 - New Governmental Accounting Standards: (Continued)

GASB No. 58

In December 2009, the Governmental Accounting Standards Board issued Statement No. 58. “Accounting and Financial Reporting for Chapter 9 Bankruptcies”. This pronouncement is effective for periods beginning after June 15, 2009. Early application is encouraged. Retroactive application is required for all periods presented during which the government was in bankruptcy. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to re-measure liabilities that are adjusted in bankruptcy when the court approved a new payment plan. The District has not filed for bankruptcy protection as of June 30, 2010.

GASB No. 59

In June 2010, Governmental Accounting Standards Board issued Statement No. 59. “Financial Instruments Omnibus”. This pronouncement is effective for periods beginning after June 15, 2010. Earlier application is encouraged. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The District has not determined the effect on the financial statement in the year of adoption.

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COMBINING

SCHEDULES

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS
JUNE 30, 2010**

ASSETS

	<u>Total</u>	<u>General</u>	<u>Lower Moosa Wastewater</u>	<u>Valley Woods Ranch Wastewater</u>
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 9,259,846	\$ 7,474,171	\$ 861,147	\$ 924,528
Investments	5,934,724	5,934,724	-	-
Accounts receivable - water and wastewater, net	5,505,839	5,505,839	-	-
Interest receivable	44,769	44,769	-	-
Taxes receivable	1,955	1,955	-	-
Other receivables	41,217	41,217	-	-
Inventory	823,803	823,803	-	-
Prepaid expenses and deposits	387,719	387,719	-	-
Work in progress for others	2,105,861	2,064,227	-	41,634
Total Current Assets	<u>24,105,733</u>	<u>22,278,424</u>	<u>861,147</u>	<u>966,162</u>
<u>Noncurrent Assets:</u>				
Restricted Assets:				
Cash and cash equivalents	110,518	-	110,518	-
Investments	157,707	157,707	-	-
Total Restricted Assets	<u>268,225</u>	<u>157,707</u>	<u>110,518</u>	<u>-</u>
Capital Assets:				
Nondepreciable capital assets	7,894,264	6,421,866	191,945	1,280,453
Depreciable capital assets, net	76,195,204	57,917,612	7,515,623	10,761,969
Total Capital Assets	<u>84,089,468</u>	<u>64,339,478</u>	<u>7,707,568</u>	<u>12,042,422</u>
Other Noncurrent Assets:				
Net OPEB obligation	8,532	8,532	-	-
Total Noncurrent Assets	<u>84,366,225</u>	<u>64,505,717</u>	<u>7,818,086</u>	<u>12,042,422</u>
TOTAL ASSETS	<u>\$ 108,471,958</u>	<u>\$ 86,784,141</u>	<u>\$ 8,679,233</u>	<u>\$ 13,008,584</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS (CONTINUED)
JUNE 30, 2010**

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	\$ 5,667,043	\$ 5,667,043	\$ -	\$ -
Accrued payroll	188,717	188,717	-	-
Accrued compensated absences	647,100	647,100	-	-
Customer deposits	2,255,972	2,254,222	1,750	-
Current portion of long-term debt	100,000	100,000	-	-
Total Current Liabilities	<u>8,858,832</u>	<u>8,857,082</u>	<u>1,750</u>	<u>-</u>
<u>Noncurrent Liabilities:</u>				
Long-term debt:				
Revenue bonds	265,000	265,000	-	-
Less: Current portion above	(100,000)	(100,000)	-	-
Total Long-Term Debt	<u>165,000</u>	<u>165,000</u>	<u>-</u>	<u>-</u>
Other Noncurrent Liabilities:				
Accrued compensated absences	<u>1,055,428</u>	<u>1,055,428</u>	<u>-</u>	<u>-</u>
Total Noncurrent Liabilities	<u>1,220,428</u>	<u>1,220,428</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>10,079,260</u>	<u>10,077,510</u>	<u>1,750</u>	<u>-</u>
<u>Net Assets:</u>				
Investment in capital assets, net of related debt	83,824,468	64,074,478	7,707,568	12,042,422
Restricted for facility expansion	268,225	157,707	110,518	-
Unrestricted	<u>14,300,005</u>	<u>12,474,446</u>	<u>859,397</u>	<u>966,162</u>
Total Net Assets	<u>98,392,698</u>	<u>76,706,631</u>	<u>8,677,483</u>	<u>13,008,584</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 108,471,958</u>	<u>\$ 86,784,141</u>	<u>\$ 8,679,233</u>	<u>\$ 13,008,584</u>

**VALLEY CENTER MUNICIPAL 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>				
Restricted Assets:				
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>
Capital Assets:				
Nondepreciable capital assets	6,944,466	5,492,804	171,209	1,280,453
Depreciable capital assets, net	79,038,076	60,422,709	7,299,503	11,315,864
Total Capital Assets	<u>85,982,542</u>	<u>65,915,513</u>	<u>7,470,712</u>	<u>12,596,317</u>
Total Noncurrent Assets	<u>86,486,404</u>	<u>66,308,857</u>	<u>7,581,230</u>	<u>12,596,317</u>
TOTAL ASSETS	<u>\$ 113,070,380</u>	<u>\$ 90,979,494</u>	<u>\$ 8,602,921</u>	<u>\$ 13,487,965</u>

**VALLEY CENTER MUNICIPAL 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 Other Noncurrent Liabilities	<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	85,622,542	65,555,513	7,470,712	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>101,969,523</u>	<u>79,880,387</u>	<u>8,601,171</u>	<u>13,487,965</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 113,070,380</u>	<u>\$ 90,979,494</u>	<u>\$ 8,602,921</u>	<u>\$ 13,487,965</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Total</u>	<u>General</u>	<u>Lower Moosa Wastewater</u>	<u>Woods Valley Ranch Wastewater</u>
<u>Operating Revenues:</u>				
Water sales and pumping charges	\$ 32,960,179	\$ 32,960,179	\$ -	\$ -
Wastewater charges	1,675,877	-	1,304,519	371,358
Meter installation fees	87,065	87,065	-	-
Other water operating revenues	798,548	798,548	-	-
Total Operating Revenues	<u>35,521,669</u>	<u>33,845,792</u>	<u>1,304,519</u>	<u>371,358</u>
<u>Operating Expenses:</u>				
Cost of water sold	23,884,810	23,884,810	-	-
Energy and pumping costs	2,944,042	2,810,313	85,594	48,135
Water systems operations	5,133,041	5,133,041	-	-
Wastewater collection and treatment	841,443	-	657,474	183,969
Engineering	1,591,578	1,535,466	56,112	-
General and administrative	3,072,738	2,844,528	169,210	59,000
Depreciation	5,003,462	4,032,927	397,995	572,540
Total Operating Expenses	<u>42,471,114</u>	<u>40,241,085</u>	<u>1,366,385</u>	<u>863,644</u>
Operating Income (Loss)	<u>(6,949,445)</u>	<u>(6,395,293)</u>	<u>(61,866)</u>	<u>(492,286)</u>
<u>Nonoperating Revenues and (Expenses):</u>				
Property taxes and assessments	2,595,610	2,595,610	-	-
Investment income	220,489	191,448	16,136	12,905
Other nonoperating revenues	208,413	208,413	-	-
Interest expense	(5,929)	(5,929)	-	-
Other nonoperating expenses	(51,146)	(29,988)	(21,158)	-
Total Nonoperating Revenues and (Expenses)	<u>2,967,437</u>	<u>2,959,554</u>	<u>(5,022)</u>	<u>12,905</u>
Income (Loss) Before Contributions	(3,982,008)	(3,435,739)	(66,888)	(479,381)
Capital Contributions	<u>405,183</u>	<u>261,983</u>	<u>143,200</u>	<u>-</u>
Change in Net Assets	(3,576,825)	(3,173,756)	76,312	(479,381)
Net Assets at Beginning of Year, as Restated	<u>101,969,523</u>	<u>79,880,387</u>	<u>8,601,171</u>	<u>13,487,965</u>
NET ASSETS AT END OF YEAR	<u>\$ 98,392,698</u>	<u>\$ 76,706,631</u>	<u>\$ 8,677,483</u>	<u>\$ 13,008,584</u>

