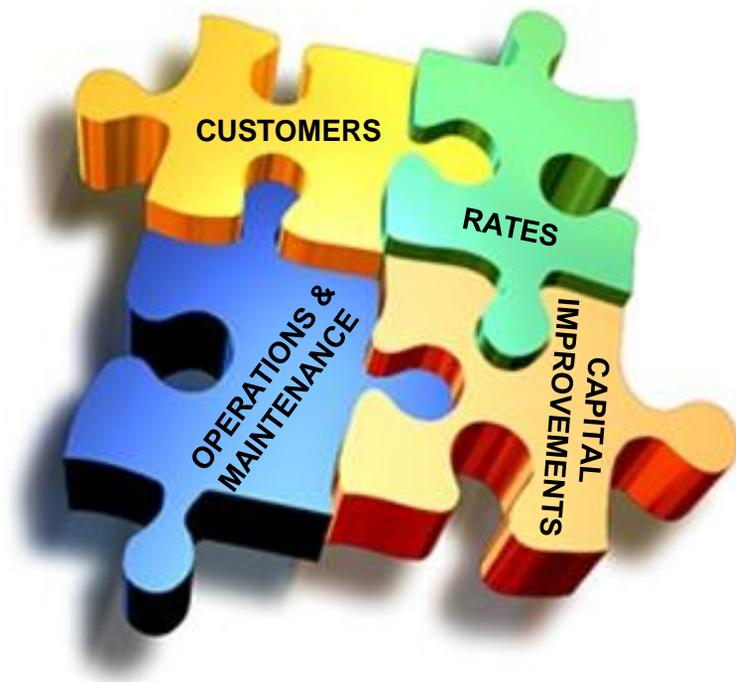


Valley Center Municipal Water District Valley Center, CA



**Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2011**

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

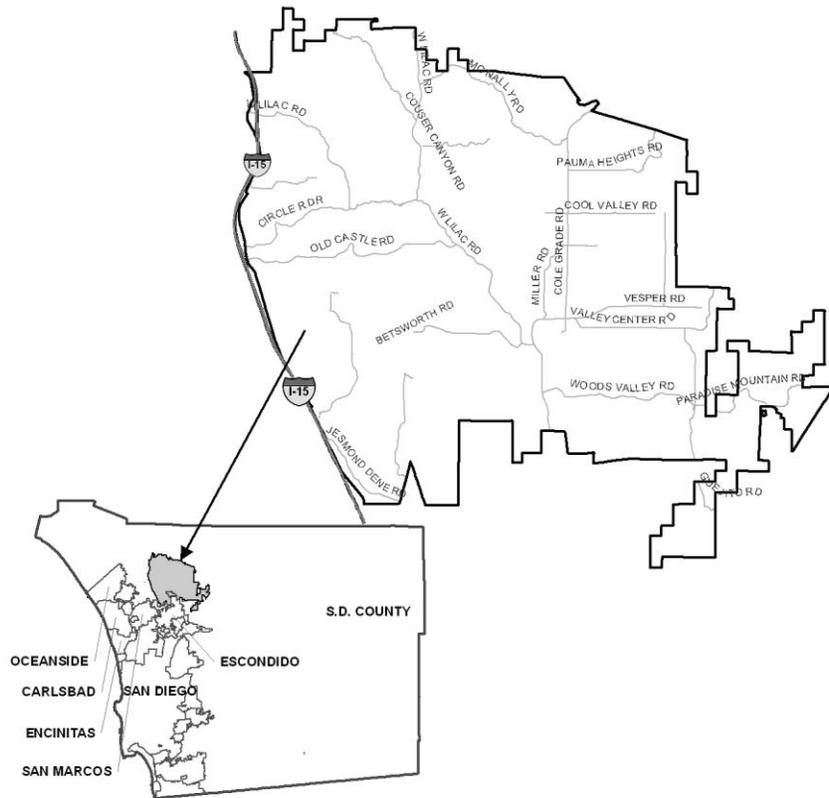
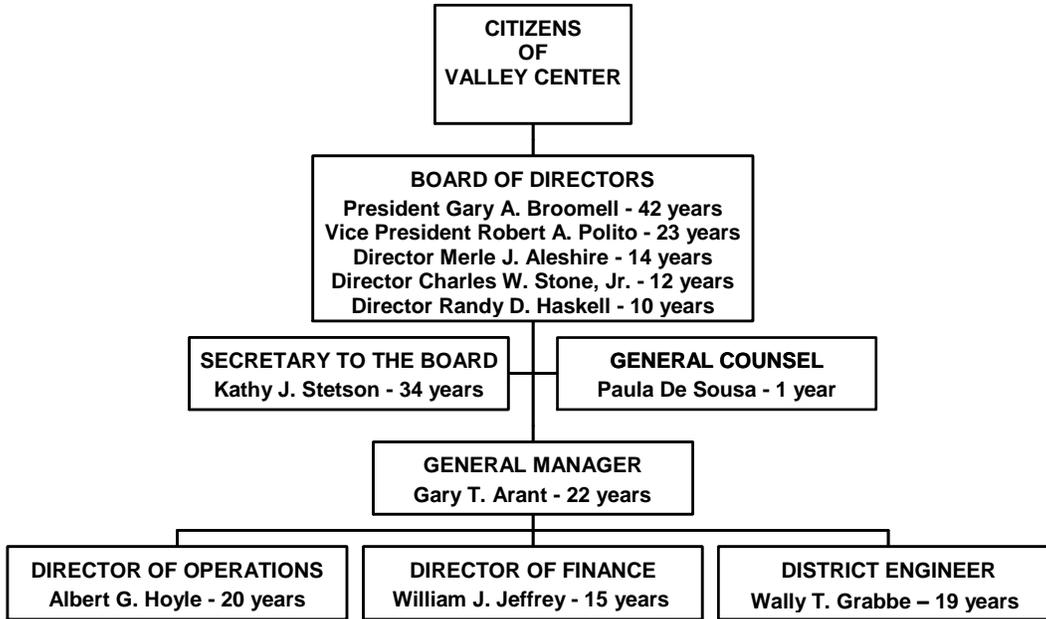
**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**
FISCAL YEAR ENDED JUNE 30, 2011

Prepared by:

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

VALLEY CENTER MUNICIPAL WATER DISTRICT

ORGANIZATION CHART With Years of Service



VALLEY CENTER MUNICIPAL WATER DISTRICT COMPREHENSIVE ANNUAL FINANCIAL REPORT TABLE OF CONTENTS

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Valley Center Municipal
Water District, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

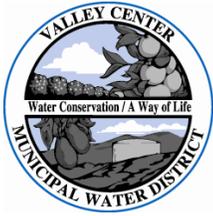
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director





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 19, 2011

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, 2011. 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, 2011. 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 came from the District's agricultural customers. This continues to be the case, however, mandatory water cutbacks from January 2008 to May 2011 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 67%.

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 68 regular full-time employees working for the District.

In fiscal year 2010-11 Valley Center Municipal Water District purchased 100% of its water from the San Diego County Water Authority (SDCWA or "Authority") at a cost of \$23.5 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 24,143 acre feet of water during the year ended June 30, 2011. 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 8 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. In total there are 57 miles of wastewater lines throughout the District.

REPORTING ENTITY

For reporting purposes, the financial statements present a combined report which includes all District activities for which the Board of Directors of Valley Center Municipal Water District is primarily financially accountable. The District has established various self-balancing groups of accounts in order to enhance internal control and further the attainment of management objectives. The groups of accounts are identified in the District's books and records as General, Lower Moosa Wastewater Treatment, 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 serve 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 cost 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 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

Historically, the District's customer base was comprised of a mix of agricultural, domestic, commercial and miscellaneous water accounts. Various commercial crops grown in the area include avocados, oranges, and lemons. The District continues to feel the effects of the down economy. Water sales are not only impacted by mandatory and voluntary water cutbacks, but also by the rapid drop in agricultural demand, the decline in developer projects, the lack of new housing starts, and home foreclosures. Due to the high cost of water, local farmers are taking up other lower water use crops, including ornamental floral products such as lavender and proteas, and grapes. Many have ceased operations. In addition, the District has also seen a drop in assessed property values. Property taxes and assessments decreased by 3.2% from 2009-10 to 2010-11.

On May 2, 2011, the District's Board of Directors voted to lift the water conservation constraints and water cutbacks following the lead of the Metropolitan Water District and San Diego County Water Authority.

As of June 30, 2011, the estimated population of the District was 25,450. 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%. (The information provided here represents figures from the prior fiscal year. Information for the 2010-11 fiscal year will not be available from SANDAG until the first quarter of calendar 2012.)



Looking northeast through Moosa Canyon.

DISTRICT ECONOMIC RESULTS

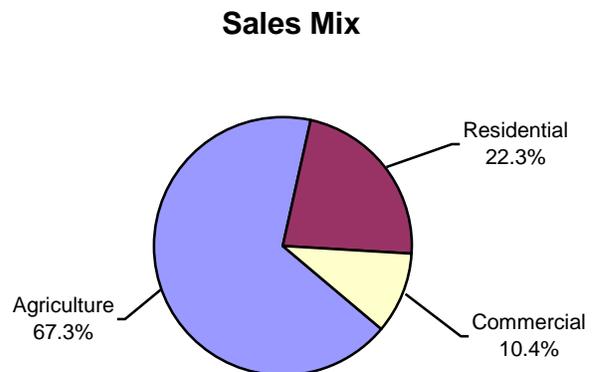
The District established 20 new meter accounts during 2010-11 which included 14 fire meters. This raised the total number of meter connections within the District to 10,576. Of this total, 1,045 are fire meters and 767 are inactive, resulting in 8,764 revenue generating water meters at the close of the fiscal year. This is a decrease of 12 active meters compared to 2009-10.

The District is currently processing 31 development projects totaling 4,210 units; 11 projects totaling 1,234 units are on hold pending action by the developers, 276 units are open with minimal activity, and 3,938 units are in planning or design. It is anticipated that approximately 10 new domestic meter connections, plus 15 new fire services, will be added during 2011-12.

Water sales for 2010-11 were 24,143 acre feet, down 3,694 acre feet or 13.3% from sales of 27,837 acre feet in 2009-10. The sales reduction is due primarily to mandatory and voluntary water cutbacks that were in place until May 2, 2011.

Water 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 67% of the District's total water sales in fiscal year 2010-11 compared to the average of 78% 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 required cutbacks 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 2011 the combined discounts total \$238 per acre foot, based on water rates effective February 1, 2011. The IAWP will phase out December 31, 2012.

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.

On June 30, 2011, the District had \$155,000 in revenue bonds. No new debt was issued during the year just ended.



Heritage Trail looking south along Valley Center Road.

STRATEGIC PLAN PERFORMANCE MEASUREMENT STANDARDS RESULTS FOR CALENDAR YEAR ENDED DECEMBER 31, 2010

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

Survey responses show we met or exceeded expectations 97.2% 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 2010 was 6.1%.

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

At fiscal year-end, June 30, 2011, 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 was 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 102% of the design criteria.

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

Two projects bid with a cumulative contract amount that was 38.8% below 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 99.998%.

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 0.0000% 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 1.31%, while the 12-month rolling average for U.S. Treasuries was 0.38%.

MAJOR INITIATIVES - EFFORTS AND ACCOMPLISHMENTS

Supervisory Control and Data Acquisition (SCADA) System – The District has moved the project forward by completing an additional 4 sites during the year which included Reid Hill, Lilac, and Oak Glen Reservoirs and Lilac pump station.

Reducing the District's Carbon Footprint – The District continues to be very proactive in reducing our energy consumption in our water and wastewater operations. 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.

• **Water System Operations**

Systems Operations has continued its 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. This resulted in continued energy savings and providing funds for additional pump station replacements in the future. For fiscal year 2010-11, staff implemented a number of cost-saving measures that will improve our efficiencies, productivity, and provide additional cost savings. Pumps #1 and #2 were replaced at the Ridge Ranch Pump Station and the #1 pump was rebuilt at the Lilac Pala Pump Station. In both cases, pump efficiency ratings were improved. The District continues to analyze pumping rate schedules assigned to our pump stations to determine the most cost effective rate schedule that applies to our pumping demands and needs.

• **Wastewater Operations**

Our wastewater crews rebuilt the upper gear drive and motor on Clarifier #1. The District reduced energy consumption at our Moosa and Woods Valley Treatment Facilities by 15% and 10% respectively by improving and/or adjusting system operations, but without sacrificing our effluent qualities.

• **Solar Energy**

The District will continue to explore and evaluate 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. Recently, silicon and wholesale solar panel costs have declined. Future forecasts predict continued reductions. Solar incentive funding is becoming more pronounced and it is unlikely to be granted due to extended waiting lists on solar projects.

General Facility Upgrades – Staff completed a number of facility improvements for increased reliability, serviceability and productivity. During the year, new grating and railings were installed at the Moosa facility. In addition, a new low pressure wastewater collection system shop was constructed to reduce travel and response times in making pump repairs or replacements. A secondary screening unit at the Woods Valley Treatment Facility was also constructed to improve material screenings, provide screening redundancies, and lessen the debris and impact on the new filtration membranes.

Modifications and improvements were made to the main Administration Building to provide greater Americans with Disabilities Act (ADA) service and compliance to the front access area, front bathroom, and handicap parking space.

Water Quality – 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. Staff has also initiated increased reservoir cleaning schedules to reduce the nitrification build-up within the reservoir structure. During 2010-11, cleaning and minor repairs were done on fifteen reservoirs. Thorough cleanings and repairs were also made to the three floating cover reservoirs; Cobb, Lilac, and Cool Valley. A new suction line was installed at the Mitzpah Reservoir to improve internal circulation and turn-over within the reservoir.

