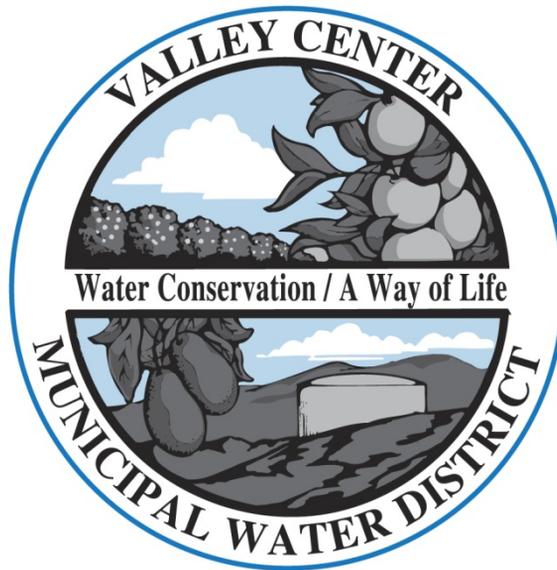


Comprehensive Annual Financial Report



Fiscal Year Ending June 30, 2012
Valley Center, CA

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

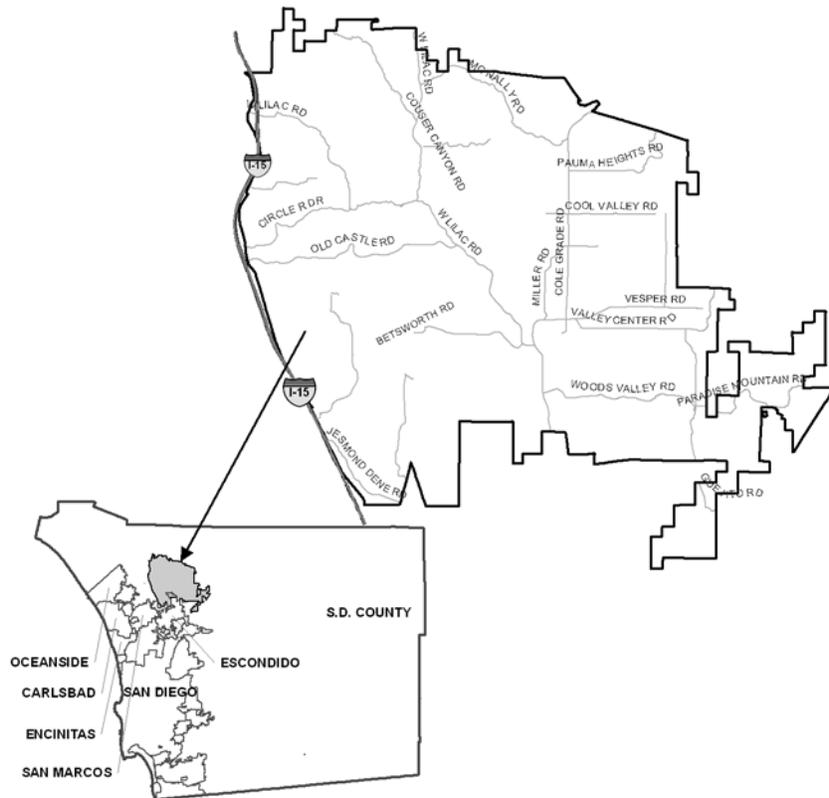
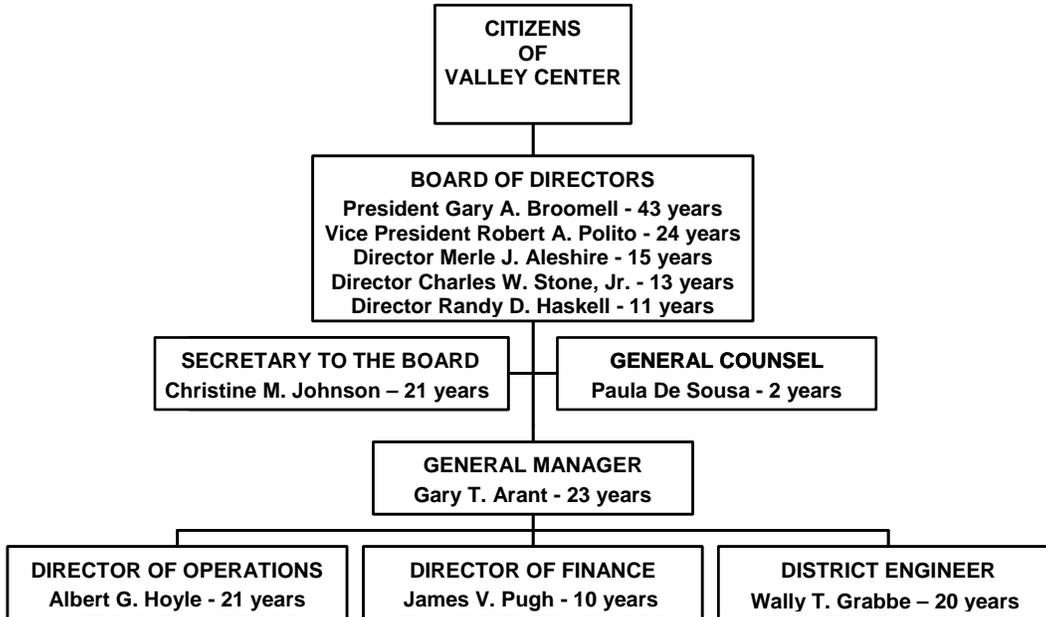
**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**
FISCAL YEAR ENDED JUNE 30, 2012

Prepared by:

The Finance Department
James V. Pugh, Director of Finance

VALLEY CENTER MUNICIPAL WATER DISTRICT

ORGANIZATION CHART With Years of Service



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

	<u>Schedule/ Table Number</u>	<u>Beginning on Page Number</u>
INTRODUCTORY SECTION		
Transmittal Letter		ii
FINANCIAL SECTION		
Independent Auditor's Report		1
Management's Discussion and Analysis		3
Basic Financial Statements		
Balance Sheet		12
Statement of Revenues, Expenses, and Changes in Net Assets		14
Statement of Cash Flows		15
Notes to Financial Statements		17
Combining Schedules		
Combining Schedule of Balance Sheets	1	36
Combining Schedule of Revenues, Expenses, and Changes in Net Assets	2	40
STATISTICAL SECTION		
Financial Trends		
Net Assets by Component	I	45
Changes In Net Assets	II	46
Revenue Capacity		
Water Sales by User Type	III	48
Active Water Meters and Wastewater Services	IV	49
Assessed Value of Taxable Property	V	50
Property Tax and Assessment Levies and Collections	VI	51
Computation of Direct and Overlapping Bonded Debt	VII	52
Property Owners by Highest Cumulative Net Assessed Property Value	VIII	53
Water Rates	IX	54
Wastewater Rates	X	55
Principal Water Customers	XI	56
Debt Capacity		
Ratios of Outstanding Debt by Type	XII	57
Pledged-Revenue Coverage	XIII	58
Demographic and Economic Information		
Demographic and Economic Statistics	XIV	59
Principal Employers – County of San Diego	XV	60
Operating Information		
Number of Employees	XVI	61
Operating and Capital Indicators	XVII	62

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, 2011

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.