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

	<u>Total</u>	<u>General</u>	<u>Lower Moosa Wastewater</u>	<u>Woods Valley Ranch Wastewater</u>
<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 and (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
Restatements	<u>2,436,921</u>	<u>2,491,415</u>	<u>(54,494)</u>	<u>-</u>
Restated Net Assets at Beginning of Year	<u>91,442,019</u>	<u>80,629,017</u>	<u>8,652,418</u>	<u>2,160,584</u>
NET ASSETS AT END OF YEAR	<u>\$ 101,969,523</u>	<u>\$ 79,880,387</u>	<u>\$ 8,601,171</u>	<u>\$ 13,487,965</u>

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SSTATISTICAL

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	45
<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	48
<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	57
<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	59
<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	61
<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>2010</u>	<u>2009⁽²⁾</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Primary government					
Invested in capital assets, net of related debt	\$ 83,824,468	\$ 85,622,542	\$ 72,376,226	\$ 68,354,318	\$ 62,887,148
Restricted	268,225	503,862	652,253	1,300,411	2,363,055
Unrestricted	14,300,005	15,843,119	15,976,619	16,617,224	16,292,789
Total primary government net assets	<u>\$ 98,392,698</u>	<u>\$ 101,969,523</u>	<u>\$ 89,005,098</u>	<u>\$ 86,271,953</u>	<u>\$ 81,542,992</u>

	Fiscal year ended				
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Primary government					
Invested in capital assets, net of related debt	\$ 61,272,644	\$ 56,324,985	\$ 49,471,743	\$ 48,032,138	
Restricted	2,112,513	1,340,938	1,104,843	103,304	
Unrestricted	16,996,464	22,079,945	21,594,937	20,967,206	
Total primary government net assets	<u>\$ 80,381,621</u>	<u>\$ 79,745,868</u>	<u>\$ 72,171,523</u>	<u>\$ 69,102,648</u>	<u>\$ -</u>

Fund equity ⁽¹⁾					
Contributed capital					\$ 14,401,673
Retained earnings					49,956,617
Total fund equity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,358,290</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.
(2) As restated (Note 14).

Source: Valley Center Municipal Water District

Net Assets / Fund Equity

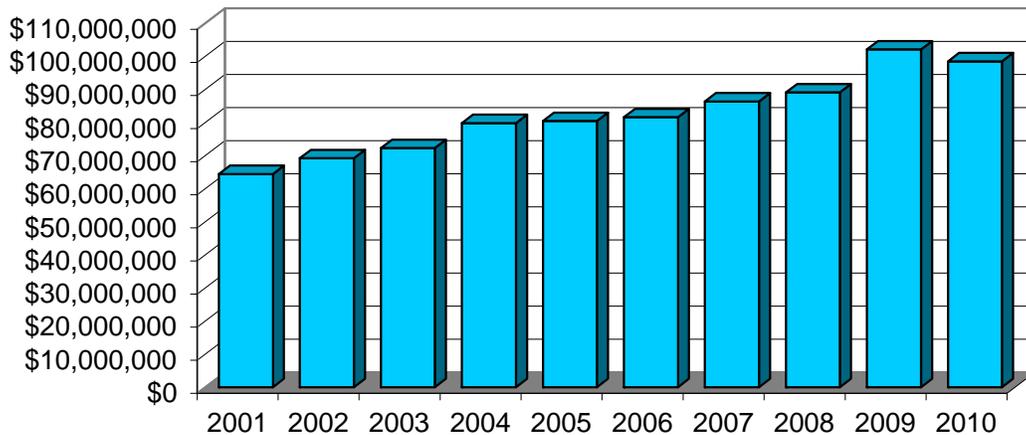


Table II
CHANGES IN NET ASSETS
Last Ten Fiscal Years

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Operating Revenues:										
Water sales ⁽¹⁾⁽³⁾	\$ 29,772,214	\$ 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
Pumping charges	3,187,965	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
Wastewater charges	1,675,877	1,576,437	1,561,495	1,501,180	1,516,327	1,476,617	1,142,242	996,551	783,632	637,280
Meter installation fees	87,065	155,358	128,342	210,145	474,070	479,791	546,437	241,218	176,456	147,515
Other water operating revenues	798,548	797,534	974,774	502,240	567,040	320,187	277,930	254,118	301,490	235,867
Total operating revenues	\$ 35,521,669	\$ 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
Operating Expenses:										
Cost of water sold ⁽²⁾	\$ 23,884,810	\$ 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
Energy and pumping costs	2,944,042	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
Water systems operations	5,133,041	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
Wastewater collection and treatment	841,443	866,812	748,447	784,551	641,189	638,092	551,085	432,270	365,518	387,476
Engineering	1,591,578	1,580,009	1,368,868	1,308,093	1,208,598	1,164,938	947,818	828,884	673,468	673,504
General and administrative	3,072,738	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
Depreciation	5,003,462	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
Total operating expenses	\$ 42,471,114	\$ 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
Operating Income (Loss)	\$ (6,949,445)	\$ (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)
Nonoperating Revenues and (Expenses):										
Property taxes and assessments	\$ 2,595,610	\$ 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
Investment income	220,489	476,566	898,899	1,003,835	564,566	575,887	220,553	557,188	899,579	1,665,958
Other nonoperating revenues ⁽⁴⁾	208,413	192,882	256,550	551,289	225,686	887,902	574,795	680,093	111,756	93,306
Interest expense	(5,929)	(9,470)	(20,289)	(28,791)	(28,564)	(23,099)	(51,573)	(87,541)	(94,322)	(117,294)
Other nonoperating expenses ⁽⁵⁾	(51,146)	(31,275)	(66,492)	(1,339)	(190,155)	(91,909)	(12,404)	(28,677)	(299,794)	(10,341)
Total Nonoperating Revenues and (Expenses)	\$ 2,967,437	\$ 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
Income (Loss) Before Contributions	\$ (3,982,008)	\$ (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)
Capital contributions	405,183	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
Change in Net Assets	\$ (3,576,825)	\$ 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)
Net Assets at Beginning of Year	\$101,969,523	\$ 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
Restatement ⁽⁶⁾	\$ -	\$ 2,436,921	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restated Net Assets at Beginning of Year	\$101,969,523	\$ 91,442,019	\$ 86,271,953	\$ 81,542,992	\$ 80,381,621	\$ 79,745,868	\$ 72,171,523	\$ 69,102,648	\$ 64,358,290	\$ 66,332,872
NET ASSETS AT END OF YEAR	\$ 98,392,698	\$101,969,523	\$ 89,005,098	\$ 86,271,953	\$ 81,542,992	\$ 80,381,621	\$ 79,745,868	\$ 72,171,523	\$ 69,102,648	\$ 64,358,290

(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.