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 –The District continued its efforts to change out the top users' water meter registers with the newly supplied registers from our manufacturer. Continued meter maintenance programs provide further field observation of our meters. Meter crews are assigned shift work so a Meter Technician can work a weekend shift in an effort to detect any tampering or interference of water meters. Additionally, some pressure testing has been performed on water mains and service laterals to determine if there may be leakage in areas where a standard leak would not surface. Staff was 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.

The District has entered into an agreement with the CAL Fire Puerta La Cruz detention camp for weed and brush removal. With their efforts, the District has been able to leak detect some very remote and cross-country mainlines and appurtenances. Some of the cleared areas have not been surveyed or cleared in years. The CAL Fire agreement has provided a significant cost savings measure and has provided a more thorough inspection and survey assessment of our remote and challenging facilities.

Emergency Generation – Staff continues to appraise and install emergency generation at critical pump stations and SCADA and communication sites. Emergency generation power was installed at our Reid Hill and Circle R Reservoirs to provide back-up power to the SCADA communication and radio network.

Carlsbad Seawater Desalination Project – By the spring of 2010, it was apparent that with regional financial constraints and the deteriorating relationship between the San Diego County Water Authority (SDCWA) and Metropolitan Water District (MWD), much of the support funding needed to make the project viable would not be forthcoming. At this point efforts began to steer the project back to a direct water purchase relationship with the SDCWA. Realizing the importance of the project to the region's water supply, in early 2010-2011, the SDCWA Board voted to begin negotiating a direct purchase agreement with Poseidon Resources for 56,000 acre feet annually of desalinated seawater from the Carlsbad Desalination Project. As a condition of the Authority's actions, all of the retail member agencies were required to relinquish their direct water purchase agreements with Poseidon. Though the District still supports the project, it no longer has direct involvement in negotiating the water purchase agreement between Poseidon and the San Diego County Water Authority. Efforts negotiating the water purchase agreement continued between Poseidon and the SDCWA throughout 2010-2011. It is now anticipated that the project could be online by mid to late 2015.

Customer Online Account Access – The District provides online account access that allows District customers to make payments online and access their billing information, water usage, and allocations at any time. The system was enhanced with an electronic billing option, giving customers a choice to not receive a paper bill every month, saving printing and mailing costs.

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 for our employees. Most critical servers were replaced with new hardware to provide increased speed, better reliability, and compatibility with future application development. Several servers have been virtualized, reducing power and hardware maintenance costs.

Phone System Upgrade – The District installed 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 wireless network. Enhancements to the call handling processes enable customer calls to be routed directly to the appropriate departments, eliminating staff time to direct incoming calls. The new phone system was installed in December, 2010.

Wireless Network Enhancements – Work is continuing to extend and improve the District's wireless network to all facilities. Due to recent advances in technology, wireless equipment costs have been drastically reduced, giving us more options in adding redundant links for improved reliability. A new network monitoring system was installed to manage and monitor the District's sophisticated network infrastructure.

The data radio network continues to be 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.

Planning and Construction Projects

Transmission, Distribution, and Storage Facilities Improvements – Construction of the Country Club Roof repairs were completed to extend the life of the existing cover in lieu of a new floating cover, which was deferred pending funding.

The Moosa Wastewater Treatment Plant was upgraded to include new aeration piping to increase overall plant energy efficiency and improve the plant's biological process. Also, the plant was upgraded to increase denitrification with the addition of anoxic zones within the aeration basin.

Local Water Supply Projects – Staff has evaluated the feasibility of several projects for the development of local water supplies to supplement imported water. Based on previously completed pump testing and water quality analysis, a local property owner is evaluating the option of introducing local groundwater into the distribution system. Other projects including local groundwater production, various recycled water projects, and non-potable distribution systems were evaluated. With this information, staff continues to work with a federal lobbyist to pursue federal funding for these local water supply projects.

Large Development Projects

The depressed financial climate in southern California, along with legal, environmental, and regulatory requirements, as well as potentially long term hydrologic conditions, have hampered the progress of large development projects. The depressed financial climate has resulted in a decline in home sales, increased foreclosures and is the primary reason developers have delayed progress on their major developments within the District. However, the legal, environmental, and regulatory requirements and potentially long term hydrologic conditions, which have negatively impacted the quantity and reliability of water supplies from the State Water Project and Colorado

River, have also done their share to hamper the financial viability and progress of large development projects. While increased rainfall and winter snow fall over the last year has lessened the short term effects of the water supply shortage issues, the cyclical weather cycles and the State's inability to resolve the water supply issues in the Delta will continue to cause uncertainty of water supplies and availability for the long term.

To help offset the effects of the long term water supply conditions, the District is considering the development of additional local water supply projects to generate additional water needed to help 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.

Several major projects previously being processed for development, such as Lilac Ranch (a 350 lot subdivision), Welks Resort (a 500 plus time share unit expansion to their existing facility), Orchard Run (a 300 lot subdivision), Live Oak Ranch (a 150 lot subdivision), and Spanish Trails (a 162 lot subdivision) have shown little or no activity during the past fiscal year. However, the following developments have had some activity in last fiscal year.

North Village – A residential and commercial development of 850 equivalent dwelling units (EDUs) has, for the past several years, been proposed by two major property owners in the North Village area, located along Valley Center Road between Miller and Cole Grade Roads. In prior years, staff has provided comments and met with County staff on the Major Use Permit application for a water reclamation facility submitted for approval by the developers. The water reclamation facility would be designed and constructed such that it could be expanded in phases to provide wastewater service to the North Village properties in accordance with land use designations identified in the San Diego County's recently approved General Plan Update. The developer's progress on obtaining approvals of the water or wastewater facility planning documents submitted in prior years has waned over the past fiscal year.

Work on the project is anticipated to continue in earnest once economic conditions improve sufficiently to justify proceeding with the development. Staff has included the North Village Water Reclamation Facility in several applications for federal funding opportunities and plans to prepare a feasibility study for approval by the Bureau of Reclamation to put this project in line for Title 16 federal funding. Several government agencies, including the US Post Office, San Diego County, the District, CAL Fire, and Valley Center-Pauma Unified School District, own facilities in the North Village service area. These public agencies would benefit from federal funding and through economies of scale help keep the cost of wastewater service reasonable for other participants.

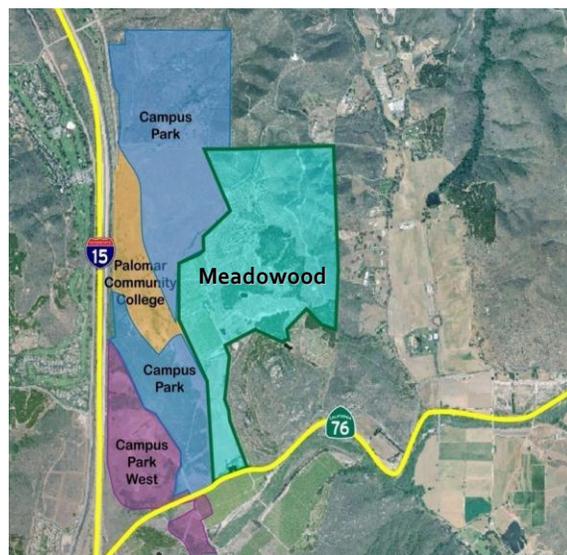
South Village Water Reclamation – Another high density area identified on the County planning documents is the South Village area, also located along Valley Center Road, but further south between Lilac and Woods Valley Roads. Development in this area of the District has long been challenged by high ground water conditions making private on site wastewater disposal systems unfeasible for higher density land uses. Over the past 25 years, property owners and the District have invested in several proposals for wastewater service only to be abandoned primarily due to high cost and lack of community support.

In February 2010, through investments by two main property owners in the area, the District and other interested property owners, the District completed a master plan for providing wastewater service to the area, prepared and certified an environmental impact report for the proposed project and submitted a financial assistance application for a \$13.85 million Clean Water State Revolving Fund (SRF) loan for the expansion of the Woods Valley Ranch Water Reclamation Facility (WRF).

If funding is secured, the proposed expansion would provide wastewater service for an additional 350 equivalent dwelling units (EDUs) 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 acre feet of additional recycled water annually. Facility Plan Approval of the financial application is pending State Water Resources Control Board staff final review. State Board approval of a conditional Preliminary Funding Commitment is expected in January of 2012. Loan repayment would be funded from an assessment district consisting of those property owners requesting service from the expanded facility.

If the assessment district is formed and the SRF loan subsequently approved, construction could possibly begin early 2013, and be completed mid-2014. Proposed development to be included in the project currently consists of the proposed 71 lot Butterfield Trails subdivision and at least 20 acres of new commercial development and several of the existing restaurants and stores within the South Village service area.

Meadowood Annexation – In the past fiscal year, the District was requested to consider annexation of the proposed Meadowood Development. Meadowood is a proposed 389.5 acre multi-use development consisting of up to 886 dwelling units, as a mix of single and multi-family units, an elementary school site, multiple park sites including 5.9 miles of multi-use trails and the required supporting infrastructure. The Board adopted a resolution indicating that the Board would favorably consider annexation should LAFCO determine the District to be the preferred agency to provide water and wastewater service through a Municipal Service Review (MSR) process. Initiation of the MSR is pending County certification of the Environmental Impact Report for the project. Water supply for this project was included in the County’s recently updated Urban Water Management Plan.



Proposed Meadowood Annexation.

Accretive Plan Amendment Application – Accretive Investments, Inc. submitted to the County, and ultimately obtained County approval in the spring of 2011, a Plan Amendment Authorization (PAA) for a 416 acre multi-use master planned community development located in the vicinity of West Lilac Road, Rodriquez Road, and Nelson Way. The PAA allows Accretive to later submit to the County, an application to amend the approved General Plan for the proposed project. Approval of the PAA does not imply that the County would ultimately approve the proposed plan amendment. However, if ultimately approved by the County, this project would require significant modification and improvement to the District’s water and wastewater infrastructure in order to provide service. As of the close of 2010-11, Accretive had not submitted their proposed plan amendment application to the County.

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, 2010. 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.*







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

Steven W. Northcote, C.P.A.
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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, 2011, 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, 2011, 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 10 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 2011, combining schedule of revenues, expenses and changes in net assets 2011, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining schedule of balance sheets 2011 and the combining schedule of revenues, expenses and changes in net assets 2011 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, 2010, which are not presented with the accompanying financial statements. In our report dated December 6, 2010, we expressed an unqualified opinion on the District's financial statements. In our opinion, the combining schedule of balance sheets 2010 and combining schedule of revenues, expenses and changes in net assets 2010 are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2010, taken as a whole.

Leaf & Cole LLP

San Diego, California
December 19, 2011

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, 2011. 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.

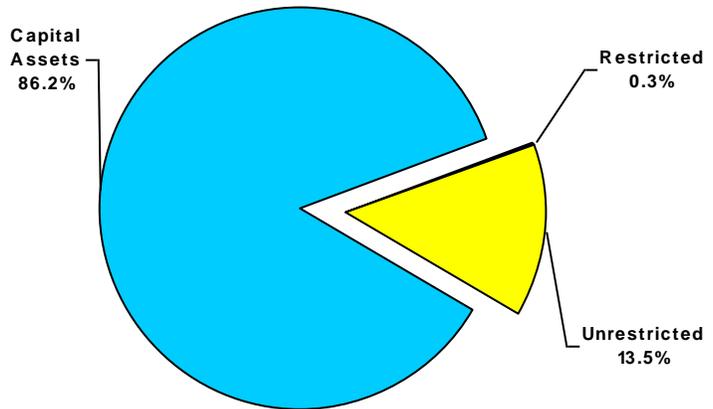
FINANCIAL HIGHLIGHTS

During the year ended June 30, 2011, net assets decreased by \$4,120,507, including depreciation expense of \$4,908,607. Total revenues were \$37,764,821, which included operating revenues of \$34,359,565, nonoperating revenues of \$2,961,775, and capital contributions of \$443,481. Total revenues were down \$1,186,543 from June 30, 2010. Total expenses decreased \$642,861. For the year ended June 30, 2011, operating expenses exceeded operating revenues by \$7,499,663 compared to \$6,949,445 for the previous year. Nonoperating revenues of \$2,961,775 exceeded nonoperating expenses of \$26,100. Nonoperating revenues consist primarily of property taxes and assessments, lease revenue, and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT

Net Assets - Net assets decreased between fiscal years ending 2010 and 2011 from \$98,392,698 to \$94,272,191. Net assets invested in capital assets, net of related debt, decreased \$2,574,659, restricted net assets increased \$8,768, and unrestricted net assets decreased \$1,554,616.

TOTAL NET ASSETS
Fiscal Year 2010-11



NET ASSETS

	2011	2010
Current Assets	\$ 22,737,396	\$ 24,114,265
Restricted assets	276,993	268,225
Capital assets	81,414,808	84,089,468
Total Assets	<u>\$104,429,197</u>	<u>\$108,471,958</u>
Current liabilities	\$ 8,946,094	\$ 8,858,832
Noncurrent liabilities	1,210,912	1,220,428
Total Liabilities	<u>10,157,006</u>	<u>10,079,260</u>
Net assets:		
Invested in capital assets, net of related debt	81,249,809	83,824,468
Restricted for facility expansion	276,993	268,225
Unrestricted	12,745,389	14,300,005
Total Net Assets	<u>94,272,191</u>	<u>98,392,698</u>
Total Liabilities and Net Assets	<u>\$104,429,197</u>	<u>\$108,471,958</u>

Change in Net Assets - The District's operating revenues decreased \$1,162,104, or 3.3% to \$34,359,565 as a result of lower water sales.

The District's operating expenses decreased \$611,886, or 1.4% to \$41,859,228. Operating expenses decreased due to reduced water purchases which are offset by increases in the price of water purchased of \$362,648, lower energy and pumping costs of \$418,442, lower water system operations expenses of \$42,041, and reduced depreciation expense of \$94,855. These decreases are offset by higher wastewater collection and treatment costs of \$65,945, engineering expenses of \$124,973, and general and administrative expenses of \$115,182.