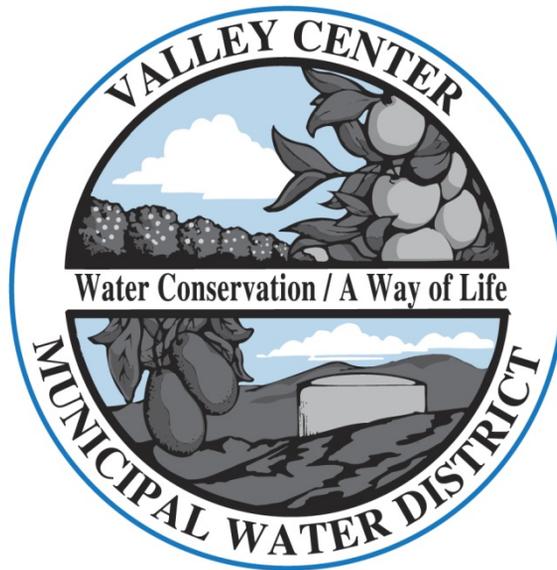
Linda C. Davison

President

Jeffrey R. Emer

Executive Director

Introductory Section







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 17, 2012

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, 2012. 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, 2012. 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 69%.

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 66 regular full-time employees working for the District.

In fiscal year 2011-12 Valley Center Municipal Water District purchased 100% of its water from the San Diego County Water Authority (SDCWA or "Authority") at a cost of \$27.4 million, or 60% of District operating expenses. The Authority imports most of its water from the Metropolitan Water District of Southern California (MWD). The District sold 26,091 acre feet of water during the year ended June 30, 2012. In comparison, 49,336 acre feet of water were delivered to District customers during the year ended June 30, 2004.

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

In addition to water supply, the District provides wastewater collection, treatment, and disposal services for approximately 2,700 customers through two wastewater treatment facilities: the 440,000 gallon per day Lower Moosa Canyon Water Reclamation Facility at Circle R Drive, near Old Highway 395, and the 70,000 gallon per day Woods Valley Ranch Wastewater Facility. 100% of the effluent from the Woods Valley Ranch facility is being discharged to the golf course storage ponds where it is used for irrigation of the golf course. Effluent from Lower Moosa Canyon is disposed of in percolation ponds, effectively recharging downstream aquifers. 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 1.3% from 2010-11 to 2011-12.

As of June 30, 2012, the estimated population of the District was 25,453. According to the San Diego Association of Governments (SANDAG), as of January 1, 2012 in the Valley Center Community Plan Area, which encompasses part, but not all, of the District, the median age of the residents was 42.2 years with a median household income of \$81,946. Total housing units in the community totaled 6,206 of which 6,135 were occupied. As of June 30, 2012, unemployment in California was 10.7%, San Diego County was 9.3%, and the local rate was 4.5%.

DISTRICT ECONOMIC RESULTS

The District established 24 new meter accounts during 2011-12 which included 14 fire meters. This raised the total number of meter connections within the District to 10,597. Of this total, 1,061 are fire meters and 786 are inactive, resulting in 8,750 revenue generating water meters at the close of the fiscal year. This is a decrease of 14 active meters compared to 2010-11.

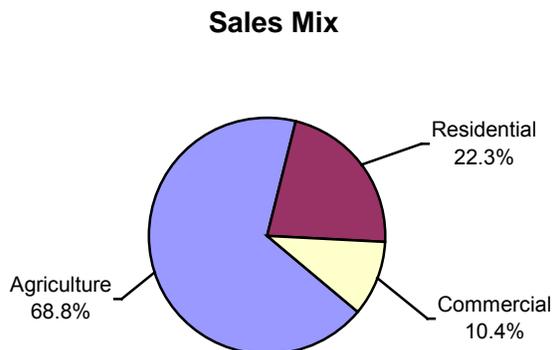
Though there is little actual private development construction, the District continues to process 27 private development projects containing 642 lots. Additionally, there are six projects with 3,511 lots that are in the planning stage and 11 projects with 1,234 lots that are inactive. It is

anticipated that approximately 10 new domestic meter connections, plus 15 new fire services, will be added during 2012-13.

Water sales for 2011-12 were 26,091 acre feet, up 1,948 acre feet or 8.1% from sales of 24,143 acre feet in 2010-11. The sales increase is due primarily to warmer temperatures and lower rainfall from the previous year, 12.2 inches for 2011-12 versus 23.9 inches in 2010-11.

Water sales continue to be impacted by economic conditions and a depressed real estate market. This fluctuation of water sales illustrates the influence that the agricultural community has on total water demand within the District.

Our agricultural customers purchased 69% of the District's total water sales in fiscal year 2011-12 compared to the average of 77% 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 2012 the combined discounts total \$274 per acre foot, based on water rates effective February 1, 2012. The IAWP will end 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, 2012, the District had \$55,000 in revenue bonds. No new debt was issued during the year just ended. The District applied for and got approval from the state of California for a State Revolving Fund Loan. The loan is for \$13,497,000 and will pay for the expansion of the Woods Valley Ranch Water Reclamation Facility located in the southern portion of the District. The loan is repayable over a twenty-year term with interest estimated at 2.2%. It is estimated that the first draw of funds will take place during fiscal year 2013-14.

STRATEGIC PLAN PERFORMANCE MEASUREMENT STANDARDS RESULTS FOR CALENDAR YEAR ENDED DECEMBER 31, 2011

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 100.0% of the time.

2. UNKNOWN WATER LOSS – *Unaccounted water loss (UWL) for any calendar year period shall be no more than 5% above the average UWL for the last five calendar years.*

Unaccounted water loss for 2011 was 1,524.3 acre feet, 18.9% below the average of the last five years, 1,879.1 acre feet.

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, 2012, 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 10.5% and 13.2% of Municipal and Industrial and Certified Agricultural total commodity costs, respectively.

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

Our pump efficiency was 102% of the design criteria.

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

One project bid with a cumulative contract amount that was 2.5% 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 99.999%.

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 0.0069% 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 1.04%, while the 12-month rolling average for U.S. Treasury Bonds was 0.25%.

MAJOR INITIATIVES - EFFORTS AND ACCOMPLISHMENTS

Supervisory Control and Data Acquisition (SCADA) System – The District has moved the project forward by completing an additional 5 sites during the year which included Old Castle, Mizpah, and Reidy Canyon 1 & 2 reservoir sites along with the MJM and Red Mountain pump station facilities.

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 during semi-peak and peak pumping demand periods. This resulted in continued energy savings and providing funds for additional pump station replacements and or the construction of future solar projects. For fiscal year 2011-12, staff implemented a number of cost-saving measures that will improve our efficiencies, productivity, and provide additional cost savings. The District signed up and will be participating in the new San Diego Gas and Electric pump and motor upgrade program that provides free financing for pump efficiency improvement costs. Hauck Mesa #2 pump was rebuilt with a high efficiency pump and motor combination under this program. The District continues to analyze and has changed a number of 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

Wastewater and water personnel upgraded the small digester at the Lower Moosa Canyon Reclamation Facility with a new fine air bubble diffuser system. The existing 35-year old aeration blowers were replaced with new VFD blowers and underground piping, which reduced our electric consumption by 15%. A sludge thickening processor was installed in one of the aeration basins at the Woods Valley Ranch Reclamation Facility. The processor has reduced the facilities electrical consumption by 20%, reduced our sludge hauling by 85%, and increased our reclaimed water sales by one acre foot per year.