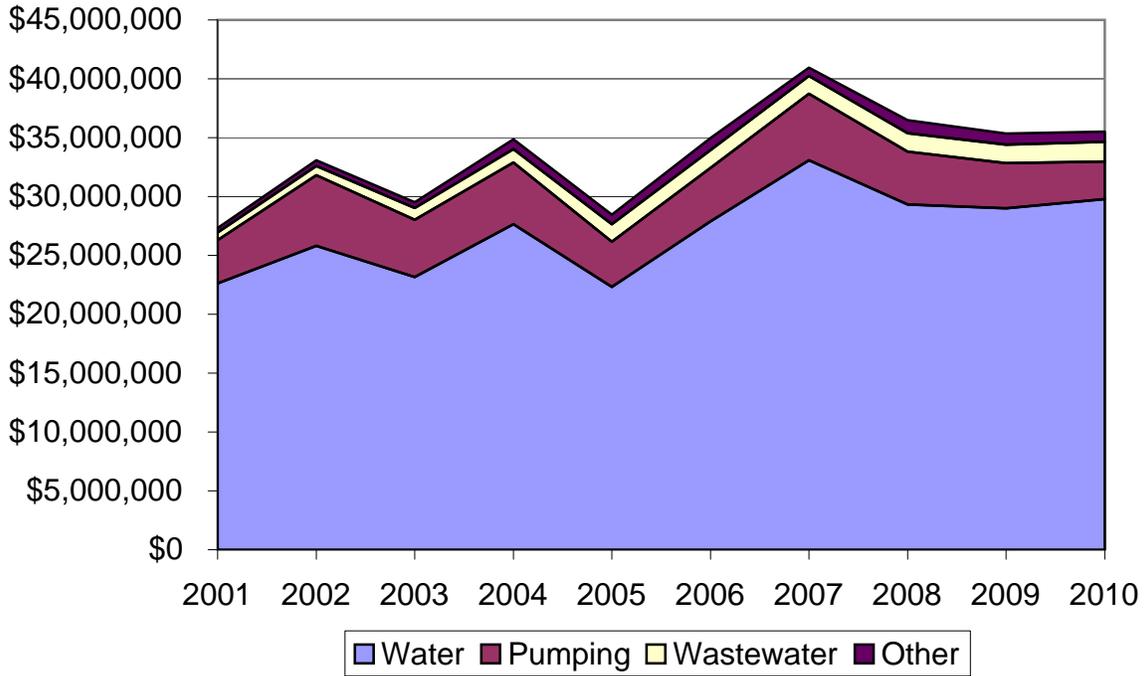
(4) Includes energy settlement of \$248,270 in 2007, \$473,798 in 2005, \$421,1554 in 2004, and \$556,444 in 2003.

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

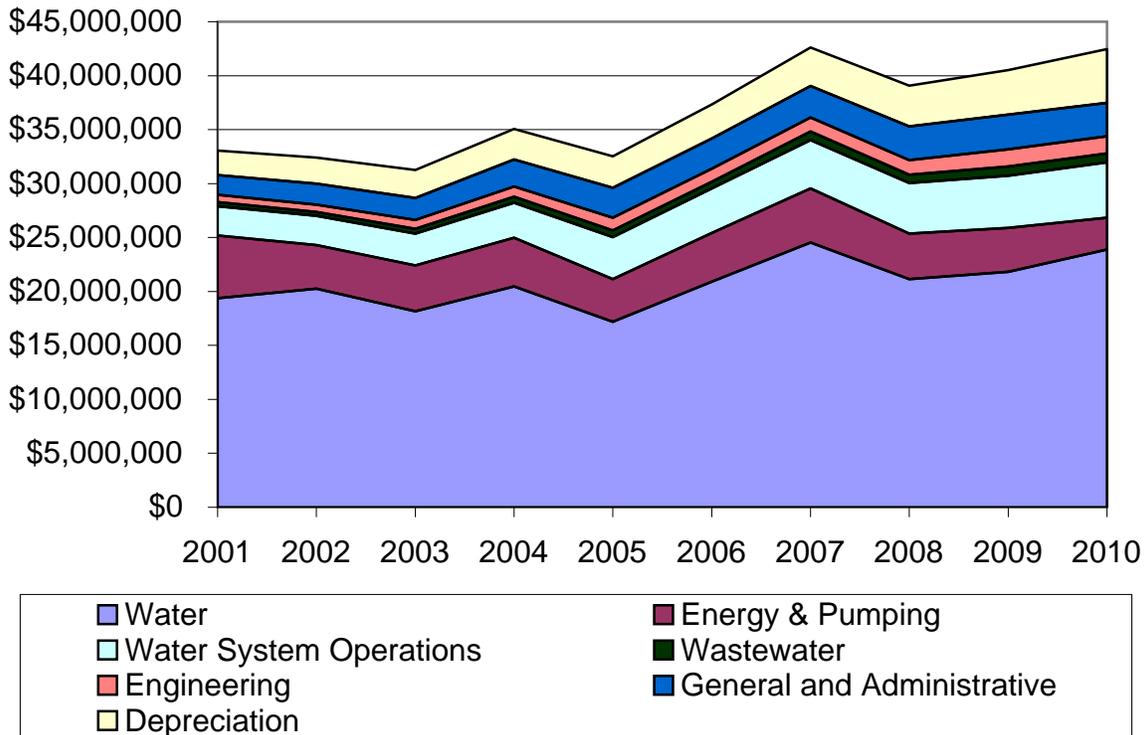
(6) Restatement of prior balance of \$2,491,415 in 2009 per GASB 45 for Retirement Health Plan Liability recorded as expense in prior years and \$(54,494) per GASB 51 for Feasibility Study recorded as capital asset in prior year.