The District's investment income decreased \$87,511. Yields during the year started at 1.489% and fell to 1.041% by year end. Investment income includes unrealized gains and losses on investments. Tax revenues were down, \$82,355, or 3.2%, to \$2,513,255, due to reduced property valuation within the District. Other nonoperating revenues increased \$107,129 due to increased communication site leases and surplus sales.

CHANGES IN NET ASSETS

	2011	2010
<u>Operating Revenues:</u>		
Water sales and pumping charges	\$31,985,135	\$32,960,179
Wastewater charges	1,761,685	1,675,877
Meter installation fees	57,748	87,065
Other water operating revenues	554,997	798,548
Total Operating Revenues	34,359,565	35,521,669
<u>Operating Expenses:</u>		
Cost of water sold	23,522,162	23,884,810
Energy and pumping costs	2,525,600	2,944,042
Water systems operations	5,091,000	5,133,041
Wastewater collection and treatment	907,388	841,443
Engineering	1,716,551	1,591,578
General and administrative	3,187,920	3,072,738
Depreciation	4,908,607	5,003,462
Total Operating Expenses	41,859,228	42,471,114
Operating (Loss)	(7,499,663)	(6,949,445)
<u>Nonoperating Revenues (Expenses):</u>		
Property taxes and assessments	2,513,255	2,595,610
Investment income	132,978	220,489
Other nonoperating revenues	315,542	208,413
Interest expense	(3,883)	(5,929)
Loss on disposal of assets	(22,217)	(51,146)
Total Nonoperating Revenues (Expenses)	2,935,675	2,967,437
Income (Loss) Before Contributions	(4,563,988)	(3,982,008)
Capital Contributions	443,481	405,183
Change in Net Assets	(4,120,507)	(3,576,825)
Net Assets at Beginning of Year	98,392,698	101,969,523
NET ASSETS AT END OF YEAR	\$94,272,191	\$98,392,698

ANALYSIS OF OPERATIONS

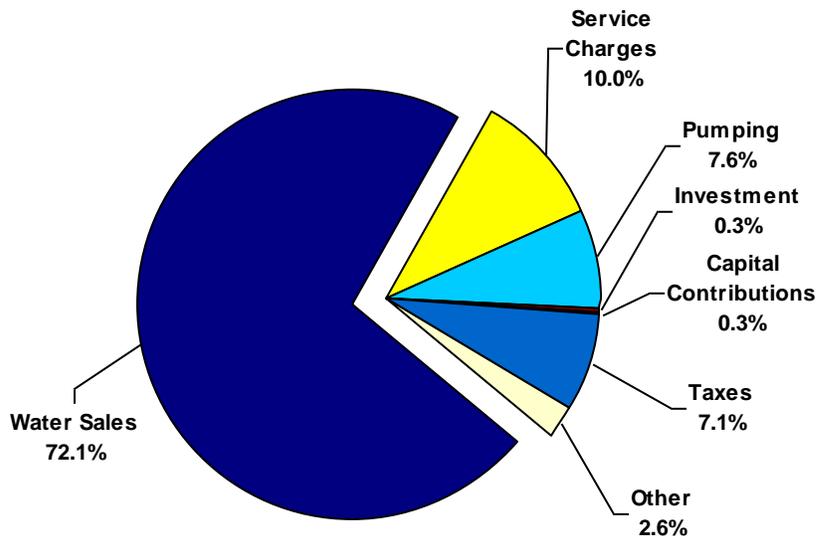
Water Operations

Revenues for the year ended June 30, 2011, totaled \$35,652,885, which is a decrease of \$1,450,361, or 3.9% from the prior year. Details of this decrease in revenues are as follows:

- Water sales revenue decreased by 2.9%, or \$770,451, from the prior year. There was a 13.3% decrease in the volume of water sold. In 2010-11, 24,143 acre feet of water were billed compared to 27,837 acre feet in the prior year. On February 1, 2011, water rate increases were 16.4% for domestic, 12.2% for the San Diego County Water Authority Special Agricultural Water Rate (SAWR), and 17.7% for the Metropolitan Water District Interim Agricultural Water Program (IAWP), due to increases in wholesale costs from the District's suppliers. Meter charges were \$256,570, or 7.8% higher, \$3,305,235 in 2009-10 compared to \$3,561,805 in 2010-11. Meter service charges increased 19.5% on February 1, 2011.

WATER OPERATIONS REVENUE

Fiscal Year 2010-11

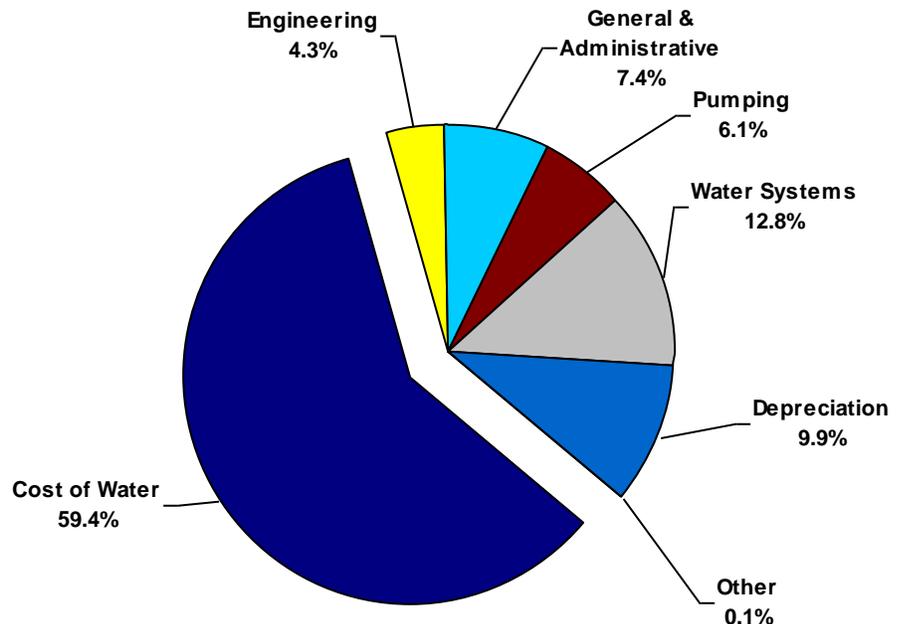


- Energy and pumping revenues were down 14.5%, or \$461,163, due to the decrease in the volume of water sold.
- Property taxes and assessments decreased by 3.2%, or \$82,355, from 2009-10 to 2010-11. Assessed values in the District continue to decline due to ongoing economic conditions. The District 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 42.8%, or \$81,979, from the prior year. The decrease is a result of lower yields earned during the year coupled with lower cash balances.
- Continued economic uncertainty, the lack of housing starts and development projects, are evident in a decrease in meter installation fees within the District of \$29,317, down 33.7% from the prior year.
- Other water operating revenues were down \$243,551 in 2010-11, \$554,997 compared to \$798,548 in 2009-10. The decline is due to lower delinquency revenues and other income revenues. A settlement of \$254,833 was received during the previous year for a claim settlement.
- Capital contributions, which vary based on developer projects, decreased by \$145,244 or 55.4% from the prior year.

Expenses for the year ended June 30, 2011, totaled \$39,624,389, a decrease of 1.6% or \$652,613. Certain significant expenses are as follows:

- The cost of water sold decreased 1.5% over the prior year. Water purchases were down from the prior year, which were offset by higher wholesale water prices. In 2009-10, the District purchased 29,522 acre feet of water at an average price of \$809 per acre foot. In the current year, the District purchased 25,674 acre feet of water at an average price of \$916 per acre foot, an increase of 13.2% or \$107 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 2010-11



- Agricultural discounts received were \$1,460,447 for fiscal year 2010-11, including \$905,739 from SDCWA on their melded water rate. 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 14.2%, or \$399,145, due to reduced water volume, lower demand, energy management strategies, and higher pump efficiencies.
- Water systems operations expenses were essentially unchanged, showing a reduction of \$42,041, or 0.8%.
- Engineering expenses for 2010-11 were 11.8%, or \$180,942 higher than 2009-10. This is a result of higher labor costs and legal services. Labor costs are up due more time spent on administrative efforts versus capital and developer projects.
- General and administrative expenses increased 3.3% or \$93,163 due to a reduction in the write-off of uncollectible customer accounts in the amount of \$129,708.
- Depreciation expense in 2010-11 decreased 2.8%, or \$113,067, from the prior year.
- Other nonoperating expenses were \$22,217 compared to the prior year of \$29,988.

WATER OPERATIONS CHANGES IN NET ASSETS

REVENUES:	2011	2010	Increase (Decrease)	Percent Change
Water Sales	\$25,696,528	\$26,466,979	\$ (770,451)	(2.9) %
Meter Service Charges	3,561,805	3,305,235	256,570	7.8 %
Pumping and energy charges	2,726,802	3,187,965	(461,163)	(14.5) %
Meter Installation Fees	57,748	87,065	(29,317)	(33.7) %
Other water operating revenues	554,997	798,548	(243,551)	(30.5) %
Property taxes and assessments	2,513,255	2,595,610	(82,355)	(3.2) %
Investment income	109,469	191,448	(81,979)	(42.8) %
Other nonoperating revenues	315,542	208,413	107,129	51.4 %
Capital Contributions	116,739	261,983	(145,244)	(55.4) %
Total revenues	<u>35,652,885</u>	<u>37,103,246</u>	<u>(1,450,361)</u>	<u>(3.9) %</u>
 EXPENSES:				
Cost of water sold	23,522,162	23,884,810	(362,648)	(1.5) %
Energy and pumping costs	2,411,168	2,810,313	(399,145)	(14.2) %
Water systems operations	5,091,000	5,133,041	(42,041)	(0.8) %
Engineering	1,716,408	1,535,466	180,942	11.8 %
General and administrative	2,937,691	2,844,528	93,163	3.3 %
Depreciation	3,919,860	4,032,927	(113,067)	(2.8) %
Interest Expense	3,883	5,929	(2,046)	(34.5) %
Other nonoperating expenses	22,217	29,988	(7,771)	(25.9) %
Total expenses	<u>39,624,389</u>	<u>40,277,002</u>	<u>(652,613)</u>	<u>(1.6) %</u>
 Change in Net Assets	 <u>\$(3,971,504)</u>	 <u>\$(3,173,756)</u>	 <u>\$(797,748)</u>	 <u>(25.1) %</u>

Wastewater Treatment Operations

The Lower Moosa Canyon Water Reclamation Facility serves 2,446 customers in a limited geographic area on the west side of the District. Total revenues were \$1,723,928, an increase of \$260,073, or 17.8% from the prior year. This increase is due to higher contributed capital and service charges. The service charge increase is attributable to a 4.5% fee increase effective February 2011.

LOWER MOOSA CHANGES IN NET ASSETS

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
REVENUES:				
Wastewater charges	\$ 1,383,976	\$ 1,304,519	\$ 79,457	6.1 %
Investment income	13,210	16,136	(2,926)	(18.1)%
Capital contributions	<u>326,742</u>	<u>143,200</u>	<u>183,542</u>	<u>128.2 %</u>
Total revenues	<u>1,723,928</u>	<u>1,463,855</u>	<u>260,073</u>	<u>17.8 %</u>
EXPENSES:				
Energy	72,056	85,594	(13,538)	(15.8)%
Wastewater collection and treatment	742,491	657,474	85,017	12.9 %
Engineering	143	56,112	(55,969)	(99.7)%
General and administrative	186,285	169,210	17,075	10.1 %
Depreciation	413,196	397,995	15,201	3.8 %
Other nonoperating expenses	<u>0</u>	<u>21,158</u>	<u>(21,158)</u>	<u>(100.0)%</u>
Total expenses	<u>1,414,171</u>	<u>1,387,543</u>	<u>26,628</u>	<u>1.9 %</u>
Change in Net Assets	<u>\$ 309,757</u>	<u>\$ 76,312</u>	<u>\$ 233,445</u>	<u>305.9 %</u>

Expenses for the year ended June 30, 2011, totaled \$1,414,171, an increase of 1.9% or \$26,628. Certain significant expenses are as follows:

- Energy were \$13,538 lower than the previous year due to tighter process controls and changes in plant operations.
- Wastewater collection and treatment costs were 12.9% higher than last year, or \$85,017. This increase is due to higher labor and maintenance costs.
- General and administrative expenses were 10.1% more than last year, or \$17,075. This is due to higher administrative overhead costs associated with the operation of the treatment plant.
- The engineering expense represents charges for the Welk Skimming Plant feasibility study. Other nonoperating expense for 2010 represents the undepreciated balance of assets that were written off that 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>2011</u>	<u>2010</u>	Increase (Decrease)	Percent Change
REVENUES:				
Wastewater charges	\$ 377,709	\$ 371,358	\$ 6,351	1.7 %
Investment income	10,299	12,905	(2,606)	(20.2)%
Total revenues	<u>388,008</u>	<u>384,263</u>	<u>3,745</u>	<u>1.0 %</u>
EXPENSES:				
Energy	42,376	48,135	(5,759)	(12.0)%
Wastewater collection and treatment	164,897	183,969	(19,072)	(10.4)%
General and administrative	63,944	59,000	4,944	8.4 %
Depreciation	<u>575,551</u>	<u>572,540</u>	<u>3,011</u>	<u>0.5 %</u>
Total expenses	<u>846,768</u>	<u>863,644</u>	<u>(16,876)</u>	<u>(2.0)%</u>
Change in Net Assets	<u><u>\$(458,760)</u></u>	<u><u>\$(479,381)</u></u>	<u><u>\$20,621</u></u>	<u><u>4.3 %</u></u>

- Total expenses were \$16,876 lower than the previous year. Reductions in energy and wastewater collection and treatment costs of \$5,759 and \$19,072, respectively, were offset by slightly higher general and administrative and depreciation expenses.