The District completed an application to the California Public Health Department to certify our Lower Moosa Canyon Laboratory. Inspection and approval was granted certifying the lab which gives us the ability to perform all weekly bacteriological tests and general physical water samples.

• Solar Energy

Due to the steady decline in solar panel module pricing, the District is looking at installing solar panels at our Circle R and Tyler Pump Stations. The Circle R Pump Station will be constructed with a 58 kW solar system and the Tyler Pump Station will be a 50kW system. The District submitted an application to the California Solar Initiative Program (CSI) which is the solar rebate program for California consumers. The rebate offers different incentive levels which are based on the performance of the solar panels. The application was approved and construction is scheduled to begin in the first quarter of calendar 2013.

Staff will continue to evaluate future potential sites, as the solar module pricing and related equipment is projected to remain affordable.

General Facility Upgrades – Staff completed a number of facility improvements for increased reliability, serviceability and productivity. During the year, a new Cla-val workshop was constructed. A new residual chlorine analyzer for the VC 7 connection station was purchased and installed. Repairs and improvements were made to the internal pipeline within Lilac Bridge, and inline valves and appurtenances were installed throughout the distribution system to reduce water outages and improve system operations.

Water Quality – With the continued reduction of water flows into the Valley Center service area, the District has experienced increased water quality challenges and concerns. To combat this issue, use of operational storage capacity has been significantly reduced 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 2011-12, cleaning and minor repairs were done on seven reservoirs. In addition, Betsworth, Tyler, Red Mountain, and Rincon reservoirs were cleaned using underwater divers. These four reservoirs had not been cleaned and inspected for some time due to difficulty in taking them off-line. A new suction line was installed at the MacTan Reservoir to improve internal circulation and turn-over within the reservoir and an internal mixing device was designed, constructed and installed in the Paradise 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's agreement with the CAL Fire Puerta La Cruz detention camp for weed and brush removal continues to provide beneficial evaluations of the remote and challenging areas of our distribution system. 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 service area.

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 Betsworth Forebay, San Gabriel, and Valley Center pump stations to enable the gas engines to run during a power outage. Back-up power was installed at Rincon, Betsworth, McNally, Cobb, Ridge Ranch, and the Meadows Reservoir sites to fortify SCADA communication and our radio network. To improve emergency response with small portable generators, quick-connects were installed at Paradise, MJM, Old Castle, and Burnt Mountain reservoirs.

A comprehensive maintenance program was developed to sustain our emergency equipment and ensure proper functionality should an emergency event occur.

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 (WPA) continued between Poseidon and the SDCWA throughout 2011-2012. It is now anticipated that, if the WPA is ultimately approved by the SDCWA Board of Directors, the project could be online by late 2016, early 2017.

Geographical Information System (GIS) – GIS desktops are kept up-to-date with current software updates and the data is updated on a quarterly basis. Work continues on the easement scanning project and a strategy is being developed to link these documents and record drawings to the GIS map features. The new mapping document management system, currently under implementation, will allow the creation of a more robust database while providing access to those documents directly from the GIS user-interface. Web-based maps continue to be the focus for the future of distributing data and information with the GIS via the internet.

Information Technology System Upgrades – All office servers have now been replaced with new hardware to provide increased speed, better reliability, and compatibility with future application development. A new virtual server cluster was installed that provides redundancy and failover for critical services. Most servers have now been virtualized, reducing power and hardware maintenance costs. Work continues to provide data and service redundancy to our remote sites.

Database System Upgrades – Work is continuing to consolidate various databases and provide more efficient access to the data for our employees. A new document management system was developed to manage and index all customer documents and records. A custom database application is under development that provides unified access to all company data, and new applications are being developed to manage purchase orders, work orders, and maintenance records.

Wireless Network Enhancements – Work is continuing to extend and improve the District's wireless network to all facilities. The data radio network continues to be enhanced with additional redundancy to provide the necessary reliability and protection against equipment and link failures. Older wireless radios are being upgraded with new technology to provide increased bandwidth, better monitoring, and added reliability. Wireless access points are being deployed to several key sites to allow field workers to access information in our computer systems.

Network Monitoring System – A comprehensive network monitoring and alert system for the District's sophisticated network infrastructure is now fully operational. The system monitors and records data and statistics from all network devices and provides customized reports and alerts. All Uninterruptible Power Supplies (UPS) are now being fully monitored, delivering instant status updates during power failures.

Planning and Construction Projects

Transmission, Distribution, and Storage Facilities Improvements – Technical engineering services associated with private development were provided which included ten projects for concept approval. Plan review and approval was finished for four projects with a total of eighty seven lots. Three fire hydrant special projects were completed and facilities for one private development were accepted into our distribution system.

Local Water Supply Projects – Staff continued to evaluate the feasibility of several projects for the development of local water supplies to supplement imported water, and continued the study of a cost sharing agreement with a local well owner in the Paradise Mountain area of the District for possible equipping and connection to the District's water distribution system. This will either supplement the District's domestic supply or off-set the owner's water-use costs in another location within the District. The District also prepared and submitted an application for federal funding from the Bureau of Reclamation's Water SMART program for preparation of the District-wide water reclamation feasibility study. This study would be used to apply for grants for partial construction funding of feasible water reclamation projects. Other projects including local groundwater production, various recycled water projects, and non-potable distribution systems were further refined and 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, continue to hamper 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 snowfall 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 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 the 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 to be located in the North Village area. Recently, the North Village developers have expressed an interest in participation in the South Village Wastewater Expansion Project.

Work on the project is anticipated to continue in earnest once economic conditions improve sufficiently to justify proceeding with the development.

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 groundwater 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 \$13,497,000 Clean Water State Revolving Fund (SRF) loan for the South Village Wastewater Expansion Project. In May 2012, the State Water Resources Control Board approved a preliminary funding commitment for the project.

The proposed expansion would provide wastewater service for an additional 350 to 720 equivalent dwelling units (EDUs) in the South and North Village areas of the District, depending on final participation levels. The expansion project would include constructing a 125,000 gallon per day expansion to the existing Woods Valley Ranch Water Reclamation Facility, a low pressure wastewater collection system, a seasonal storage pond, and would potentially produce 78 to 160 acre feet of additional recycled water annually. 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 late 2013, and be completed early 2015. Proposed development to be included in the project currently consists of the proposed 71 lot Butterfield Trails subdivision, at least 20 acres of new commercial development, several of the existing restaurants and stores within the South Village service area, and proposed development within the North Village area.

Meadowood Annexation – In 2010, the District was requested to consider annexation of the proposed Meadowood Development, a 389.5 acre multi-use development consisting of up to 886 dwelling units 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 requesting the Local Agency Formation Commission (LAFCO), San Diego County Water Authority (SDCWA), and the Metropolitan Water District (MWD) to initiate annexation proceedings. Annexation applications were prepared and submitted to LAFCO and the SDCWA. In January 2012, San Diego County approved the Water Supply Assessment and Verification Report required for the project and certified the environmental impact report prepared by the developer.

Lilac Hills Amendment Application – Accretive Investments, Inc. after securing from the County a Plan Amendment Authorization (PAA) for Lilac Hills, a 608 acre multi-use master planned community development located in the vicinity of West Lilac Road, Rodriguez Road, and Nelson Way, has submitted an application to amend the County's approved General Plan for the proposed project. District staff met with the project proponent numerous times to identify historic and anticipated water use. 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.

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, 2011. 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.