Source: Valley Center Municipal Water District

Operating Revenues



Operating Expenses



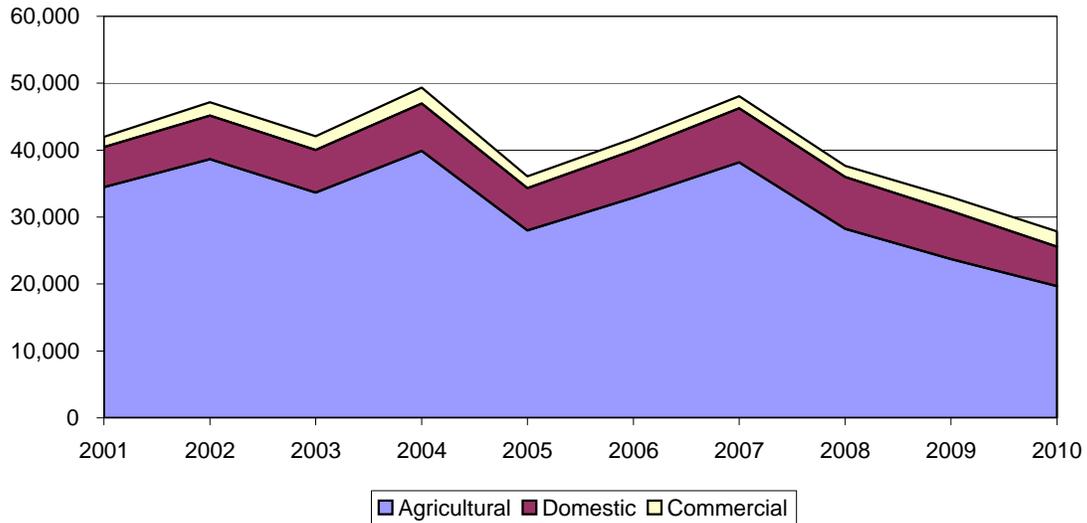
**Table III
WATER SALES BY USER TYPE (1)(2)
Last Ten Fiscal Years**

Fiscal Year Ended	Domestic		Commercial		Certified Agricultural ⁽⁴⁾		Total		Average Direct Rate ⁽³⁾
	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	
2010	\$8,744,895	5,917.6	\$2,655,302	2,254.0	\$18,372,017	19,665.7	\$29,772,214	27,837.3	\$ 1,070
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

- (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 Municipal Water District

Water Sales



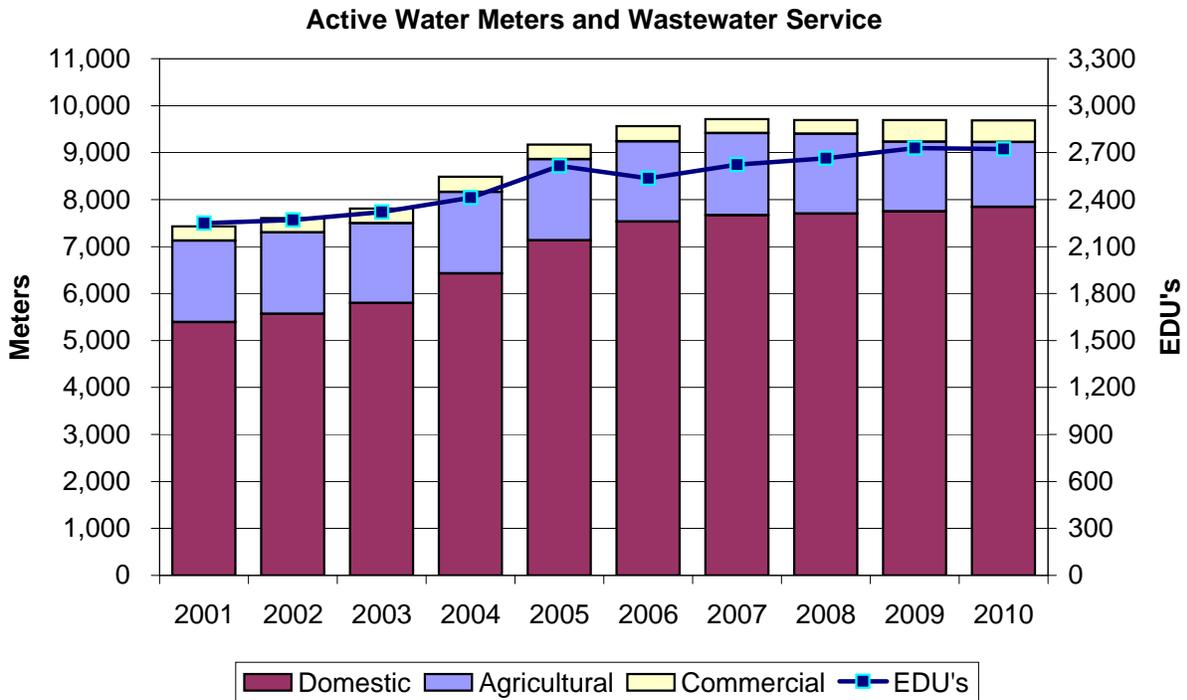
**Table IV
ACTIVE WATER METERS AND WASTEWATER SERVICES
Last Ten Fiscal Years**

Fiscal Year Ended	Domestic	Commercial	Certified Agricultural ⁽²⁾	Total Active	All Inactive Meters	Total	Wastewater EDUs
2010	7,844	466	1,378	9,688	868	10,556	2,722
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

(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 Municipal Water District

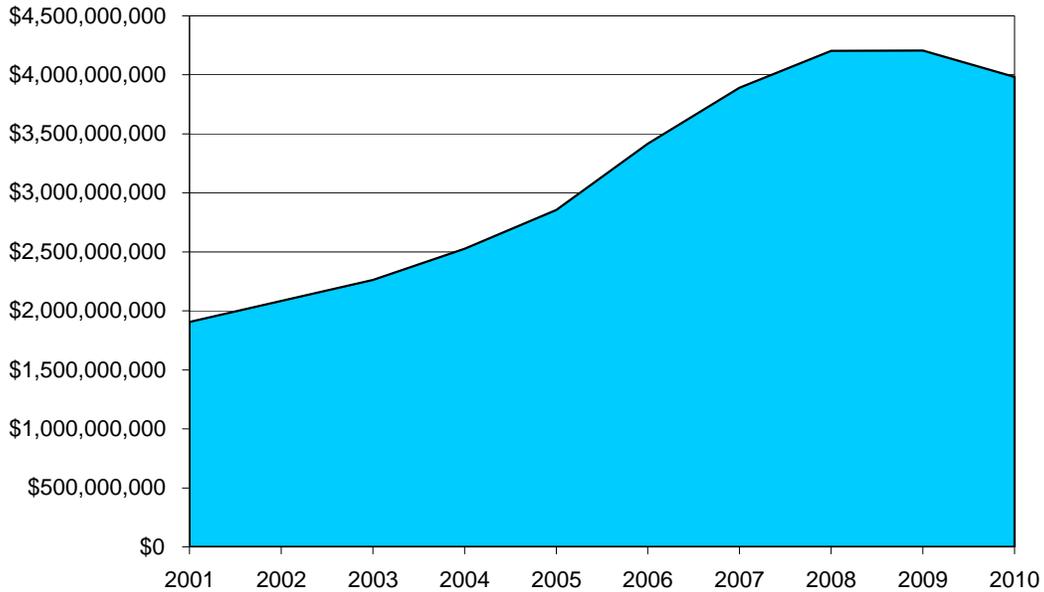


**Table V
ASSESSED VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years**

Fiscal Year Ended	Secured			Net Assessed Value	Assessed Unsecured Value	Total Assessed Value	Tax Rate
	Real Property	Personal Property	Exemptions				
2010	\$4,008,313,358	\$297,477	\$25,760,391	\$3,982,850,444	\$27,925,200	\$4,010,775,644	0
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