CAPITAL ASSETS

Capital assets include land, annexation fees, transmission and distribution system, general plant, and construction-in-progress. At June 30, 2011, the District had \$145,742,688 in capital assets with \$64,327,880 of accumulated depreciation. This represents a net decrease (additions less deductions) of \$2,674,660, or 3.2% over the prior year. Significant additions include SCADA system improvements, Country Club Reservoir Roof Upgrade, Integrated Water Resources Management Plan, and Emergency Stationary Generators.

CAPITAL ASSETS

	<u>2011</u>	<u>2010</u>
Land	\$ 4,518,097	\$ 4,518,097
Annexation fees	786,185	786,185
Construction-in-progress	2,324,989	2,589,982
Transmission and distribution system	124,361,870	122,692,044
General plant	<u>13,751,547</u>	<u>13,289,445</u>
Total	<u><u>\$145,742,688</u></u>	<u><u>\$143,875,753</u></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, 2011, the District had \$165,000 in revenue bonds, compared to \$265,000 in revenue bonds payable at June 30, 2010. No new debt was issued during the year. The District had no general obligation bonded debt at June 30, 2011. 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, 2011, the District had designated \$3,661,807 of its unrestricted net assets as a water operating reserve to mitigate the potential of these effects. This represents approximately four and one-fifth 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) 735-4500.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
BALANCE SHEET
JUNE 30, 2011**

ASSETS

Current Assets: (Notes 1 and 2)

Cash and cash equivalents	\$ 7,967,910
Investments	5,737,460
Accounts receivable - water and wastewater, net	5,658,819
Interest receivable	27,103
Taxes receivable	4,253
Other receivables	44,112
Inventory	707,217
Prepaid expenses and deposits	355,897
Work in progress for others	2,230,916
Total Current Assets	22,733,687

Noncurrent Assets: (Notes 1, 2, 3, 4 and 9)

Restricted Assets:

Cash and cash equivalents	110,518
Investments	166,475
Total Restricted Assets	276,993

Capital Assets:

Nondepreciable capital assets	7,629,271
Depreciable capital assets, net	73,785,537
Total Capital Assets	81,414,808

Other Noncurrent Assets:

OPEB asset	3,709
Total Noncurrent Assets	81,695,510

TOTAL ASSETS	\$ 104,429,197
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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, 2011**

LIABILITIES AND NET ASSETS

Current Liabilities: (Notes 1 and 5)

Accounts payable	\$ 5,593,422
Accrued payroll	214,092
Accrued compensated absences	666,700
Customer deposits	2,361,880
Current portion of long-term debt	110,000
Total Current Liabilities	8,946,094

Noncurrent Liabilities: (Notes 1 and 5)

Long-Term Debt:

Revenue bonds	165,000
Less: Current portion above	(110,000)
Total Long-Term Debt	55,000

Other Noncurrent Liabilities:

Accrued compensated absences	1,155,912
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Total Noncurrent Liabilities	1,210,912
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Total Liabilities	10,157,006
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Commitments and Contingencies: (Notes 8, 9, 10, 11, and 12)

Net Assets: (Note 7)

Invested in capital assets, net of related debt	81,249,809
Restricted for facility expansion	276,993
Unrestricted	12,745,389
Total Net Assets	94,272,191

TOTAL LIABILITIES AND NET ASSETS	\$ 104,429,197
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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, 2011**

Operating Revenues:

Water sales and pumping charges	\$ 31,985,135
Wastewater charges	1,761,685
Meter installation fees	57,748
Other water operating revenues	554,997
Total Operating Revenues	<u>34,359,565</u>

Operating Expenses:

Cost of water sold	23,522,162
Energy and pumping costs	2,525,600
Water systems operations	5,091,000
Wastewater collection and treatment	907,388
Engineering	1,716,551
General and administrative	3,187,920
Depreciation	4,908,607
Total Operating Expenses	<u>41,859,228</u>

Operating (Loss)	<u>(7,499,663)</u>
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Nonoperating Revenues and (Expenses):

Property taxes and assessments	2,513,255
Investment income	132,978
Other nonoperating revenues	315,542
Interest expense	(3,883)
Other nonoperating expenses	(22,217)
Total Nonoperating Revenues (Expenses)	<u>2,935,675</u>

Income (Loss) Before Contributions	(4,563,988)
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Capital Contributions	<u>443,481</u>
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Change in Net Assets	(4,120,507)
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Net Assets at Beginning of Year	<u>98,392,698</u>
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NET ASSETS AT END OF YEAR	\$ <u>94,272,191</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, 2011**

Cash Flow From Operating Activities:

Receipts from customers	\$ 34,203,690
Payments to suppliers for goods and services	(30,685,927)
Payments to employees for services	(5,866,835)
Change in work in progress for others	(125,055)
Change in customer deposits	105,908
Other nonoperating revenue	315,542
Net Cash Used in Operating Activities	<u>(2,052,677)</u>

Cash Flow From Noncapital Financing Activities:

Property taxes received	<u>2,510,957</u>
Net Cash Provided by Noncapital Financing Activities	<u>2,510,957</u>

Cash Flows From Capital and Related Financing Activities:

Acquisition and construction of capital assets	(1,996,289)
Principal paid on long-term debt	(100,000)
Interest paid on bonds and long-term debt	(3,883)
Capital contributions	7,825
Proceeds from disposition of capital assets	2,991
Net Cash Used in Capital and Related Financing Activities	<u>(2,089,356)</u>

Cash Flows From Investing Activities:

Purchases of investments	(9,615,289)
Proceeds from maturities of investments	9,803,785
Investment income received	150,644
Net Cash Used in Investing Activities	<u>339,140</u>

Net Decrease in Cash and Cash Equivalents (1,291,936)

Cash and Cash Equivalents at Beginning of Year 9,370,364

CASH AND CASH EQUIVALENTS AT END OF YEAR **\$ 8,078,428**

(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, 2011**

Reconciliation of Operating Income (Loss) to Net

Cash Used in Operating Activities:

Operating income (loss) \$ (7,499,663)

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

Depreciation 4,908,607

Other nonoperating revenues 315,542

Change in current assets and liabilities:

Accounts receivable - water and wastewater, net (152,980)

Other receivables (2,895)

Inventory 116,586

Prepaid expenses and deposits 31,822

Work in progress for others (125,055)

OPEB asset 4,823

Accounts payable 99,169

Accrued payroll 25,375

Accrued compensated absences 120,084

Customer deposits 105,908

Net Cash Used in Operating Activities \$ (2,052,677)

Cash and Cash Equivalents:

Financial Statement Classification

Cash and cash equivalents \$ 7,967,910

Restricted cash and cash equivalents 110,518

Total Cash and Cash Equivalents \$ 8,078,428

Noncash Investing, Capital and Financing Activities:

Customer contributions of capital assets \$ 435,656

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

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011**

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

(d) Revenue Recognition (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, 2011, 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 \$5,658,819 have been reduced by an allowance for estimated uncollectible accounts in the amount of \$51,545 at June 30, 2011.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011, inventory consists of the following:

Water inventory	\$ 79,794
Materials inventory	627,423
	\$ 707,217

(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 \$1,822,612 at June 30, 2011. The District estimates the current portion to be \$666,700. The following is a detail:

	<u>Balance June 30, 2010</u>	<u>Earned</u>	<u>Used</u>	<u>Balance June 30, 2011</u>	<u>Current Portion</u>
Accrued compensated absences	\$ 1,702,528	\$ 609,212	\$ 489,128	\$ 1,822,612	\$ 666,700

(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, 2011

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 19, 2011, 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, 2011**

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, 2011:

	<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	3,387,046	3,387,046	-
San Diego County Treasurer's Pooled Money Fund	4,096,195	4,096,195	-
Open Ended Money Market Mutual Funds	375,409	375,409	-
Demand Deposits	218,578	218,578	-
Investments:			
United States Agency Securities	2,739,508	254,950	2,484,558
Certificates of Deposit	3,164,427	151,468	3,012,959
Total Cash and Investments	<u>\$ 13,982,363</u>	<u>\$ 8,484,846</u>	<u>\$ 5,497,517</u>
Financial Statement Classification:			
Cash and Cash Equivalents	\$ 7,967,910		
Investments	5,737,460		
Restricted cash and cash equivalents	110,518		
Restricted Investments	166,475		
Total	<u>\$ 13,982,363</u>		

(b) Concentration of Credit Risk

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

<u>Issuer</u>	<u>Percentage</u>
United States Government Sponsored Enterprises:	
Federal Home Loan Bank	20.0
Federal Home Loan Mortgage Corporation	17.0
Federal Farm Credit Bank	5.1

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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	AA+	Aaa
Federal Home Loan Mortgage Corporation	AA+	Aaa
Federal National Mortgage Association	AA+	Aaa
Federal Farm Credit Bank	AA+	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, 2011**

Note 3 - Restricted Assets:

Restricted assets were provided by, and are to be used for, the following at June 30, 2011:

<u>Funding Source</u>	<u>Use</u>	
Capacity fees	Facility expansion	\$ <u>276,993</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, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2011</u>
Capital Assets Not Being Depreciated:				
Land	\$ 4,518,097	\$ -	\$ -	\$ 4,518,097
Annexation fees	786,185	-	-	786,185
Construction in progress	<u>2,589,982</u>	<u>1,841,429</u>	<u>(2,106,422)</u>	<u>2,324,989</u>
	<u>7,894,264</u>	<u>1,841,429</u>	<u>(2,106,422)</u>	<u>7,629,271</u>
Capital Assets Being Depreciated:				
Transmission and distribution system	122,692,044	1,766,876	(97,050)	124,361,870
General plant	<u>13,289,445</u>	<u>757,272</u>	<u>(295,170)</u>	<u>13,751,547</u>
	<u>135,981,489</u>	<u>2,524,148</u>	<u>(392,220)</u>	<u>138,113,417</u>
Less Accumulated Depreciation:				
Transmission and distribution system	(51,691,341)	(3,461,065)	74,833	(55,077,573)
General Plant	<u>(8,094,944)</u>	<u>(1,447,542)</u>	<u>292,179</u>	<u>(9,250,307)</u>
	<u>(59,786,285)</u>	<u>(4,908,607)</u>	<u>367,012</u>	<u>(64,327,880)</u>
Net Capital Assets Being Depreciated	<u>76,195,204</u>	<u>(2,384,459)</u>	<u>(25,208)</u>	<u>73,785,537</u>
Net Capital Assets	<u>\$ 84,089,468</u>	<u>\$ (543,030)</u>	<u>\$ (2,131,630)</u>	<u>\$ 81,414,808</u>

Depreciation totaled \$4,908,607 for the year ended June 30, 2011.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011, total \$165,000. Varying amounts of principal plus interest at 2.015% (as of June 30, 2011) 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, 2010</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>	<u>Current Portion</u>
Revenue Bonds	\$ 265,000	\$ (100,000)	\$ 165,000	\$ 110,000

Aggregate maturities of the revenue bond for fiscal years subsequent to June 30, 2011, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 110,000	\$ 1,693	\$ 111,693
2013	55,000	-	55,000
	<u>\$ 165,000</u>	<u>\$ 1,693</u>	<u>\$ 166,693</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, 2011, totaled \$815,000.

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, 2011**

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, 2011:

Capital improvements	\$ 4,576,955
Operating reserve	3,811,294
Post-retirement health care cost	1,074,288
Pumping rate stabilization	1,601,978
Wastewater capital replacement reserves	1,445,203
Agricultural rebate	235,671
Unrestricted Net Assets	\$ 12,745,389

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, 2011 and 2010, were 25.760% and 25.498%, 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, 2011, 2010 and 2009, the District’s annual pension cost and actual contribution were \$1,602,720, \$1,555,802 and \$1,523,081, respectively, which were equal to the required contributions each year. The required contribution for the fiscal year ended June 30, 2011, was determined as part of the June 30, 2008, actuarial valuation.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2009
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	19 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	3.55% 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 with the exception of gains and losses in fiscal years 2008-2009, 2009-2010 and 2010-2011 in which each year's gains or losses will be isolated and amortized over fixed and declining 30 year periods (as opposed to the current rolling 30 year amortization). Finally, if a pool's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability.

At the time of joining a risk pool, a side fund was created to account for the difference between the funded status of the pool and the funded status of the District's Plan. The side fund for the District's Plan as of June 30, 2010, was a negative \$11,246,462.

The side fund will be credited, on an annual basis, with the actuarial investment return assumption. This assumption is currently 7.75%. The negative side fund caused the District's required employer contribution rate noted above to be increased by the amortization of the side fund. In the absence of subsequent contract amendments or funding changes, the side fund will disappear at the end of the amortization period. The amortization period remaining as of June 30, 2010, was 22 years.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 8 - Defined Benefit Pension Plan: (Continued)

(c) Annual Pension Costs (Continued)

<u>Fiscal Year</u>	<u>Required Contributions for Last Three Years</u>		<u>Net Pension Obligation</u>
	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	
June 30, 2008	\$ 1,439,802	100%	\$ -
June 30, 2009	1,523,081	100%	-
June 30, 2010	1,555,802	100%	-

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, 2011**

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 8.4% 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, 2011.