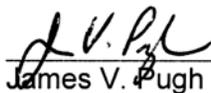
ACKNOWLEDGEMENTS

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



James V. Pugh
Director of Finance

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



In Memoriam

William J. Jeffrey, Director of Finance
Valley Center Municipal Water District
April 1996 to August 2012

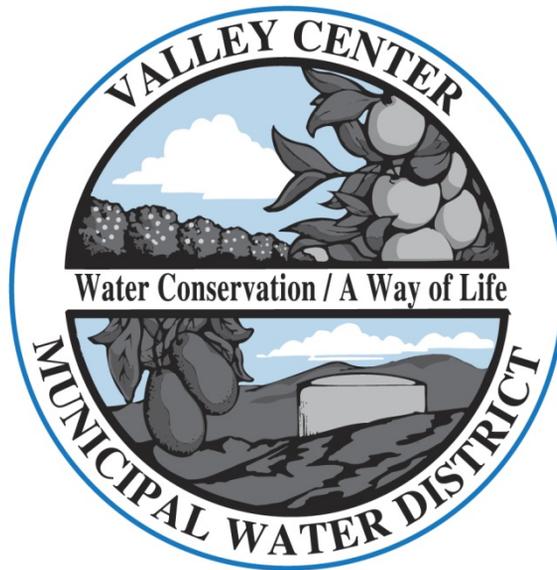
In August 2012, Bill Jeffrey, Finance Director for the District, passed away while hiking the Pacific Crest Trail in Oregon.

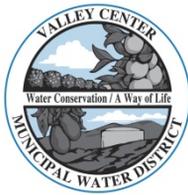
During his tenure as Director of Finance, Bill led the finance department to perennially receive the Excellence in Financial Reporting Award for the Districts CAFR and the Excellence in Budgeting Award from the California Society of Municipal Finance Officers.

He was active in the Boy Scouts of America, a youth leader at his church, and a special action team leader for the San Diego County Sheriff's Department Mutual Aid Communications System. He was a passionate hiker and was very active in the Pacific Crest Trail Association.

Bill passed doing what he loved to do; hiking. He will be sorely missed and forever in our memories.

Financial Section







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

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

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

Independent Auditor's Report

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

We have audited the accompanying balance sheet of Valley Center Municipal Water District (the "District") as of June 30, 2012, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements 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 the District as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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 the District's financial statements as a whole. The introductory section, the combining schedule of balance sheets 2012, the combining schedule of revenues, expenses, and changes in net assets 2012 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 sheet 2012 and the combining schedule of revenues, expenses, and changes in net assets 2012 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 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 financial statements for the year ended June 30, 2011, which are not presented with the accompanying financial statements. In our report dated December 19, 2011, we expressed an unqualified opinion on the District's financial statements taken as a whole. The combining schedule of balance sheets 2011 and the combining schedule of revenues, expenses and changes in net assets 2011 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2011 financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 combining schedule of balance sheets 2011 and combining schedule of revenues, expenses and changes in net assets 2011 are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Leaf & Cole LLP

San Diego, California
December 17, 2012

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, 2012. 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 statement of net assets 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 statement of net assets 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

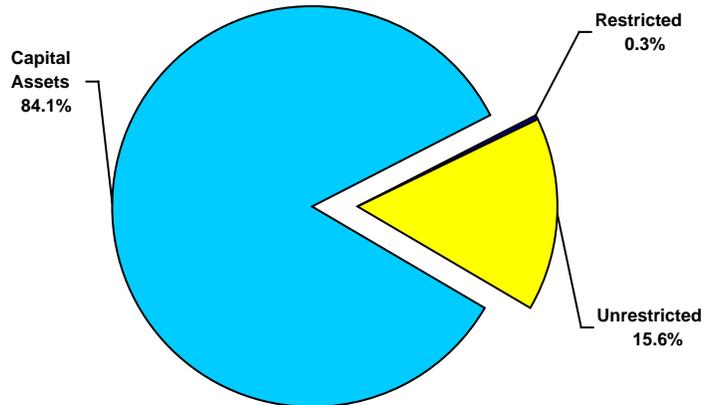
FINANCIAL HIGHLIGHTS

During the year ended June 30, 2012, net assets decreased by \$1,723,675, including depreciation expense of \$4,753,297. Total revenues were \$43,754,683, which included operating revenues of \$40,807,916, nonoperating revenues of \$2,917,157, and capital contributions of \$29,610. Total revenues were up \$5,989,862 from June 30, 2011. Total expenses increased \$3,593,030. For the year ended June 30, 2012, operating expenses exceeded operating revenues by \$4,660,334 compared to \$7,499,663 for the previous year. Nonoperating revenues of \$2,917,157 exceeded nonoperating expenses of \$10,108. 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 2011 and 2012 from \$94,272,191 to \$92,548,516. Net assets invested in capital assets, net of related debt, decreased \$3,420,005, restricted net assets increased \$25,884, and unrestricted net assets increased \$1,670,446.

TOTAL NET ASSETS
Fiscal Year 2011-12



STATEMENT OF NET ASSETS

	2012	2011
Current Assets	\$ 25,399,927	\$ 22,733,687
Restricted assets	302,877	276,993
Capital assets	77,884,804	81,414,808
Other Noncurrent Assets	200	3,709
Total Assets	\$103,587,808	\$104,429,197
Current liabilities	\$ 9,777,313	\$ 8,946,094
Noncurrent liabilities	1,261,979	1,210,912
Total Liabilities	11,039,292	10,157,006
Net assets:		
Invested in capital assets, net of related debt	77,829,804	81,249,809
Restricted for facility expansion	302,877	276,993
Unrestricted	14,415,835	12,745,389
Total Net Assets	92,548,516	94,272,191
Total Liabilities and Net Assets	\$103,587,808	\$104,429,197

MANAGEMENT'S DISCUSSION AND ANALYSIS

Change in Net Assets - The District's operating revenues increased \$6,448,351, or 18.8% to \$40,807,916 as a result of rate increases and a sales volume increase of 8.1%. The volume increase is due to warmer temperatures and decreased rainfall from the previous year. In 2011-12 there was 12.2 inches of rain compared to 23.9 inches in 2010-11.

The District's operating expenses increased \$3,609,022, or 8.6% to \$45,468,250. Operating expenses increased due to increased water purchases and significant increases in the wholesale price of water. The cost of water sold went up \$3,863,376, or 16.4%, from the previous year. In addition, wastewater collection and treatment costs increased \$111,820. These increases are offset by lower water systems operations costs of \$82,128, engineering expenses of \$54,754, general and administrative expenses of \$71,076, and depreciation expense of \$155,310.

The District's investment income decreased slightly, \$5,078, as yields on investments continue to drop. Property taxes and assessments were down, \$13,380, or 0.5%, to \$2,499,875 and other nonoperating revenues also decreased by \$26,160.