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

Assessed Value of Taxable Property



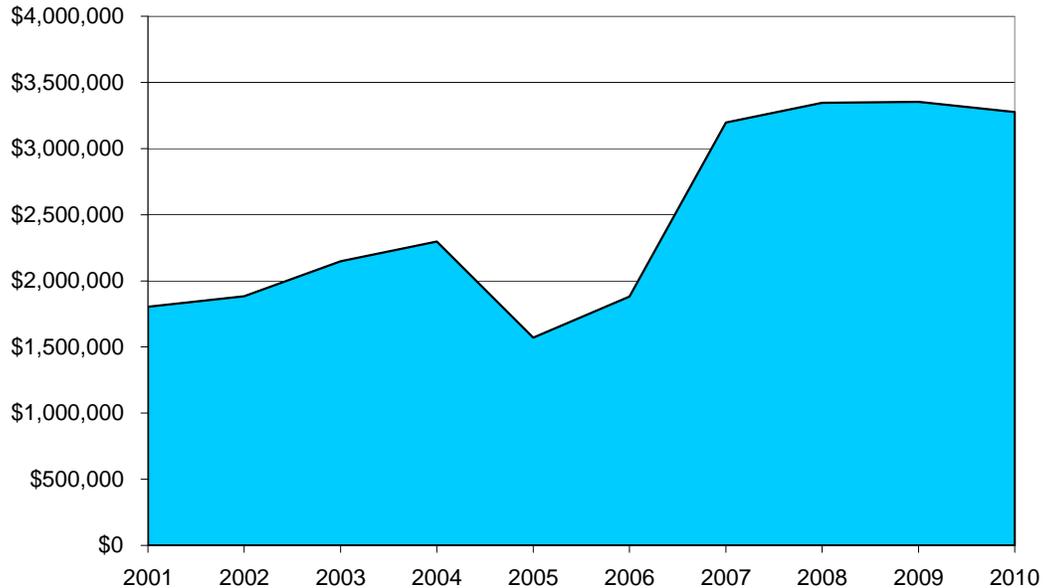
**Table VI
PROPERTY TAX AND ASSESSMENT LEVIES AND COLLECTIONS (1)
Last Ten Fiscal Years**

Fiscal Year Ended	Levy			Total Collections ⁽²⁾	Net Delinquent ⁽³⁾	Percent Delinquent ⁽⁴⁾
	Property Taxes	Special Assessments ⁽⁶⁾	Total Levy			
2010	\$2,098,464	\$1,210,270	\$3,308,734	\$3,276,702	\$32,032	0%
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%

- (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 Municipal Water District and the Office of the Auditor Controller, County of San Diego

Property Tax Collections



**Table VII
DIRECT AND OVERLAPPING BONDED DEBT (1)
June 30, 2010**

2009-10 Assessed Valuation: \$4,010,775,644

	Total Debt <u>6/30/2010</u>	<u>% Applicable (1)</u>	District's Share of <u>Debt 6/30/08</u>
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			
Metropolitan Water District	\$264,220,000	0.221	\$583,926
Palomar Pomerado Hospital District	417,623,319	7.701	32,161,172
Palomar Community College District	149,845,000	5.139	7,700,535
Escondido Union High School District	90,536,275	7.617	6,896,148
Fallbrook Union High School District	16,005,071	1.355	216,869
Bonsall Union School District	16,704,680	3.923	655,325
Escondido Union School District	52,149,622	7.931	4,135,987
Valley Center-Pauma Unified School District	2,310,838	81.646	1,886,707
Valley Center-Pauma Unified School District Community Facilities District No. 2003-1	9,490,000	100.000	9,490,000
City of Escondido	80,360,000	0.051	40,984
Valley Center Municipal Water District	0	100.000	0
Valley Center Municipal Water District Assessment District No. 96-1	905,000	100.000	905,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			<u><u>\$64,672,653</u></u>
OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	\$ 415,240,000	1.152	\$4,783,565
San Diego County Pension Obligations	853,514,739	1.152	9,832,490
San Diego County Superintendent of Schools Certificates of Participation	21,187,500	1.152	244,080
Palomar Community College District Certificates of Participation	6,890,000	5.139	354,077
Escondido Union High School District Certificates of Participation	9,690,000	7.617	738,087
Bonsall Union School District Certificates of Participation	2,020,000	3.923	79,245
Escondido Union School District Certificates of Participation	28,230,000	7.931	2,238,921
City of Escondido Certificates of Participation	67,787,090	0.051	34,571
TOTAL OVERLAPPING GENERAL FUND DEBT			<u><u>\$18,305,036</u></u>
COMBINED TOTAL DEBT			<u><u>\$82,977,689 (2)</u></u>
Ratios to Assessed Valuation:			
Direct Debt	0.00%		
Total Direct and Overlapping Tax and Assessment Debt	1.61%		
Combined Total Debt	2.07%		

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0

2009-10 TYPICAL TOTAL TAX RATE (TRA 94-075): 1.07573

(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

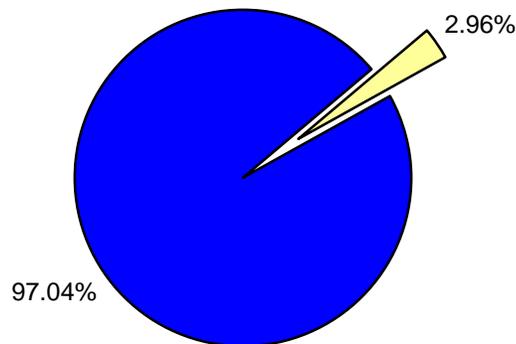
Fiscal year ended June 30, 2010

<u>Property Owner</u>	<u>Cumulative Net Assessed Value</u>	<u>Percent of District Total Net Assessed Value</u>
Welk Resort Platinum Owners Association	\$66,700,612	1.66%
Rimrock Springs LLC	13,939,169	0.35%
Lilac Ranch LLC	6,848,618	0.17%
Perricone Sam Survivors Trust	6,182,469	0.15%
Bell Holdings LLC	5,131,374	0.13%
Welk Resort Group Inc.	4,480,652	0.11%
Richard & Lora L Stevens Revocable Trust	3,984,698	0.10%
California Bank & Trust	3,865,000	0.10%
Live Oak Ranch Development LLC	3,821,705	0.10%
Meadow Lake Country Club LLC	3,803,000	0.09%
Total Top Ten Property Owners	\$118,757,297	2.96%
Other Property Owners	\$3,892,018,347	97.04%
Total Assessed Valuation	\$4,010,775,644	100.00%

Data Source: 2009 Master Property Records from San Diego County Used for 2009-10 Property Taxes

Data for the period ended June 30, 2001, 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	VCMWD	Total	MWD/ SDCWA Wholesale	VCMWD	Total	MWD/ SDCWA Wholesale	VCMWD	Total		
2010	\$1,017	\$102	\$1,119	\$778	\$102	\$880	\$883	\$102	\$985	\$20.50	\$28.00
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

(1) Rate as of January 1.

(2) Excludes pumping charges.