Annual required contribution	\$ 446,086
Interest on net OPEB obligation	(661)
Adjustment to annual required contribution	755
Annual OPEB cost (expense)	446,180
Contributions (including benefits paid)	441,357
Increase in net OPEB obligation	4,823
Net OPEB obligation - beginning of year	(8,532)
Net OPEB obligation (Asset) - end of year	\$ (3,709)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2009	\$ 476,396	101.8%	\$ (5,126)
June 30, 2010	489,426	100.7%	(8,532)
June 30, 2011	446,180	98.9%	(3,709)

The District's actuarial accrued liability for benefits at June 30, 2009, was \$3,913,916 and the covered payroll (annual payroll of active employees covered by the Plan) was \$5,301,000, with a ratio of the Unfunded Accrued Actuarial Liability (UAAL) to the covered payroll of 58.45%.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability Project Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll [(B-A)/C]</u>
June 30, 2009	\$ -	\$ 3,553,907	\$ 3,553,907	0.0%	\$ 5,341,000	66.54%
June 30, 2010	815,238	3,913,916	3,098,678	20.8%	5,301,000	58.45%

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 9 - Post Employment Benefits: (Continued)

Funding Status and Funding Progress (Continued)

In June 2011, the District sent \$305,628 to the CERBT trust account and made benefit payments of \$135,729 for a total contribution of \$441,357. The OPEB asset totaled \$3,709 at June 30, 2011.

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, 2011, 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, 2011, employee contributions were \$1,987 and District contributions were \$2,375 for a total of \$4,362.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011, was \$223,679. 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, 2011, the total unpaid amount on these contracts was \$302,176.

(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, 2011

Note 13 - New Governmental Accounting Standards:

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, 2011

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. This pronouncement did not have a material effect on the financial statements of the District for the year ended June 30, 2011.

GASB No. 60

In November 2010, the Governmental Accounting Standards Board issued Statement No. 60, “Accounting and Financial Reporting for Service concession Arrangements”. This pronouncement is effective for periods beginning after December 15, 2011 and its provisions are generally required to be applied retroactively. The objective of this statement is to address issues related to service concession arrangements (SCA’s) which are a type of public-private or public-public partnership. An SCA is an arrangement between the transferor (a government) and an operator in which (1) the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or other public assets in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The District does not have any SCA’s as of June 30, 2011.

GASB No. 61

In November 2010, the Governmental Accounting Standards Board issued Statement No. 61, “The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34”. This pronouncement is effective for periods beginning after June 15, 2012. Earlier application is encouraged. The objective of this statement is to address reporting entity issues that have arisen since the issuance of Statements No.14 and No. 34. The District does not have any component units as of June 30, 2011.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 13 - New Governmental Accounting Standards: (Continued)

GASB No. 62

In December 2010, the Governmental Accounting Standards Board issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". This pronouncement is effective for periods beginning after December 15, 2011. Earlier application is encouraged. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements of the FASB and the AICPA that was issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.



VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS
June 30, 2011

ASSETS

	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
<u>Current assets:</u>				
Cash and cash equivalents	\$ 7,967,910	\$ 5,822,865	\$ 1,187,970	\$ 957,075
Investments	5,737,460	5,737,460	-	-
Accounts receivable - water and wastewater, net	5,658,819	5,658,819	-	-
Interest receivable	27,103	27,103	-	-
Taxes receivable	4,253	4,253	-	-
Other receivables	44,112	44,112	-	-
Inventories	707,217	707,217	-	-
Prepaid expenses and deposits	355,897	355,897	-	-
Work in progress for others	2,230,916	2,189,282	-	41,634
Total Current Assets	22,733,687	20,547,008	1,187,970	998,709
<u>Noncurrent Assets:</u>				
Restricted Assets:				
Cash and cash equivalents	110,518	-	110,518	-
Investments	166,475	166,475	-	-
Total Restricted Assets	276,993	166,475	110,518	-
Capital Assets:				
Nondepreciable capital assets	7,629,271	6,170,592	178,075	1,280,604
Depreciable capital assets, net	73,785,537	55,999,799	7,515,227	10,270,511
Total Capital Assets	81,414,808	62,170,391	7,693,302	11,551,115
Other Noncurrent Assets:				
OPEB Asset	3,709	3,709	-	-
Total Noncurrent Assets	81,695,510	62,340,575	7,803,820	11,551,115
 TOTAL ASSETS	 \$ 104,429,197	 \$ 82,887,583	 \$ 8,991,790	 \$ 12,549,824

VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS (CONTINUED)
JUNE 30, 2011

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	\$ 5,593,422	\$ 5,593,422	\$ -	\$ -
Accrued payroll	214,092	214,092	-	-
Accrued compensated absences	666,700	666,700	-	-
Customer deposits	2,361,880	2,357,330	4,550	-
Current portion of long-term debt	110,000	110,000	-	-
Total Current Liabilities	<u>8,946,094</u>	<u>8,941,544</u>	<u>4,550</u>	<u>-</u>
<u>Noncurrent Liabilities:</u>				
Long-term debt:				
Revenue bonds	165,000	165,000	-	-
Less: Current portion above	<u>(110,000)</u>	<u>(110,000)</u>	<u>-</u>	<u>-</u>
Total Long-Term Debt	<u>55,000</u>	<u>55,000</u>	<u>-</u>	<u>-</u>
Other Noncurrent Liabilities:				
Accrued compensated absences	<u>1,155,912</u>	<u>1,155,912</u>	<u>-</u>	<u>-</u>
Total Noncurrent Liabilities	<u>1,210,912</u>	<u>1,210,912</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>10,157,006</u>	<u>10,152,456</u>	<u>4,550</u>	<u>-</u>
<u>Net Assets:</u>				
Investment in capital assets, net of related debt	81,249,809	62,005,392	7,693,302	11,551,115
Restricted for facility expansion	276,993	166,475	110,518	-
Unrestricted	<u>12,745,389</u>	<u>10,563,260</u>	<u>1,183,420</u>	<u>998,709</u>
Total Net Assets	<u>94,272,191</u>	<u>72,735,127</u>	<u>8,987,240</u>	<u>12,549,824</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 104,429,197</u>	<u>\$ 82,887,583</u>	<u>\$ 8,991,790</u>	<u>\$ 12,549,824</u>

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>Woods Valley 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	-	-
Inventories	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:				
OPEB Asset	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	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>
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 REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD ENDED JUNE 30, 2011

	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
<u>Operating Revenues:</u>				
Water sales and pumping charges	\$ 31,985,135	\$ 31,985,135	\$ -	\$ -
Wastewater charges	1,761,685	-	1,383,976	377,709
Meter installation fees	57,748	57,748	-	-
Other water operating revenues	554,997	554,997	-	-
Total operating revenues	<u>34,359,565</u>	<u>32,597,880</u>	<u>1,383,976</u>	<u>377,709</u>
<u>Operating Expenses:</u>				
Cost of water sold	23,522,162	23,522,162	-	-
Energy and pumping costs	2,525,600	2,411,168	72,056	42,376
Water systems operations	5,091,000	5,091,000	-	-
Wastewater collection and treatment	907,388	-	742,491	164,897
Engineering	1,716,551	1,716,408	143	-
General and administrative	3,187,920	2,937,691	186,285	63,944
Depreciation	4,908,607	3,919,860	413,196	575,551
Total operating expenses	<u>41,859,228</u>	<u>39,598,289</u>	<u>1,414,171</u>	<u>846,768</u>
Operating Income (Loss)	<u>(7,499,663)</u>	<u>(7,000,409)</u>	<u>(30,195)</u>	<u>(469,059)</u>
<u>Nonoperating Revenues and (Expenses):</u>				
Property taxes and assessments	2,513,255	2,513,255	-	-
Investment income	132,978	109,469	13,210	10,299
Other nonoperating revenues	315,542	315,542	-	-
Interest expense	(3,883)	(3,883)	-	-
Other nonoperating expenses	(22,217)	(22,217)	-	-
Total Nonoperating Revenues and (Expenses)	<u>2,935,675</u>	<u>2,912,166</u>	<u>13,210</u>	<u>10,299</u>
Income (Loss) Before Contributions	(4,563,988)	(4,088,243)	(16,985)	(458,760)
Capital contributions	<u>443,481</u>	<u>116,739</u>	<u>326,742</u>	<u>-</u>
Change in Net Assets	<u>(4,120,507)</u>	<u>(3,971,504)</u>	<u>309,757</u>	<u>(458,760)</u>
Net Assets at Beginning of Year	<u>98,392,698</u>	<u>76,706,631</u>	<u>8,677,483</u>	<u>13,008,584</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 94,272,191</u></u>	<u><u>\$ 72,735,127</u></u>	<u><u>\$ 8,987,240</u></u>	<u><u>\$ 12,549,824</u></u>

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

	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
<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	<u>(3,576,825)</u>	<u>(3,173,756)</u>	<u>76,312</u>	<u>(479,381)</u>
Net Assets at Beginning of Year	102,024,017	79,880,387	8,655,665	13,487,965
Prior Period Adjustment	<u>(54,494)</u>	<u>-</u>	<u>(54,494)</u>	<u>-</u>
Restated Net Assets at Beginning of Year	<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>





STATISTICAL SECTION

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

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

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

Table I
NET ASSETS BY COMPONENT
Last Ten Fiscal Years

	Fiscal year ended				
	<u>2011</u>	<u>2010</u>	<u>2009⁽¹⁾</u>	<u>2008</u>	<u>2007</u>
Primary government					
Invested in capital assets, net of related debt	\$ 81,249,809	\$ 83,824,468	\$ 85,622,542	\$ 72,376,226	\$ 68,354,318
Restricted	276,993	268,225	503,862	652,253	1,300,411
Unrestricted	12,745,389	14,300,005	15,843,119	15,976,619	16,617,224
Total primary government net assets	<u>\$ 94,272,191</u>	<u>\$ 98,392,698</u>	<u>\$ 101,969,523</u>	<u>\$ 89,005,098</u>	<u>\$ 86,271,953</u>

	Fiscal year ended				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Primary government					
Invested in capital assets, net of related debt	\$ 62,887,148	\$ 61,272,644	\$ 56,324,985	\$ 49,471,743	48,032,138
Restricted	2,363,055	2,112,513	1,340,938	1,104,843	103,304
Unrestricted	16,292,789	16,996,464	22,079,945	21,594,937	20,967,206
Total primary government net assets	<u>\$ 81,542,992</u>	<u>\$ 80,381,621</u>	<u>\$ 79,745,868</u>	<u>\$ 72,171,523</u>	<u>\$ 69,102,648</u>

(1) As restated (See Table II, Note 5).

Source: Valley Center Municipal Water District

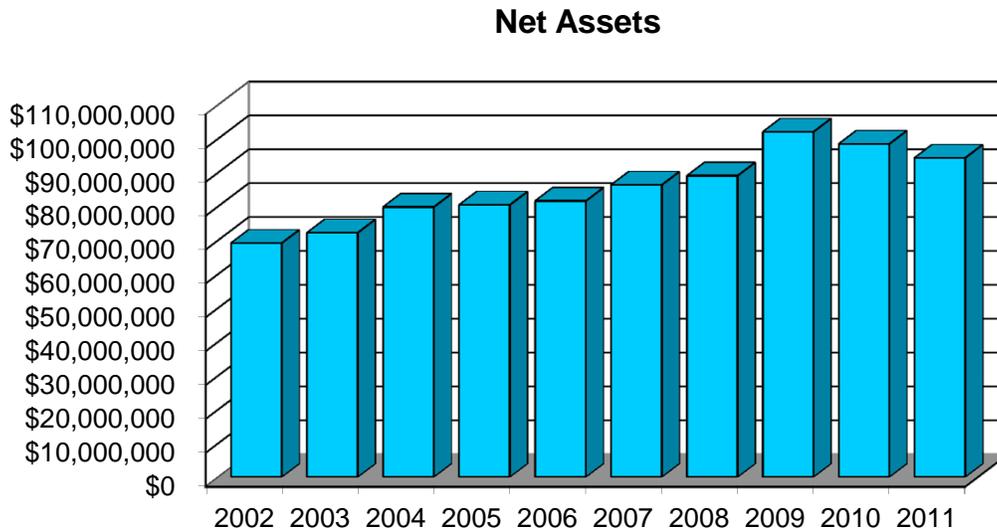


Table II
CHANGES IN NET ASSETS
Last Ten Fiscal Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Operating Revenues:										
Water sales ⁽¹⁾	\$ 29,258,333	\$ 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
Pumping charges	2,726,802	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
Wastewater charges	1,761,685	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
Meter installation fees	57,748	87,065	155,358	128,342	210,145	474,070	479,791	546,437	241,218	176,456
Other water operating revenues	554,997	798,548	797,534	974,774	502,240	567,040	320,187	277,930	254,118	301,490
Total operating revenues	\$ 34,359,565	\$ 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
Operating Expenses:										
Cost of water sold ⁽²⁾	\$ 23,522,162	\$ 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
Energy and pumping costs	2,525,600	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
Water systems operations	5,091,000	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
Wastewater collection and treatment	907,388	841,443	866,812	748,447	784,551	641,189	638,092	551,085	432,270	365,518
Engineering	1,716,551	1,591,578	1,580,009	1,368,868	1,308,093	1,208,598	1,164,938	947,818	828,884	673,468
General and administrative	3,187,920	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
Depreciation	4,908,607	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
Total operating expenses	\$ 41,859,228	\$ 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
Operating Income (Loss)	\$ (7,499,663)	\$ (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
Nonoperating Revenues and (Expenses):										
Property taxes and assessments	\$ 2,513,255	\$ 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
Investment income	132,978	220,489	476,566	898,899	1,003,835	564,566	575,887	220,553	557,188	899,579
Other nonoperating revenues ⁽³⁾	315,542	208,413	192,882	256,550	551,289	225,686	887,902	574,795	680,093	111,756
Interest expense	(3,883)	(5,929)	(9,470)	(20,289)	(28,791)	(28,564)	(23,099)	(51,573)	(87,541)	(94,322)
Other nonoperating expenses ⁽⁴⁾	(22,217)	(51,146)	(31,275)	(66,492)	(1,339)	(190,155)	(91,909)	(12,404)	(28,677)	(299,794)
Total Nonoperating Revenues and (Expenses)	\$ 2,935,675	\$ 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
Income (Loss) Before Contributions	\$ (4,563,988)	\$ (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
Capital contributions	443,481	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
Change in Net Assets	\$ (4,120,507)	\$ (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
Net Assets at Beginning 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
Restatement ⁽⁵⁾	\$ -	\$ -	\$ 2,436,921	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restated Net Assets at Beginning of Year	\$ 98,392,698	\$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
NET ASSETS AT END OF YEAR	\$ 94,272,191	\$ 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

(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.