CHANGES IN NET ASSETS

	2012	2011
<u>Operating Revenues:</u>		
Water sales and pumping charges	\$38,397,602	\$31,985,135
Wastewater charges	1,811,397	1,761,685
Meter installation fees	88,834	57,748
Other water operating revenues	510,083	554,997
Total Operating Revenues	40,807,916	34,359,565
<u>Operating Expenses:</u>		
Cost of water sold	27,385,538	23,522,162
Energy and pumping costs	2,522,694	2,525,600
Water systems operations	5,008,872	5,091,000
Wastewater collection and treatment	1,019,208	907,388
Engineering	1,661,797	1,716,551
General and administrative	3,116,844	3,187,920
Depreciation	4,753,297	4,908,607
Total Operating Expenses	45,468,250	41,859,228
Operating (Loss)	(4,660,334)	(7,499,663)
<u>Nonoperating Revenues and (Expenses):</u>		
Property taxes and assessments	2,499,875	2,513,255
Investment income	127,900	132,978
Other nonoperating revenues	289,382	315,542
Interest expense	(1,709)	(3,883)
Other nonoperating expenses	(8,399)	(22,217)
Total Nonoperating Revenues and (Expenses)	2,907,049	2,935,675
(Loss) Before Contributions	(1,753,285)	(4,563,988)
Capital Contributions	29,610	443,481
Change in Net Assets	(1,723,675)	(4,120,507)
Net Assets at Beginning of Year	94,272,191	98,392,698
NET ASSETS AT END OF YEAR	\$92,548,516	\$94,272,191

MANAGEMENT'S DISCUSSION AND ANALYSIS

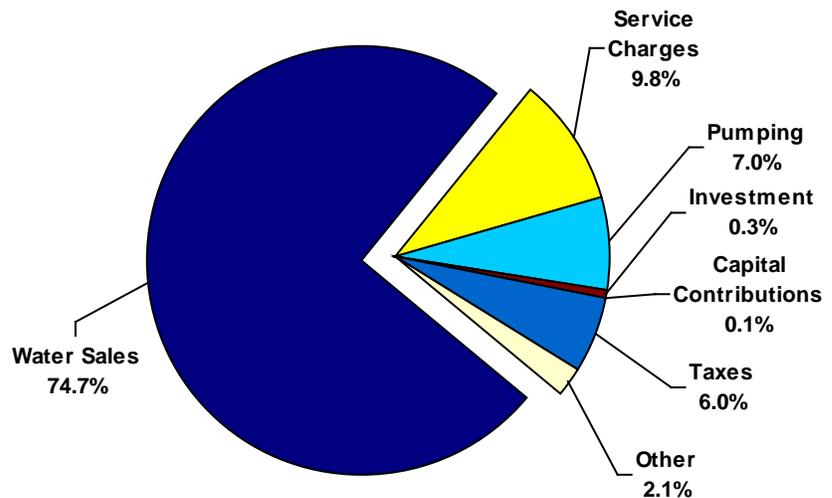
ANALYSIS OF OPERATIONS

Water Operations

Revenues for the year ended June 30, 2012, totaled \$41,922,988, which is an increase of \$6,270,103, or 17.6% from the prior year. Details of this increase in revenues are as follows:

- Water sales revenue increased by 21.9%, or \$5,635,344, from the prior year. There was an 8.1% increase in the volume of water sold. In 2011-12, 26,091 acre feet of water were billed compared to 24,143 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). In addition, rates went up again on February 1, 2012 by 10.9% for domestic, 13.0% for IAWP, and 9.5% for SAWR. These increases are due to increases in wholesale costs from the District's suppliers. Meter charges were \$563,698, or 15.8% higher, \$3,561,805 in 2010-11 compared to \$4,125,503 in 2011-12. Meter service charges increased 19.5% on February 1, 2011, and another 14.2% on February 1, 2012.

WATER OPERATIONS REVENUE Fiscal Year 2011-12



- Energy and pumping revenues were up 7.8%, or \$213,425, due to the increase in the volume of water sold.
- Property taxes and assessments decreased slightly by 0.5%, or \$13,380, from 2010-11 to 2011-12. 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 1.7%, or \$1,867, from the prior year. The decrease is a result of lower yields earned during the year coupled with higher cash balances.
- Meter installations fees for the year were up 53.8% from the prior year, or \$31,086. This is due to an increase in the amount of parts and backflow devices purchased.
- Other water operating revenues were down \$44,914 in 2011-12, \$510,083 compared to \$554,997 in 2010-11. The decline is due to lower inspection fees and other income revenues.
- Capital contributions, which vary based on developer projects, decreased by \$87,129 or 74.6% from the prior year.

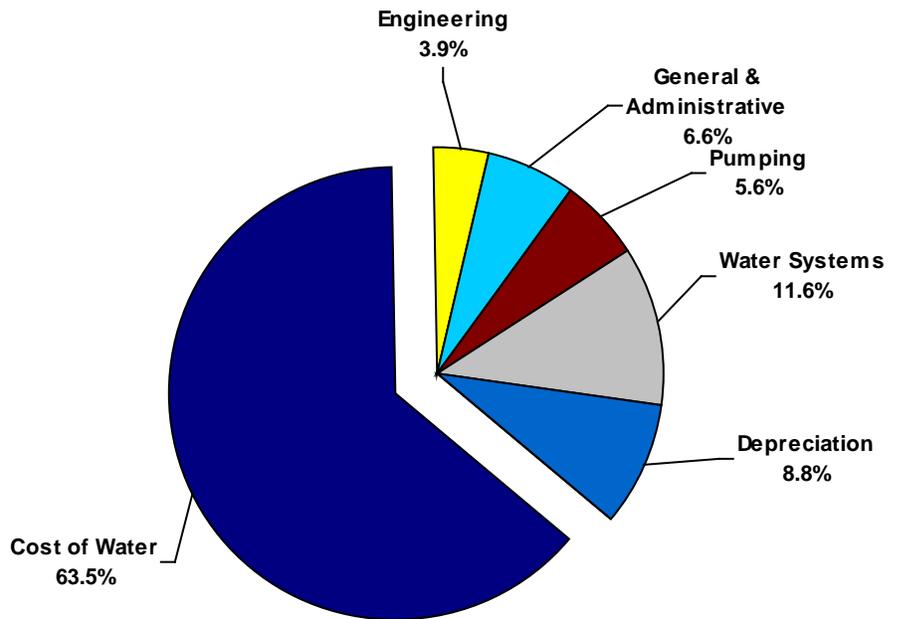
MANAGEMENT'S DISCUSSION AND ANALYSIS

Expenses for the year ended June 30, 2012, totaled \$43,103,091, an increase of 8.8% or \$3,478,702. Certain significant expenses are as follows:

- The cost of water sold increased 16.4% over the prior year. Water purchases were up from the prior year along with higher wholesale water prices. In 2010-11, the District purchased 25,674 acre feet of water at an average price of \$916 per acre foot. In the current year, the District purchased 27,723 acre feet of water at an average price of \$988 per acre foot, an increase of 7.9% or \$72 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 2011-12



- Agricultural discounts received were \$1,724,404 for fiscal year 2011-12, including \$1,342,745 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 were virtually unchanged compared to last year even though the District purchased an additional 2,049 acre feet of water in 2011-12 than in 2010-11. This shows the effect that our energy management strategies and higher pump efficiencies have on our energy costs.
- Water systems operations expenses showed a reduction of \$82,128, or 1.6% from last year, due to reduced maintenance and supply costs.
- Engineering expenses for 2011-12 were 3.2%, or \$54,611 lower than 2010-11. This is a result of lower legal services, outside professional services, and supply costs.
- General and administrative expenses decreased 2.7% or \$79,384 due to a reduction in the write-off of uncollectible customer accounts, as well as decreases in insurance, legal services, and supply costs which were offset by higher maintenance and labor costs.
- Depreciation expense in 2011-12 decreased 3.8%, or \$147,799, from the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