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

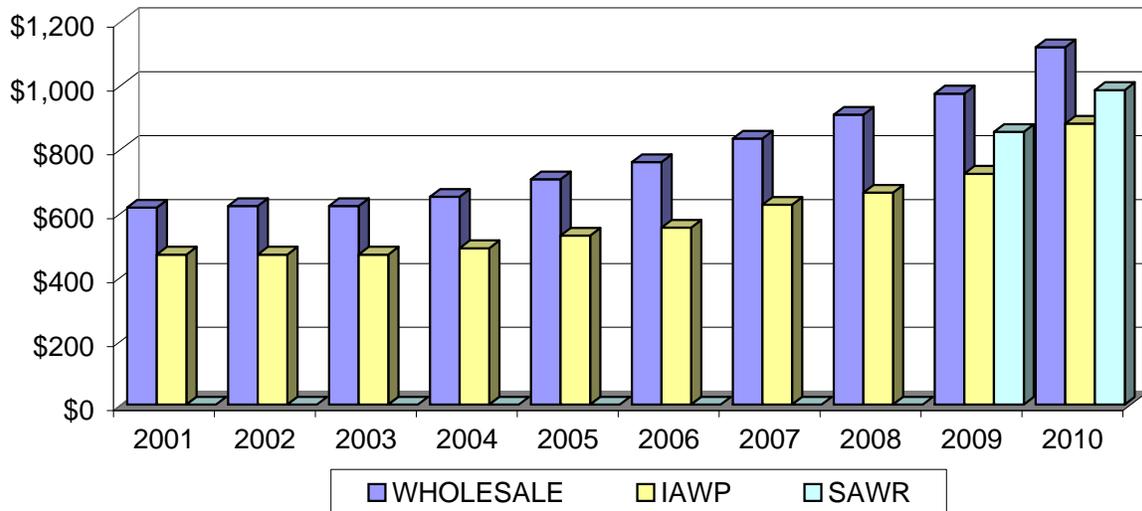
(4) Excludes SDCWA Infrastructure Access Charge.

(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 Municipal 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
2010	\$44.50	\$81.25	\$98.60
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

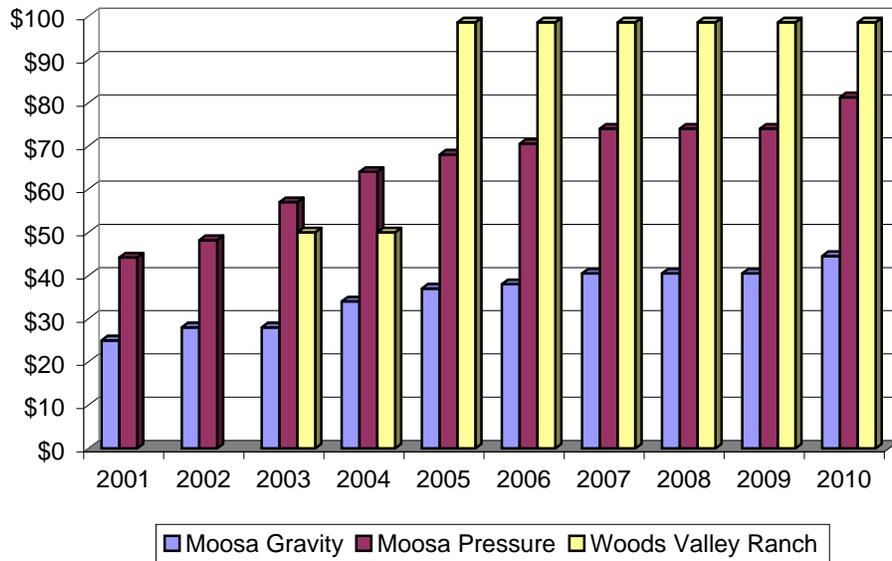
(1) Rate as of January 1.

(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 Municipal Water District

Wastewater Rates

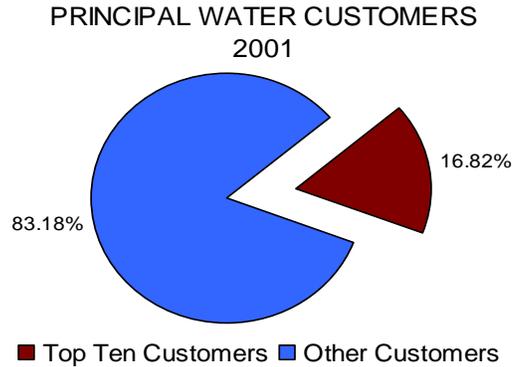
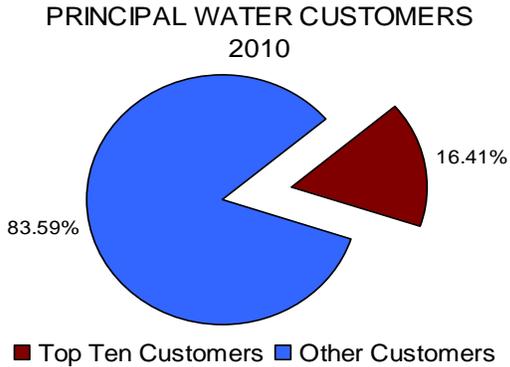


**Table XI
PRINCIPAL WATER CUSTOMERS
Current Fiscal Year and Nine Years Prior**

Fiscal year ended June 30, 2010		
<u>Customer</u>	<u>Usage in Acre Feet</u>	<u>Percent of Water Sold</u>
Stehly, N. J. C.	728.9	2.62%
Coykendall, H. C. J.	651.3	2.34%
BSTCO	592.2	2.13%
Harlan Beck & Associates	534.0	1.92%
Grandon Ranch Corp.	475.7	1.71%
Gray Cor Farms	364.8	1.31%
Rancho Sereno	350.9	1.26%
Rancho Trio	301.7	1.08%
Rancho Erico	286.7	1.03%
A-1 Sunshine Farms, LLC	282.1	1.01%
Total Top Ten Customers	4,568.3	16.41%
Other Customers	23,269.0	83.59%
Total Water Sales	27,837.3	100.00%

Fiscal year ended June 30, 2001		
<u>Customer</u>	<u>Usage in Acre Feet</u>	<u>Percent of Water Sold</u>
Sierra Pacific Farms	1,196.8	2.85%
BSTCO	997.5	2.37%
Stehly, N. J. C.	966.6	2.30%
Harlan Beck & Associates	870.4	2.07%
DeJong, John	615.0	1.46%
P-K-B Farms	557.0	1.33%
Paradise Leased	543.0	1.29%
Segal, G.	462.1	1.10%
Rancho Trio	431.6	1.03%
Rancho Sereno	430.3	1.02%
Total Top Ten Customers	7,070.3	16.82%
Other Customers	34,932.4	83.18%
Total Water Sales	42,002.7	100.00%