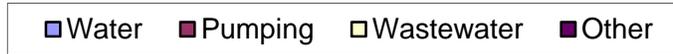
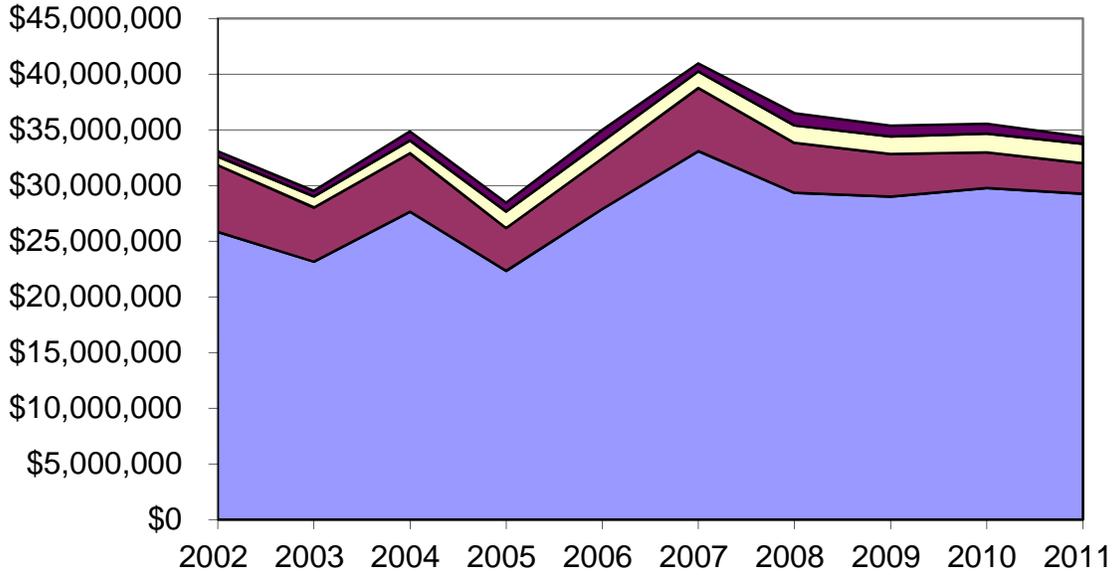
(3) Includes energy settlement of \$248,270 in 2007, \$473,798 in 2005, \$421,1554 in 2004, and \$556,444 in 2003.

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

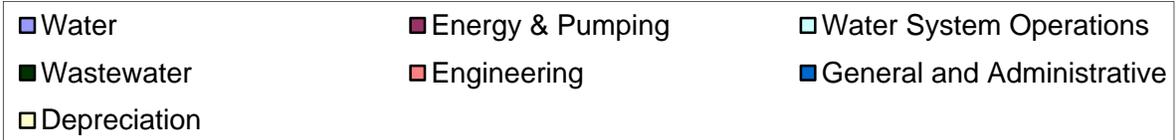
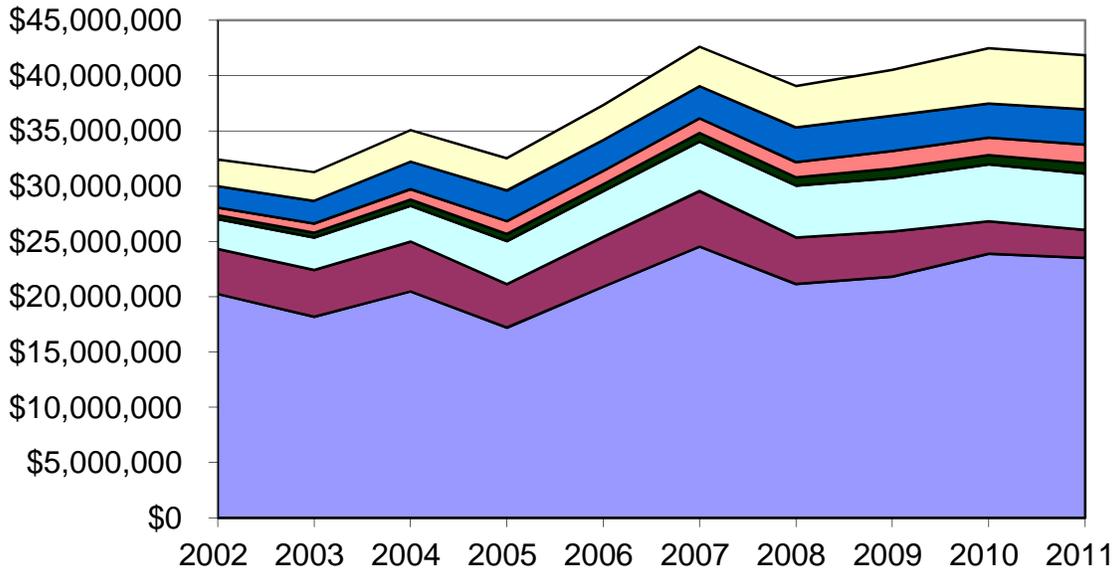
(5) Restatement of prior balance of \$2,491,415 in 2009 per GASB 45 for Retirement Health Plan Liability recorded as expense in prior years and \$(54,494) per GASB 51 for Feasibility Study recorded as capital asset in prior year.

Source: Valley Center Municipal Water District

Operating Revenues



Operating Expenses



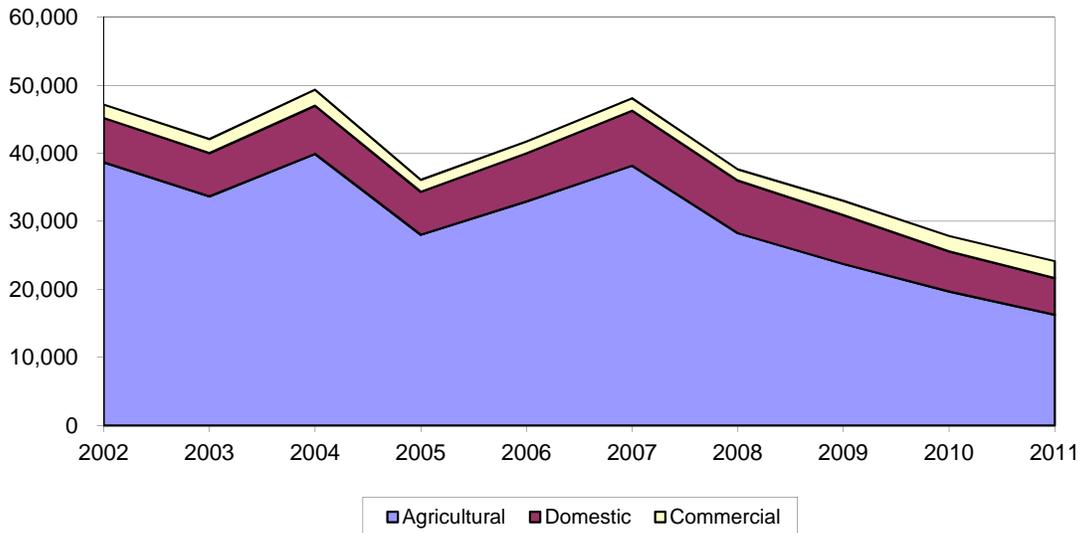
**Table III
WATER SALES BY USER TYPE (1)
Last Ten Fiscal Years**

Fiscal Year	Domestic		Commercial		Certified Agricultural ⁽³⁾		Total		Average Direct Rate ⁽²⁾
	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	
2011	\$9,180,184	5,388.9	\$3,204,462	2,506.4	\$16,873,687	16,247.9	\$29,258,333	24,143.2	\$ 1,212
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

- (1) Water sales include monthly meter charges but exclude pumping charges. Amounts in acre feet are water billed.
- (2) Calculated average rate, including commodity and monthly meter charges. See Table IX for actual rates.
- (3) Includes only sales under interruptible agricultural water rates.

Source: Valley Center Municipal Water District

Water Sales in Acre Feet



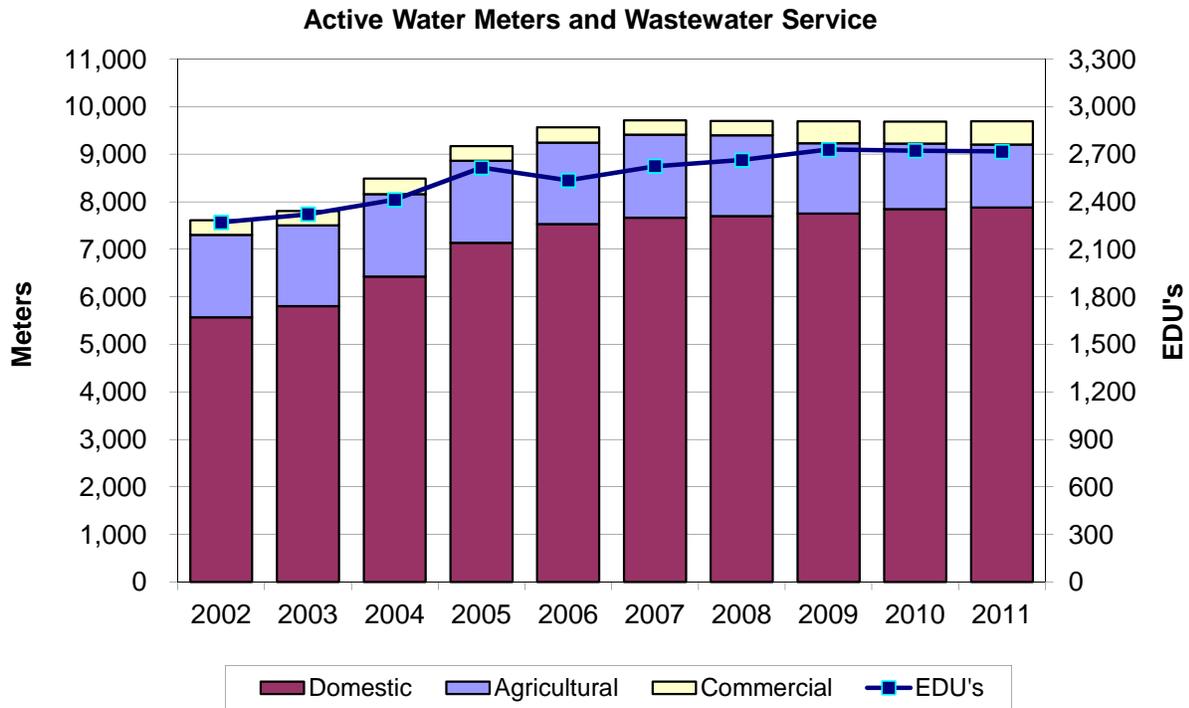
**Table IV
ACTIVE WATER METERS AND WASTEWATER SERVICES
Last Ten Fiscal Years**

Fiscal Year Ended	Domestic	Commercial	Certified Agricultural ⁽²⁾	Total Active	All Inactive Meters	Total	Wastewater EDUs
2011	7,880	486	1,326	9,692	884	10,576	2,717
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

(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

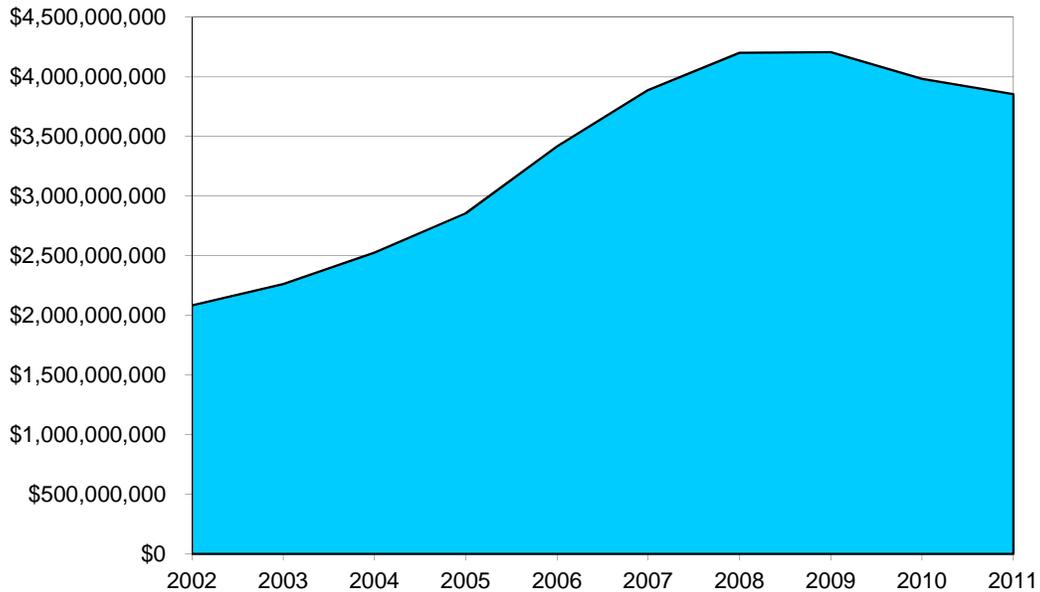


**Table V
ASSESSED VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years**

Fiscal Year Ended	Secured			Net Assessed Value	Assessed Unsecured Value	Total Assessed Value	Tax Rate
	Real Property	Personal Property	Exemptions				
2011	\$3,878,894,450	\$176,496	\$24,763,190	\$3,854,307,756	\$25,180,931	\$3,879,488,687	0
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