WATER OPERATIONS CHANGES IN NET ASSETS

REVENUES:	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Water Sales	\$31,331,872	\$25,696,528	\$ 5,635,344	21.9 %
Meter Service Charges	4,125,503	3,561,805	563,698	15.8 %
Pumping and energy charges	2,940,227	2,726,802	213,425	7.8 %
Meter Installation Fees	88,834	57,748	31,086	53.8 %
Other water operating revenues	510,083	554,997	(44,914)	(8.1) %
Property taxes and assessments	2,499,875	2,513,255	(13,380)	(0.5) %
Investment income	107,602	109,469	(1,867)	(1.7) %
Other nonoperating revenues	289,382	315,542	(26,160)	(8.3) %
Capital Contributions	29,610	116,739	(87,129)	(74.6) %
Total revenues	<u>41,922,988</u>	<u>35,652,885</u>	<u>6,270,103</u>	<u>17.6 %</u>
 EXPENSES:				
Cost of water sold	27,385,538	23,522,162	3,863,376	16.4 %
Energy and pumping costs	2,412,106	2,411,168	938	0.0 %
Water systems operations	5,008,872	5,091,000	(82,128)	(1.6) %
Engineering	1,661,797	1,716,408	(54,611)	(3.2) %
General and administrative	2,858,307	2,937,691	(79,384)	(2.7) %
Depreciation	3,772,061	3,919,860	(147,799)	(3.8) %
Interest Expense	1,709	3,883	(2,174)	(56.0) %
Other nonoperating expenses	2,701	22,217	(19,516)	(87.8) %
Total expenses	<u>43,103,091</u>	<u>39,624,389</u>	<u>3,478,702</u>	<u>8.8 %</u>
 Change in Net Assets	 <u>\$(1,180,103)</u>	 <u>\$(3,971,504)</u>	 <u>\$2,791,401</u>	 <u>70.3 %</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Wastewater Treatment Operations

The Lower Moosa Canyon Water Reclamation Facility serves 2,462 customers in a limited geographic area on the west side of the District. Total revenues were \$1,437,531, a decrease of \$286,397, or 16.6% from the prior year. This decrease is due to lower contributed capital offset by higher service charges. The service charge increase is attributable to a 4.8% fee increase effective February 2012.

LOWER MOOSA CHANGES IN NET ASSETS

	2012	2011	Increase (Decrease)	Percent Change
REVENUES:				
Wastewater charges	\$ 1,425,913	\$ 1,383,976	\$ 41,937	3.0 %
Investment income	11,618	13,210	(1,592)	(12.1)%
Capital contributions	0	326,742	(326,742)	(100.0)%
Total revenues	<u>1,437,531</u>	<u>1,723,928</u>	<u>(286,397)</u>	<u>(16.6)%</u>
EXPENSES:				
Energy	71,602	72,056	(454)	(0.6)%
Wastewater collection and treatment	815,713	742,491	73,222	9.9 %
Engineering	0	143	(143)	(100.0)%
General and administrative	188,790	186,285	2,505	1.3 %
Depreciation	405,437	413,196	(7,759)	(1.9)%
Other nonoperating expenses	5,698	0	5,698	100.0 %
Total expenses	<u>1,487,240</u>	<u>1,414,171</u>	<u>73,069</u>	<u>5.2 %</u>
Change in Net Assets	<u>\$ (49,709)</u>	<u>\$ 309,757</u>	<u>\$ (359,466)</u>	<u>(116.0)%</u>

Expenses for the year ended June 30, 2012, totaled \$1,487,240, an increase of 5.2% or \$73,069. Certain significant expenses are as follows:

- Energy is virtually unchanged from the prior year due to tighter process controls and changes in plant operations that have been put into effect over the last several years
- Wastewater collection and treatment costs were 9.9% higher than last year, or \$73,222. This increase is due to higher labor and maintenance costs.
- General and administrative expenses were 1.3% more than last year, or \$2,505. This is due to higher labor and outside services that were offset by reduced maintenance costs.

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 to serve the Treasures Development. These bonds are not a general obligation of the District and are not presented in this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Woods Valley Ranch Water Reclamation Facility is located in the South Village General Service Area 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>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
REVENUES:				
Wastewater charges	\$ 385,484	\$ 377,709	\$ 7,775	2.1 %
Investment income	8,680	10,299	(1,619)	(15.7)%
Total revenues	<u>394,164</u>	<u>388,008</u>	<u>6,156</u>	<u>1.6 %</u>
EXPENSES:				
Energy	38,986	42,376	(3,390)	(8.0)%
Wastewater collection and treatment	203,495	164,897	38,598	23.4 %
General and administrative	69,747	63,944	5,803	9.1 %
Depreciation	575,799	575,551	248	0.0 %
Total expenses	<u>888,027</u>	<u>846,768</u>	<u>41,259</u>	<u>4.9 %</u>
Change in Net Assets	<u>\$(493,863)</u>	<u>\$(458,760)</u>	<u>\$(35,103)</u>	<u>(7.7)%</u>

- Total expenses were \$41,259 higher than the previous year. Reductions in energy of \$3,390 were offset by higher wastewater collection and treatment and general and administrative expenses. The wastewater collection and treatment costs are up due to higher outside services and labor costs.

CAPITAL ASSETS

Capital assets include land, annexation fees, transmission and distribution system, general plant, and construction-in-progress. At June 30, 2012, the District had \$146,863,686 in capital assets with \$68,978,882 of accumulated depreciation. This represents a net decrease (additions less deductions) of \$3,530,004, or 4.3% over the prior year. Significant additions include SCADA system improvements, Centrifuge Upgrade, Aeration Blowers, Integrated Water Resources Management Plan, and Emergency Stationary Generators.

CAPITAL ASSETS

	<u>2012</u>	<u>2011</u>
Land	\$ 4,518,097	\$ 4,518,097
Annexation fees	786,185	786,185
Construction-in-progress	2,772,720	2,324,989
Transmission and distribution system	124,590,317	124,361,870
General plant	<u>14,196,367</u>	<u>13,751,547</u>
Total	<u>\$146,863,686</u>	<u>\$145,742,688</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

LONG-TERM DEBT

At June 30, 2012, the District had \$55,000 in revenue bonds, compared to \$165,000 in revenue bonds payable at June 30, 2011. No new debt was issued during the year. The District had no general obligation bonded debt at June 30, 2012. 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, 2012, the District had designated \$3,105,043 of its unrestricted net assets as a water operating reserve to mitigate the potential of these effects. This represents approximately three and one-half months operating and maintenance expenses. Including the pumping rate stabilization and rate stabilization un-appropriated reserve funds increases this to six months. Wastewater fund reserves are excluded from this figure.