Source: Valley Center Municipal Water District



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

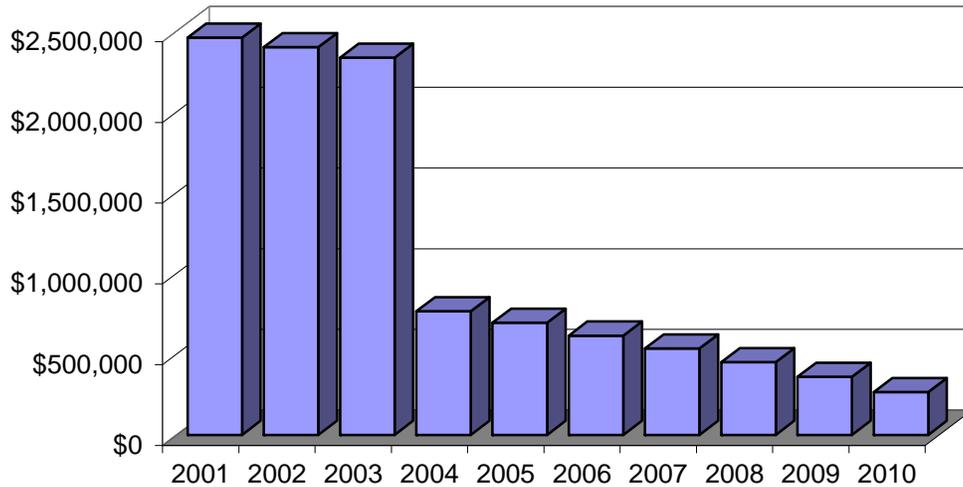
<u>Fiscal Year Ended</u>	<u>General Obligation Bonds⁽²⁾</u>	<u>Revenue Bonds</u>	<u>Term Loan</u>	<u>Total</u>	<u>Percentage of Personal Income⁽¹⁾</u>	<u>Per Capita⁽¹⁾</u>
2010	\$0	\$265,000	\$0	265,000	0.02%	10
2009	0	360,000	0	360,000	0.02%	14
2008	0	450,000	0	450,000	0.03%	18
2007	0	535,000	0	535,000	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%	33
2003	0	835,000	1,500,000	2,335,000	0.22%	104
2002	0	900,000	1,500,000	2,400,000	0.24%	110
2001	0	960,000	1,500,000	2,460,000	0.26%	114

(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 Municipal Water District

Outstanding Debt



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

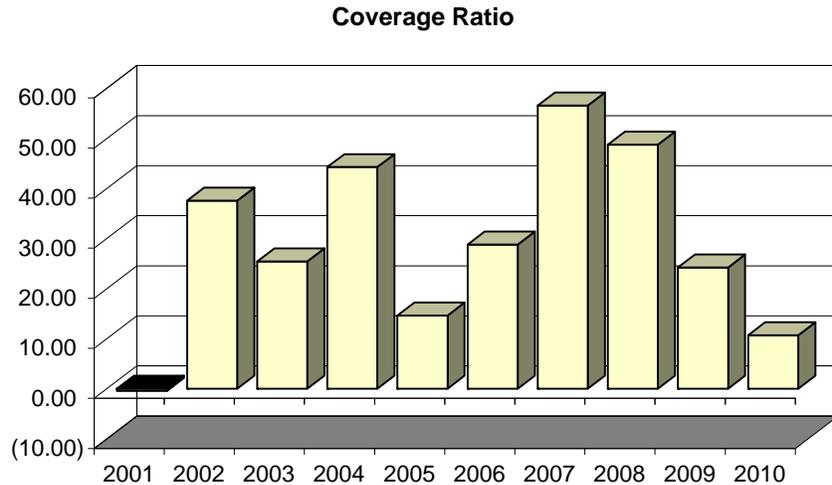
Fiscal Year Ended	Operating Revenues ⁽¹⁾	Nonoperating Revenues ⁽¹⁾	Gross Revenues	Less:		Net Available Revenues	Debt Service			Coverage Ratio
				Operating Expenses ⁽¹⁾⁽²⁾			Principal	Interest	Total	
2010	\$35,521,669	\$3,024,512	\$38,546,181	\$37,467,652	\$1,078,529	\$95,000	\$5,929	\$100,929	10.69	
2009	35,355,240	3,433,614	38,788,854	36,379,582	2,409,272	90,000	9,470	99,470	24.22	
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	28,564	108,564	56.56	
2006	34,980,351	2,154,156	37,134,507	34,165,057	2,969,450	80,000	23,099	103,099	28.80	
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 ⁽³⁾	
2001	27,319,148	3,379,682	30,698,830	30,773,378	(74,548)	50,000	117,294	167,294	(0.45)	

(1) See Table II

(2) Operating expenses excluding depreciation.

(3) Deficit resulted from increased energy costs, which were met by using rate stabilization reserves of \$965,695. Coverage factor including the use of reserves as revenue is 5.33.

Source: Valley Center Municipal Water District



**Table XIV
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)
2010	25,378	\$1,563,000,000	\$61,600	5.2%
2009	25,337	1,558,000,000	61,500	4.7%
2008	25,350	1,389,000,000	54,800	2.7%
2007	25,337	1,335,000,000	52,700	2.1%
2006	25,129	1,312,000,000	52,200	1.9%
2005	24,485	1,241,000,000	50,700	2.0%
2004	23,510	1,157,000,000	49,200	2.3%
2003	22,490	1,044,000,000	46,400	2.6%
2002	21,909	997,000,000	45,500	2.4%
2001	21,497	959,000,000	44,600	1.9%

Other Statistics: ⁽⁵⁾

Jobs in area (2000 Census)	4,695
Median age (2010)	41.2
% High school graduate (2000 Census)	86%
% Bachelor's degree or higher (2000 Census)	28%

- (1) Population at end of fiscal year 2010 from San Diego Association of Governments (SanDAG). Other years estimated by VCMWD using average household size estimated by SanDAG.
- (2) Source: Census 2000 from San Diego Association of Governments (SanDAG). 2000 is base year. Other years calculated using estimated per capita personal income.
- (3) Per capita personal income for base year 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 Municipal Water District except as noted.

Per Capita Personal Income and Population

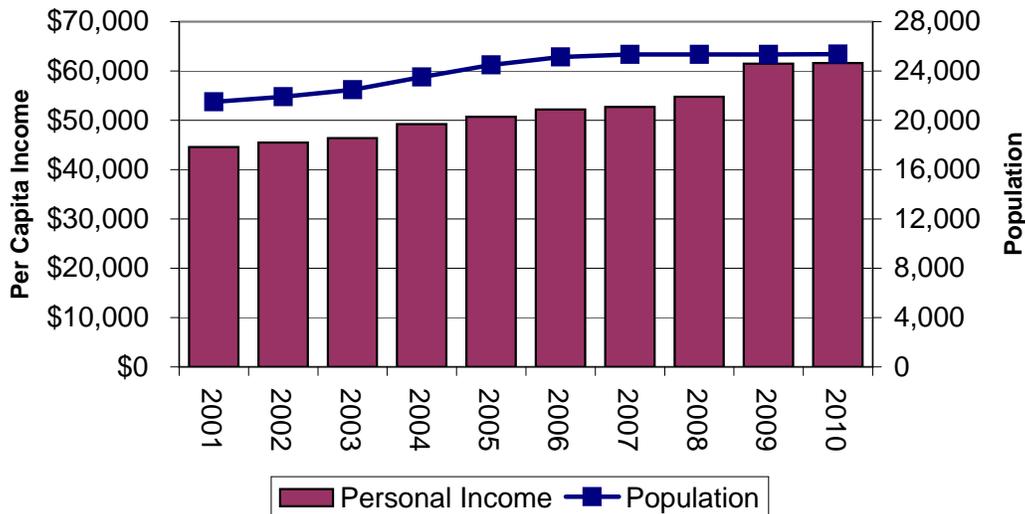


Table XV
PRINCIPAL EMPLOYERS - COUNTY OF SAN DIEGO
Current Fiscal Year and Nine Years Prior