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

Assessed Value of Taxable Property



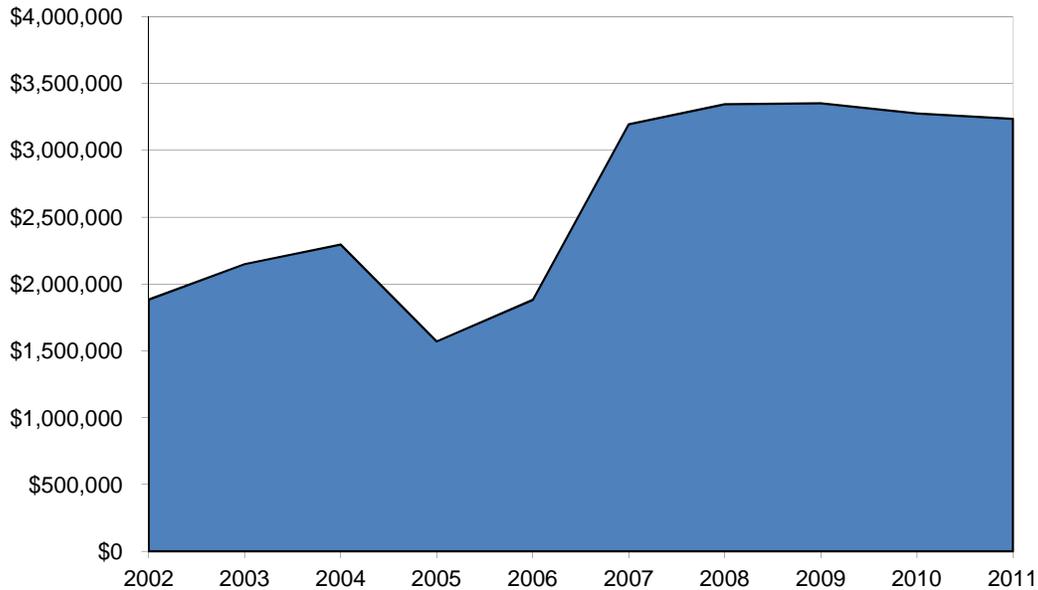
**Table VI
PROPERTY TAX AND ASSESSMENT LEVIES AND COLLECTIONS (1)
Last Ten Fiscal Years**

Fiscal Year Ended	Levy			Total Collections ⁽²⁾	Net Delinquent ⁽³⁾	Percent Delinquent ⁽⁴⁾
	Property Taxes	Special Assessments ⁽⁶⁾	Total Levy			
2011	\$2,031,695	\$1,231,558	\$3,263,253	\$3,235,076	\$28,177	0%
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%

- (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, 2011**

2010-11 Assessed Valuation: \$3,879,488,687

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt <u>6/30/2011</u>	<u>% Applicable (1)</u>	District's Share of <u>Debt 6/30/11</u>
Metropolitan Water District	\$227,670,000	0.217	\$494,044
Palomar Pomerado Hospital District	481,514,998	7.516	36,190,667
Palomar Community College District	322,528,901	5.039	16,252,231
Escondido Union High School District	85,751,275	7.498	6,429,631
Fallbrook Union High School District	14,315,071	1.356	194,112
Bonsall Union School District	16,479,680	3.828	630,842
Escondido Union School District	49,439,622	7.814	3,863,212
Valley Center-Pauma Unified School District	2,036,671	97.071	1,977,017
Valley Center-Pauma Unified School District Community Facilities District No. 2003-1	9,280,000	100.000	9,280,000
City of Escondido	78,860,000	0.049	38,641
Valley Center Municipal Water District	0	100.000	0
Valley Center Municipal Water District Assessment District No. 96-1	815,000	100.000	815,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			<u><u>\$76,165,397</u></u>
OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	\$ 385,650,000	1.131	\$4,361,702
San Diego County Pension Obligations	820,288,160	1.131	9,277,459
San Diego County Superintendent of Schools Certificates of Participation	19,992,500	1.131	226,115
Palomar Community College District Certificates of Participation	6,275,000	5.039	316,197
Escondido Union High School District Certificates of Participation	60,955,000	7.498	4,570,406
Bonsall Union School District Certificates of Participation	1,945,000	3.828	74,455
Escondido Union School District Certificates of Participation	27,365,000	7.814	2,138,301
City of Escondido Certificates of Participation	59,327,090	0.049	29,070
TOTAL OVERLAPPING GENERAL FUND DEBT			<u><u>\$20,993,705</u></u>
COMBINED TOTAL DEBT			<u><u>\$97,159,102</u></u> (2)
Ratios to Assessed Valuation:			
Direct Debt	0.00%		
Total Direct and Overlapping Tax and Assessment Debt	1.96%		
Combined Total Debt	2.50%		

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

2010-11 TYPICAL TOTAL TAX RATE (TRA 94-075): 1.09137

(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.

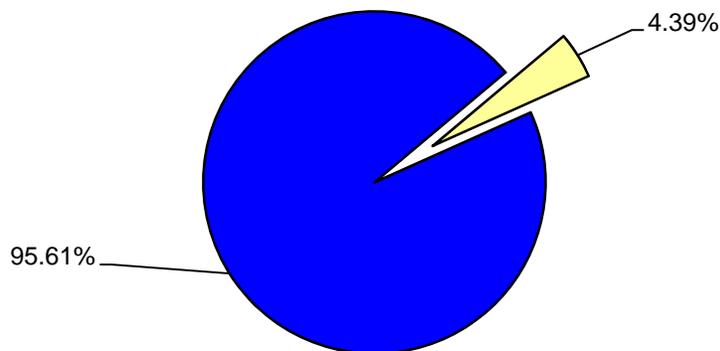
**Table VIII
PROPERTY OWNERS BY HIGHEST CUMULATIVE NET ASSESSED PROPERTY VALUE
Current Fiscal Year**

<u>Property Owner</u>	<u>Cumulative Net Assessed Value</u>	<u>Percent of District Total Net Assessed Value</u>
Welk Resort Platinum Owners Association	\$78,381,309	2.02%
Welk Resort Group Inc.	19,364,093	0.50%
Rimrock Springs LLC	17,783,493	0.46%
MLSK LLC	11,208,372	0.29%
Welk Resort Properties Inc.	10,371,694	0.27%
Josephine Development LLC	7,930,523	0.20%
Skyline Ranch Country Club LLC	7,518,959	0.19%
Federal Boulevard Properties LLC	6,206,231	0.16%
Bell Holdings LLC	5,983,218	0.15%
Weston-Valley Center LLC	5,909,949	0.15%
Total Top Ten Property Owners	\$170,657,841	4.39%
Other Property Owners	\$3,708,830,846	95.61%
Total Assessed Valuation	\$3,879,488,687	100.00%

Data Source: 2010 Master Property Records from San Diego County Used for 2010-11 Property Taxes

Data for the period ended June 30, 2002, is not available.

PRINCIPAL PROPERTY OWNERS



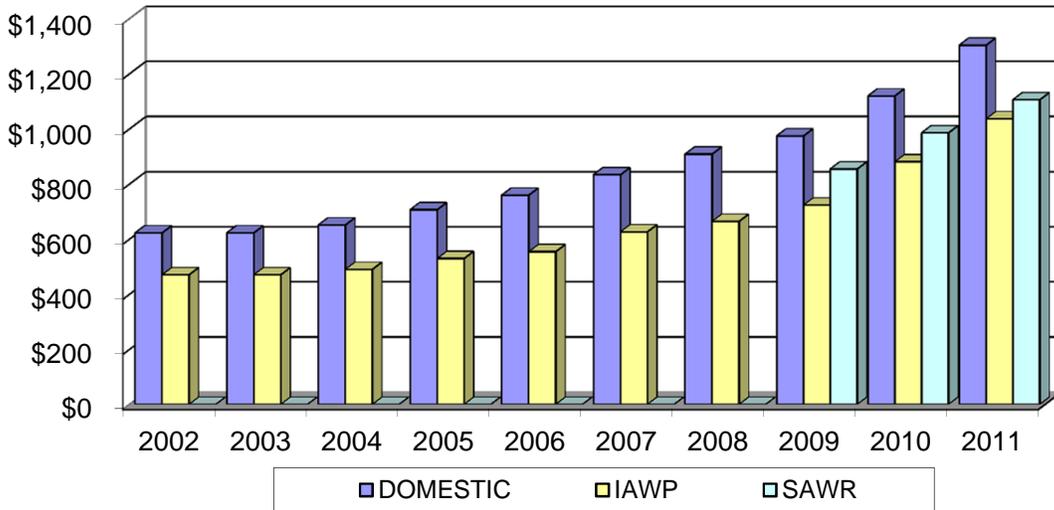
**Table IX
WATER RATES
Last Ten Fiscal Years**

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	VCMWWD	Total	MWD/ SDCWA Wholesale	VCMWWD	Total	MWD/ SDCWA Wholesale	VCMWWD	Total		
2011	\$1,166	\$137	\$1,303	\$899	\$137	\$1,036	\$968	\$137	\$1,105	\$24.50	\$33.50
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

- (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

Water Rates



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

Fiscal Year Ended ⁽¹⁾	Moosa Gravity	Moosa Pressure	Woods Valley Ranch
2011	\$46.50	\$84.90	\$98.60
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

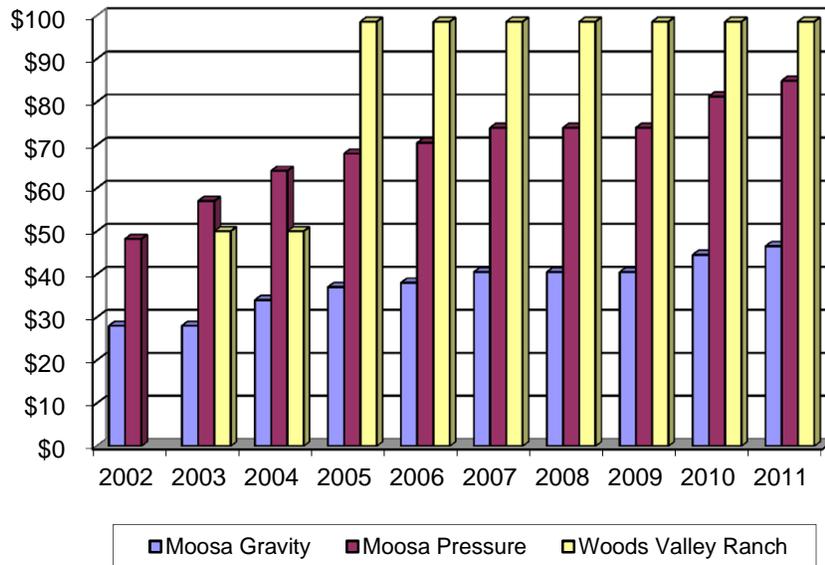
(1) Rate as of January 1.

(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



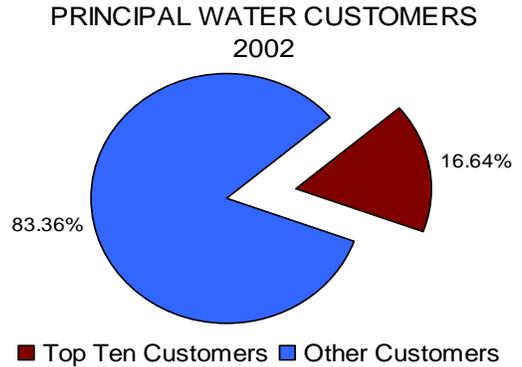
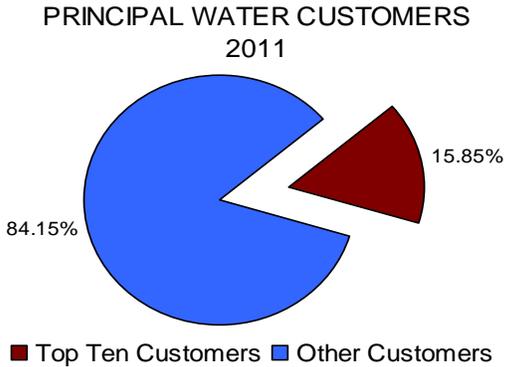
**Table XI
PRINCIPAL WATER CUSTOMERS
Current Fiscal Year and Nine Years Prior**

Fiscal year ended June 30, 2011		
<u>Customer</u>	<u>Usage in Acre Feet</u>	<u>Percent of Water Sold</u>
Stehly, N. J. C.	682.1	2.83%
Coykendall, H. C. J.	640.7	2.65%
Harlan Beck & Associates	466.1	1.93%
Grandon Ranch Corp.	436.5	1.81%
Rancho Sereno	320.5	1.33%
Rancho Trio	272.6	1.13%
Rancho Erico	269.1	1.11%
BSTCO	267.3	1.11%
Gregory Wang	236.2	0.98%
Fallbrook Venture One	235.0	0.97%
Total Top Ten Customers	3,826.1	15.85%
Other Customers	20,317.1	84.15%
Total Water Sales	24,143.2	100.00%

Fiscal year ended June 30, 2002		
<u>Customer</u>	<u>Usage in Acre Feet</u>	<u>Percent of Water Sold</u>
Sierra Pacific Farms	1,245.9	2.64%
BSTCO	1,173.6	2.49%
Stehly, N. J. C.	996.0	2.11%
Harlan Beck & Associates	964.9	2.05%
DeJong, John	679.6	1.44%
Paradise Leased	676.9	1.44%
Coykendall, H. C. J.	558.0	1.18%
Segal, G.	535.1	1.14%
Rancho Sereno	524.4	1.11%
Rancho Trio	488.1	1.04%
Total Top Ten Customers	7,842.5	16.64%
Other Customers	39,304.9	83.36%
Total Water Sales	47,147.4	100.00%