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, 2012**

ASSETS

Current Assets: (Notes 1 and 2)

Cash and cash equivalents	\$ 9,123,572
Investments	5,923,193
Accounts receivable - water and wastewater, net	6,808,020
Interest receivable	28,640
Taxes receivable	3,197
Other receivables	32,663
Inventory	708,128
Prepaid expenses and deposits	410,507
Work in progress for others	<u>2,362,007</u>
Total Current Assets	<u>25,399,927</u>

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

Restricted Assets:

Cash and cash equivalents	110,518
Investments	<u>192,359</u>
Total Restricted Assets	<u>302,877</u>

Capital Assets:

Nondepreciable capital assets	8,077,003
Depreciable capital assets, net	<u>69,807,801</u>
Total Capital Assets	<u>77,884,804</u>

Other Noncurrent Assets:

OPEB asset	<u>200</u>
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Total Noncurrent Assets	<u>78,187,881</u>
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TOTAL ASSETS	\$ <u>103,587,808</u>
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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, 2012**

LIABILITIES AND NET ASSETS

Current Liabilities: (Notes 1 and 5)

Accounts payable	\$ 6,408,200
Accrued payroll	219,986
Accrued compensated absences	653,900
Customer deposits	2,440,227
Current portion of revenue bonds	55,000
Total Current Liabilities	9,777,313

Noncurrent Liabilities: (Note 1)

Accrued compensated absences	1,261,979
Total Noncurrent Liabilities	1,261,979

Total Liabilities	11,039,292
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Commitments and Contingencies (Notes 8, 9 and 10)

Net Assets: (Note 7)

Invested in capital assets, net of related debt	77,829,804
Restricted for facility expansion	302,877
Unrestricted	14,415,835
Total Net Assets	92,548,516

TOTAL LIABILITIES AND NET ASSETS	\$ 103,587,808
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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, 2012**

Operating Revenues:

Water sales and pumping charges	\$ 38,397,602
Wastewater charges	1,811,397
Meter installation fees	88,834
Other water operating revenues	510,083
Total Operating Revenues	40,807,916

Operating Expenses:

Cost of water sold	27,385,538
Energy and pumping costs	2,522,694
Water systems operations	5,008,872
Wastewater collection and treatment	1,019,208
Engineering	1,661,797
General and administrative	3,116,844
Depreciation	4,753,297
Total Operating Expenses	45,468,250

Operating (Loss)	(4,660,334)
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Nonoperating Revenues and (Expenses):

Property taxes and assessments	2,499,875
Investment income	127,900
Other nonoperating revenues	289,382
Interest expense	(1,709)
Other nonoperating expenses	(8,399)
Total Nonoperating Revenues (Expenses)	2,907,049

Loss Before Contributions	(1,753,285)
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Capital Contributions	29,610
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Change in Net Assets	(1,723,675)
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Net Assets at Beginning of Year	94,272,191
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NET ASSETS AT END OF YEAR	\$ 92,548,516
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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, 2012**

Cash Flow From Operating Activities:

Receipts from customers	\$ 39,670,164
Payments to suppliers for goods and services	(34,285,133)
Payments to employees for services	(5,726,220)
Change in work in progress for others	(131,091)
Change in customer deposits	78,347
Other nonoperating revenue	276,649
Net Cash Used in Operating Activities	(117,284)

Cash Flow From Noncapital Financing Activities:

Property taxes and assessments received	2,500,931
Net Cash Provided by Noncapital Financing Activities	2,500,931

Cash Flows From Capital and Related Financing Activities:

Acquisition and construction of capital assets	(1,067,891)
Proceeds from disposition of capital assets	6,000
Principal paid on revenue bonds	(110,000)
Interest paid on revenue bonds	(1,709)
Capital contributions	24,136
Net Cash Used in Capital and Related Financing Activities	(1,149,464)

Cash Flows From Investing Activities:

Purchases of investments	(4,099,634)
Proceeds from maturities of investments	3,894,750
Investment income received	126,363
Net Cash Used in Investing Activities	(78,521)

Net Increase in Cash and Cash Equivalents 1,155,662

Cash and Cash Equivalents at Beginning of Year 8,078,428

CASH AND CASH EQUIVALENTS AT END OF YEAR **\$ 9,234,090**

(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, 2012**

Reconciliation of Operating (Loss) to Net

Cash Used in Operating Activities:

Operating (Loss) \$ (4,660,334)

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

Depreciation 4,753,297

Other nonoperating revenues 283,382

Realized gains and losses (6,733)

Change in current assets and liabilities:

Accounts receivable - water and wastewater, net (1,149,201)

Other receivables 11,449

Inventory (911)

Prepaid expenses and deposits (54,610)

Work in progress for others (131,091)

OPEB asset 3,509

Accounts payable 656,451

Accrued payroll 5,894

Accrued compensated absences 93,267

Customer deposits 78,347

Net Cash Used in Operating Activities \$ (117,284)

Cash and Cash Equivalents:

Financial Statement Classification

Cash and cash equivalents \$ 9,123,572

Restricted cash and cash equivalents 110,518

Total Cash and Cash Equivalents \$ 9,234,090

Noncash Investing, Capital and Financing Activities:

Customer contributions of capital assets \$ 5,474

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

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement 14, as amended by GASB Statement 39. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has no component units.

(b) Basis of Accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, the statement of net assets 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 preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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

(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.

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, 2012, 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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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

(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 \$6,808,020 have been reduced by an allowance for estimated uncollectible accounts in the amount of \$93,386 at June 30, 2012.

(i) Inventory

Inventory consists primarily of materials used in the construction and maintenance of capital assets and is valued at the lower of current average cost or market. Water inventory is valued at cost.

At June 30, 2012, inventory consists of the following:

Water inventory	\$ 126,190
Materials inventory	581,938
	\$ 708,128

(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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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

(k) Accrued Compensated Absences

Accumulated unpaid vacation and sick leave is recorded as an expense and liability as benefits accrue to employees. Accrued compensated absences totaled \$1,915,879 at June 30, 2012. The District estimates the current portion to be \$653,900. The following is a detail:

	<u>Balance June 30, 2011</u>	<u>Earned</u>	<u>Used</u>	<u>Balance June 30, 2012</u>	<u>Current Portion</u>
Accrued compensated absences	\$ 1,822,612	\$ 552,780	\$ 459,513	\$ 1,915,879	\$ 653,900

(l) Interest

Interest costs, less interest earned on related tax-exempt borrowings, are capitalized during the period of major capital asset additions. The capitalized interest is recorded as part of the asset to which it is related and is depreciated over the estimated useful life of the related asset. No interest was capitalized during the year.

(m) Classification of Liabilities

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

(n) Unrestricted Net Assets

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

(o) Pronouncements of GASB and FASB

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

(p) Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 17, 2012, the date the financial statements were available to be issued.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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.

Cash and investments held by the District were comprised of the following at June 30, 2012:

	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>	
		<u>Less Than 1 Year</u>	<u>1 - 5</u>
Cash on hand	\$ 1,200	\$ 1,200	\$ -
California Local Agency Investment Fund (LAIF)	4,745,608	4,745,608	-
San Diego County Treasurer's Pooled Money Fund	4,117,291	4,117,291	-
Open Ended Money Market Mutual Funds	252,661	252,661	-
Demand deposits	117,330	117,330	-
Investments:			
United States Agency Securities	1,833,141	-	1,833,141
Certificates of Deposit	4,282,411	754,917	3,527,494
Total Cash and Investments	<u>\$ 15,349,642</u>	<u>\$ 9,989,007</u>	<u>\$ 5,360,635</u>
Financial Statement Classification:			
Cash and Cash Equivalents	\$ 9,123,572		
Investments	5,923,193		
Restricted cash and cash equivalents	110,518		
Restricted Investments	192,359		
Total	<u>\$ 15,349,642</u>		

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 2 - Cash and Investments: (Continued)

(b) Concentration of Credit Risk

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

<u>Issuer</u>	<u>Percentage</u>
United States Government Sponsored Enterprises:	
Federal National Mortgage Association	20.0
Federal Home Loan Bank	6.0

(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 National Mortgage Association	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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 2 - Cash and Investments: (Continued)

(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.