Fiscal year ended June 30, 2010			Fiscal year ended June 30, 2001		
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: 2010 from San Diego Source, 2001 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,									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Pumping	4.55	5.24	5.54	5.59	5.21	5.49	5.18	4.58	4.96	5.09
Water Systems Operations	34.69	36.14	39.14	39.34	37.14	37.37	35.92	33.71	31.70	31.74
Wastewater Collection and Treatment	5.64	6.11	5.91	4.90	5.07	3.93	3.63	3.66	3.27	3.07
Engineering	13.46	11.27	13.52	12.90	9.96	9.44	8.83	8.55	7.62	7.87
General and Administrative	13.00	13.00	15.00	14.00	13.00	13.00	13.00	12.95	12.00	11.60
Capital Outlay ⁽¹⁾	2.50	3.31	6.21	5.42	5.90	6.05	6.62	4.86	3.60	2.87
Developer Projects ⁽²⁾	1.16	4.93	4.68	3.85	3.72	2.72	2.32	1.69	1.85	1.26
Total Employees⁽³⁾	75.00	80.00	90.00	86.00	80.00	78.00	75.50	70.00	65.00	63.50
Average Years of Service	10.37	10.24	9.07	9.37	10.91	10.25	11.56	11.75	12.81	12.96

(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 Municipal Water District

Employees

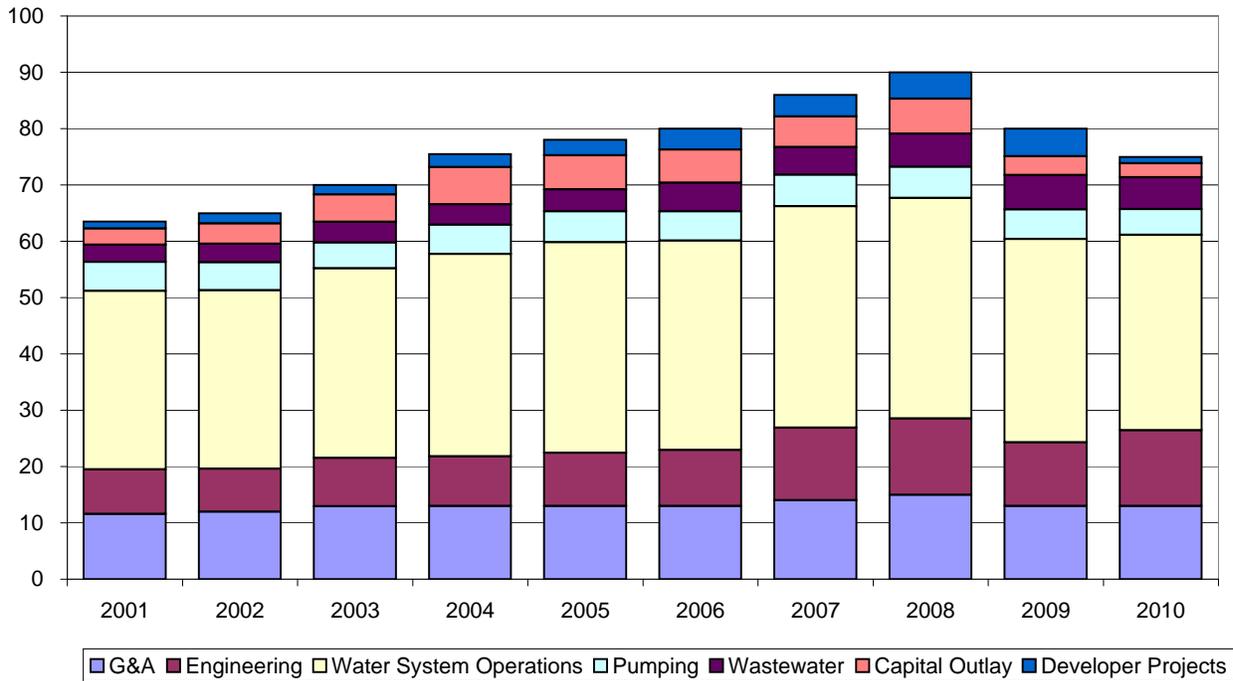


Table XVII
Operating and Capital Indicators
Last Ten Fiscal Years

	<u>2010</u>	<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>
Water:										
Service area (acres)	64,253	64,253	64,253	64,253	64,253	64,253	64,253	62,100	62,100	62,100
Miles of water main (8 inches and larger)	297	297	295	294	291	289	283	273	270	264
Number of enclosed reservoirs	42	42	42	42	42	41	41	41	41	41
Capacity of enclosed reservoirs (AF)	421	421	421	421	421	415	415	415	415	415
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	100	96	96	96	96	96	96	96	96	97
Total pump capacity (horsepower)	19,785	19,785	19,940	19,940	19,940	19,940	19,940	19,940	19,940	20,040
Number of service connections	10,556	10,493	10,408	10,392	10,251	9,853	9,175	8,482	8,299	8,120
Number of meters in service	9,688	9,690	9,696	9,745	9,621	9,217	8,537	7,841	7,643	7,458
Production peak (m.g.d.)	65.27	53.96	78.90	84.98	81.70	80.46	81.43	82.59	76.91	80.01
Average production (m.g.d.)	26.35	30.33	35.12	45.04	40.26	34.02	46.58	38.99	44.21	39.81
Total rainfall (inches)	19.01	14.10	19.33	7.56	13.47	33.96	11.18	18.87	4.88	12.98
Average daily temperature (F.)	61.6	62.7	63.3	63.1	63.8	62.3	64.2	62.0	61.6	61.8
Electricity purchased (1,000 kWh)	18,480	25,362	29,839	36,000	31,828	27,418	35,794	28,057	32,643	n/a
Natural gas purchased (1,000 therms)	390	190	209	362	347	368	576	923	914	n/a
Mainline repairs	11	31	39	37	21	42	23	19	19	35
Wastewater:										
Miles of sewer lines	56	56	56	55	54	53	52	46	46	46
Number of treatment plants	2	2	2	2	2	3	2	2	2	2
Maximum capacity of treatment plants (m.g.d.)	0.57	0.57	0.55	0.55	0.55	0.56	0.54	0.54	0.54	0.54
Average dry weather flow (m.g.d.)	0.37	0.35	0.37	0.34	0.34	0.35	0.29	0.31	0.28	0.29
Number of sewer connections	2,722	2,729	2,663	2,689	2,600 ⁽¹⁾	2,685	2,599	2,563	2,453	2,271

AF - Acre feet

m.g.d. - Million gallons per day

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

Source: Valley Center Municipal Water District

**VALLEY CENTER MUNICIPAL WATER DISTRICT EMPLOYEES
2009-10**

PAUL ADRIAN
GARY ARANT
GERALD BARNETT
RICHARD BEATH
TOMAS BORROEL
CALVIN BREWER
LEONARD BROWN
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
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
JESSICA WAGEMAN
DENNIS WILLIAMS
KATHERINE WILSON
JAMES WOOTEN

For additional copies contact:

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

Visit us on the Internet at:

www.valleycenterwater.org