Source: Valley Center Municipal Water District

BSTCO
Harlan Beck & Associates
Grandon Ranch Corp.
Gray Cor Farms
Rancho Sereno
Rancho Trio
Rancho Erico
A-1 Sunshine Farms, LLC



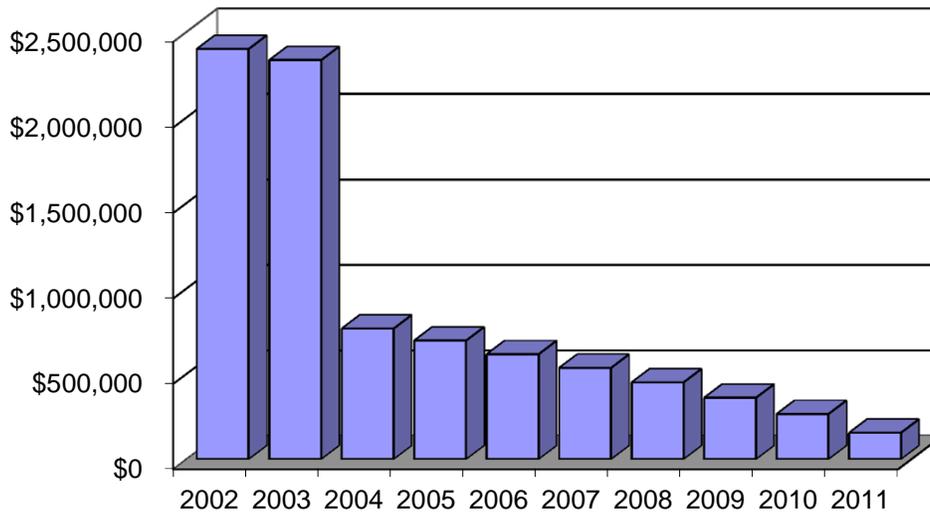
**Table XII
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years**

Fiscal Year Ended	General Obligation Bonds ⁽²⁾	Revenue Bonds	Term Loan	Total	Percentage of Personal Income ⁽¹⁾	Per Capita ⁽¹⁾
2011	\$0	\$155,000	\$0	\$155,000	(3)	6
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

- (1) See Table XIV for personal income and population data.
- (2) The District has had no General Obligation Bonded Debt since 1999.
- (3) Data not available until the first quarter of 2012.

Source: Valley Center Municipal Water District

Outstanding Debt



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

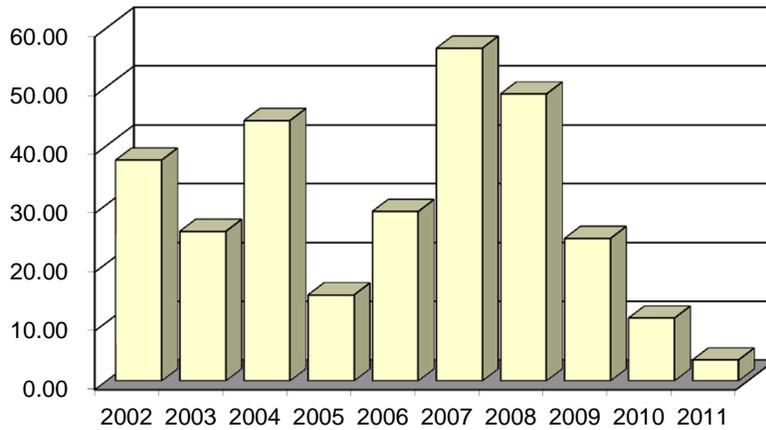
Fiscal Year Ended	Operating Revenues ⁽¹⁾	Nonoperating Revenues ⁽¹⁾	Gross Revenues	Less:		Net Available Revenues	Debt Service			Coverage Ratio
				Operating Expenses ⁽¹⁾⁽²⁾			Principal	Interest	Total	
2011	\$34,359,565	\$2,961,775	\$37,321,340	\$36,950,621		\$370,719	\$100,000	\$3,883	\$103,883	3.57
2010	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

(1) See Table II

(2) Operating expenses excluding depreciation.

Source: Valley Center Municipal Water District

Coverage Ratio



**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)
2011	25,450	(6)	(6)	5.1%
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%

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)
- (6) Data not available until the first quarter of 2012.

Source: Valley Center Municipal Water District except as noted.

Per Capita Personal Income and Population

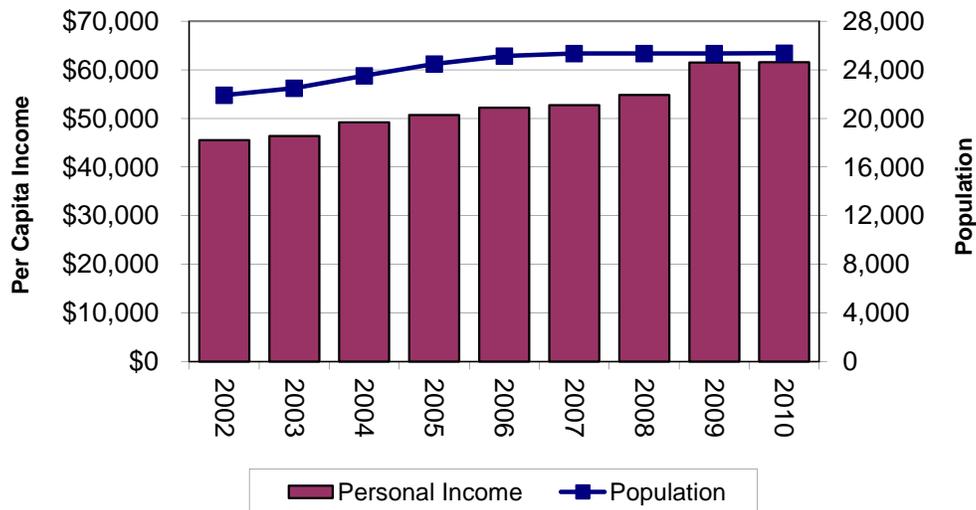


Table XV
PRINCIPAL EMPLOYERS - COUNTY OF SAN DIEGO
Current Fiscal Year and Nine Years Prior

Fiscal year ended June 30, 2011			Fiscal year ended June 30, 2002		
Employer Name	Industry	Employees	Employer Name	Industry	Employees
U.S. Department of Defense	Government	136,664	Federal Government	Government	40,600
Federal Government	Government	46,300	State of California	Government	38,500
State of California	Government	45,500	San Diego Unified School District	Education	24,240
University of California at San Diego	Education	27,393	University of California at San	Education	21,266
County of San Diego	Government	15,109	County of San Diego	Government	17,222
Sharp Healthcare	Healthcare	14,969	City of San Diego	Government	12,656
Scripps Health	Healthcare	13,830	United States Postal Service	Government	12,336
San Diego Unified School District	Education	13,730	Sharp Healthcare	Healthcare	12,167
Qualcomm	Telecommunications	10,509	Scripps Health	Healthcare	10,435
City of San Diego	Government	<u>10,211</u>	SBC	Telecommunications	<u>6,988</u>
Total Number Employed in San Diego County		<u><u>1,574,300</u></u>			<u><u>1,450,500</u></u>

Source: 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,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Pumping	4.55	5.44	5.24	5.54	5.59	5.21	5.49	5.18	4.58	4.96
Water Systems Operations	34.04	33.80	36.14	39.14	39.34	37.14	37.37	35.92	33.71	31.70
Wastewater Collection and Treatment	5.45	5.64	6.11	5.91	4.90	5.07	3.93	3.63	3.66	3.27
Engineering	12.46	13.46	11.27	13.52	12.90	9.96	9.44	8.83	8.55	7.62
General and Administrative	12.50	13.00	13.00	15.00	14.00	13.00	13.00	13.00	12.95	12.00
Capital Outlay ⁽¹⁾	4.36	2.50	3.31	6.21	5.42	5.90	6.05	6.62	4.86	3.60
Developer Projects ⁽²⁾	1.14	1.16	4.93	4.68	3.85	3.72	2.72	2.32	1.69	1.85
Total Employees ⁽³⁾	74.50	75.00	80.00	90.00	86.00	80.00	78.00	75.50	70.00	65.00
Average Years of Service	11.37	10.37	10.24	9.07	9.37	10.91	10.25	11.56	11.75	12.81

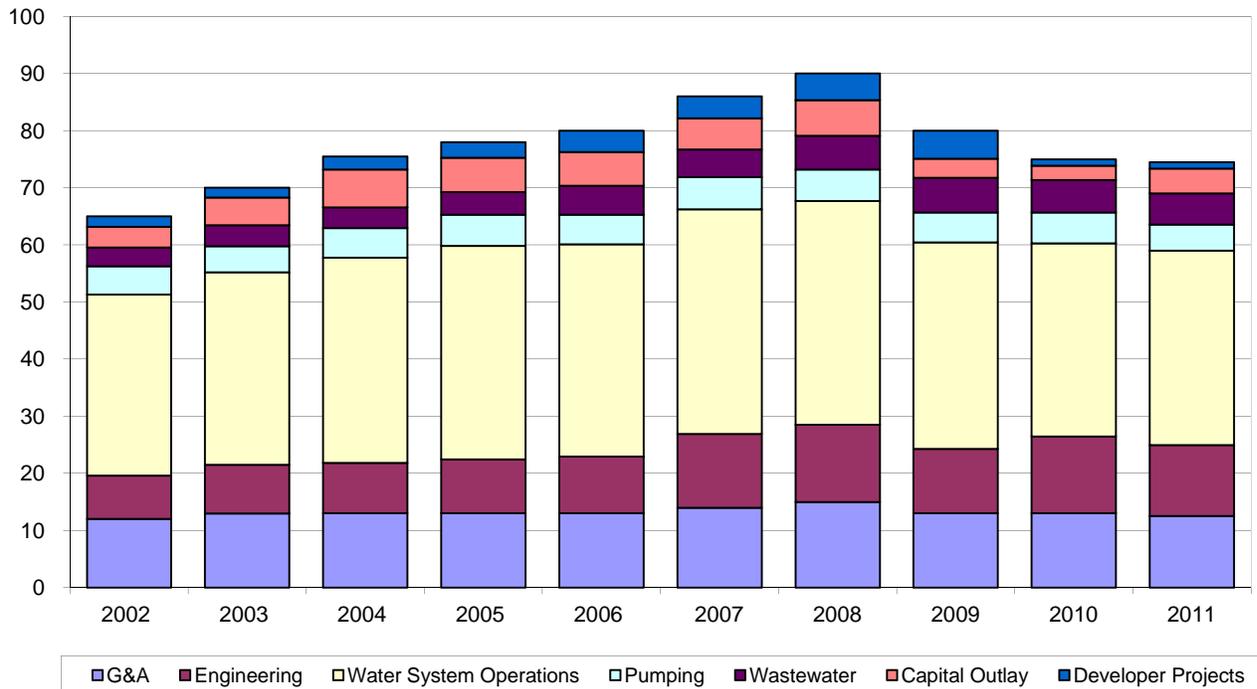
(1) Capitalized into construction in progress.

(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>2011</u>	<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>
Water:										
Service area (acres)	64,253	64,253	64,253	64,253	64,253	64,253	64,253	64,253	62,100	62,100
Miles of water main (8 inches and larger)	297	297	297	295	294	291	289	283	273	270
Number of enclosed reservoirs	42	42	42	42	42	42	41	41	41	41
Capacity of enclosed reservoirs (AF)	421	421	421	421	421	421	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	100	96	96	96	96	96	96	96	96
Total pump capacity (horsepower)	19,785	19,785	19,785	19,940	19,940	19,940	19,940	19,940	19,940	19,940
Number of service connections	10,576	10,556	10,493	10,408	10,392	10,251	9,853	9,175	8,482	8,299
Number of meters in service	9,692	9,688	9,690	9,696	9,745	9,621	9,217	8,537	7,841	7,643
Production peak (m.g.d.)	55.30	65.27	53.96	78.90	84.98	81.70	80.46	81.43	82.59	76.91
Average production (m.g.d.)	22.80	26.35	30.33	35.12	45.04	40.26	34.02	46.58	38.99	44.21
Total rainfall (inches)	23.94	19.01	14.10	19.33	7.56	13.47	33.96	11.18	18.87	4.88
Average daily temperature (F.)	61.1	61.6	62.7	63.3	63.1	63.8	62.3	64.2	62.0	61.6
Electricity purchased (1,000 kWh)	16,984	18,480	25,362	29,839	36,000	31,828	27,418	35,794	28,057	32,643
Natural gas purchased (1,000 therms)	99	390	190	209	362	347	368	576	923	914
Mainline repairs	16	11	31	39	37	21	42	23	19	19
Wastewater:										
Miles of sewer lines	57	56	56	56	55	54	53	52	46	46
Number of treatment plants	2	2	2	2	2	2	3	2	2	2
Maximum capacity of treatment plants (m.g.d.)	0.57	0.57	0.57	0.55	0.55	0.55	0.56	0.54	0.54	0.54
Average dry weather flow (m.g.d.)	0.39	0.37	0.35	0.37	0.34	0.34	0.35	0.29	0.31	0.28
Number of sewer connections	2,717	2,722	2,729	2,663	2,689	2,600 ⁽¹⁾	2,685	2,599	2,563	2,453

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
2010-11**

PAUL ADRIAN
GARY ARANT
GERALD BARNETT
RICHARD BEATH
TOMAS BORROEL
CALVIN BREWER
LEONARD BROWN
RONALD BURKE
JEFFREY BURTON
FERNANDO CARRILLO
DANIELLE CATTANEO
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
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
KATHY STETSON
JAMES SULLINS
JARED THOMAS
DEBORAH TILLEY
ROBERT TRUESDALE
GLENDA VALENZUELA
PAUL VILLALOBOS
GERARD VILLALPANDO
JESSICA WAGEMAN
DENNIS WILLIAMS
KATHERINE WILSON
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