Note 3 - Restricted Assets:

Restricted assets were provided by, and are to be used for, the following at June 30, 2012:

<u>Funding Source</u>	<u>Use</u>	
Capacity fees	Facility expansion	<u>\$ 302,877</u>

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as necessary.

Note 4 - Capital Assets:

Capital assets consist of the following:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2012</u>
Capital Assets Not Being Depreciated:				
Land	\$ 4,518,097	\$ -	\$ -	\$ 4,518,097
Annexation fees	786,185	-	-	786,185
Construction in progress	2,324,989	1,242,821	(795,089)	2,772,721
	<u>7,629,271</u>	<u>1,242,821</u>	<u>(795,089)</u>	<u>8,077,003</u>
Capital Assets Being Depreciated:				
Transmission and distribution system	124,361,870	286,731	(58,285)	124,590,316
General plant	13,751,547	497,229	(52,409)	14,196,367
	<u>138,113,417</u>	<u>783,960</u>	<u>(110,694)</u>	<u>138,786,683</u>
Less Accumulated Depreciation:				
Transmission and distribution system	(55,077,573)	(3,432,070)	49,886	(58,459,757)
General Plant	(9,250,307)	(1,321,227)	52,409	(10,519,125)
	<u>(64,327,880)</u>	<u>(4,753,297)</u>	<u>102,295</u>	<u>(68,978,882)</u>
Net Capital Assets Being Depreciated	<u>73,785,537</u>	<u>(3,969,337)</u>	<u>(8,399)</u>	<u>69,807,801</u>
Net Capital Assets	<u>\$ 81,414,808</u>	<u>\$ (2,726,516)</u>	<u>\$ (803,488)</u>	<u>\$ 77,884,804</u>

Depreciation totaled \$4,753,297 for the year ended June 30, 2012.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 5 - 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, 2012, total \$55,000. Varying amounts of principal plus interest at 2.015% (as of June 30, 2012) are payable semiannually. The final maturity date for the current outstanding bonds was July 1, 2012, when the revenue bonds were paid in full. 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, 2011</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>	<u>Current Portion</u>
Revenue Bonds	\$ <u>165,000</u>	\$ <u>110,000</u>	\$ <u>55,000</u>	\$ <u>55,000</u>

Aggregate maturities of the revenue bond for fiscal years subsequent to June 30, 2012, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ <u>55,000</u>	\$ <u>-</u>	\$ <u>55,000</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, 2012, totaled \$720,000.

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, 2012**

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, 2012:

Capital improvements	\$ 6,578,454
Operating reserve	3,243,530
Pumping rate stabilization	1,890,945
Wastewater capital replacement reserves	1,808,310
Post-retirement health care cost	618,276
Rate stabilization	217,158
Agricultural rebate	59,162
Unrestricted Net Assets	<u>\$ 14,415,835</u>

Note 8 - Defined Benefit Pension Plan:

(a) Plan Description

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

(b) Funding Policy

The District’s active plan employees make contributions of 8.00% of their covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members at 2.7% at 55 years of age. 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, 2012 and 2011, were 28.209% and 25.760%, 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, 2012, 2011 and 2010, the District’s annual pension cost and actual contribution were \$1,669,604, \$1,602,720 and \$1,555,802, respectively, which were equal to the required contributions each year. The required contribution for the fiscal year ended June 30, 2012, was determined as part of the June 30, 2009, actuarial valuation.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2010
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, 2011, was a negative \$11,105,070.

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, 2011, was 21 years.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2009	\$ 1,523,081	100%	\$ -
June 30, 2010	1,555,802	100%	-
June 30, 2011	1,602,720	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, 2012**

Note 9 - Post Employment Benefits: (Continued)

Funding Policy and Annual OPEB Costs

The contribution requirements of the District are established and may be amended annually by the Board of Directors. The District's annual other post employment benefit (OPEB) cost (expense) for the Plan is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's Board of Directors has established a policy of fully funding the ARC. The current ARC rate is 8.4% 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, 2012.

Annual required contribution	\$ 459,521
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	459,521
Contributions (including benefits paid)	(456,012)
Increase in net OPEB obligation	3,509
Net OPEB obligation (Asset) - beginning of year	(3,709)
Net OPEB obligation (Asset) - end of year	\$ (200)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012 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, 2010	\$ 489,426	100.7%	\$ (8,532)
June 30, 2011	446,180	98.9%	(3,709)
June 30, 2012	459,521	99.2%	(200)

The District's actuarial accrued liability for benefits at June 30, 2011, was \$4,008,303 and the covered payroll (annual payroll of active employees covered by the Plan) was \$5,394,000, with a ratio of the Unfunded Accrued Actuarial Liability (UAAL) to the covered payroll of 49.68%.

<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, 2010	\$ 815,238	\$ 3,913,916	\$ 3,098,678	20.8%	\$ 5,301,000	58.45%
June 30, 2011	1,328,611	4,008,303	2,679,692	33.1%	5,394,000	49.68%

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 9 - Post Employment Benefits: (Continued)

Funding Status and Funding Progress (Continued)

In June 2012, the District sent \$312,823 to the CERBT trust account and made benefit payments of \$143,189 for a total contribution of \$456,012. The OPEB asset totaled \$200 at June 30, 2012.

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

Actuarial Methods and Assumptions

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

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 9 - Post Employment Benefits: (Continued)

(b) Defined Contribution Plan (Continued)

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, 2012, employee contributions were \$2,060 and District contributions were \$2,459 for a total of \$4,519.

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, 2012, was \$193,682. 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 the capital assets. The amounts contracted for are based on the contractors' estimated cost of construction. At June 30, 2012, the total unpaid amount on these contracts is approximately \$135,894.

(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, 2012

Note 13 - New Governmental Accounting Standards:

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.

GASB No. 63

In June 2011, the Governmental Accounting Standards Board issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position". This pronouncement is effective for periods beginning after December 15, 2011. Concepts Statement No. 4 "Elements of Financial Statements" introduced and defined deferred outflows and deferred inflows as an acquisition or consumption of net assets by the government that is applicable to a future reporting period, which is distinct from assets and liabilities. Concepts Statement No. 4 also defines net position as the residual of all other elements presented in a statement of financial position and renames that measure net position rather than net assets. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.

GASB No. 64

In June 2011, the Governmental Accounting Standards Board issued Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment to GASB 53". This pronouncement is effective for periods beginning after June 15, 2011. This statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The District does not have any hedge transactions at June 30, 2012.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 13 - New Governmental Accounting Standards: (Continued)

GASB No. 65

In March 2012, the Governmental Accounting Standards Board issued Statement No. 65, "Items Previously Reported as Assets and Liabilities". This pronouncement is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement amends the financial statement classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.

GASB No. 66

In March 2012, the Governmental Accounting Standards Board issued Statement No. 66, "Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62". This pronouncement is effective for periods beginning after December 15, 2012. This statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". This Statement amends Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) service fee rate. These changes clarify how to apply Statement No. 13, "Accounting for Operating Leases with Scheduled Rent Increases", and result in guidance that is consistent with the requirements in Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", respectively. 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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

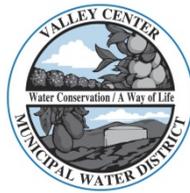
Note 13 - New Governmental Accounting Standards: (Continued)

GASB No. 67

In June 2012, the Governmental Accounting Standards Board issued Statement No. 67, "Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25". This pronouncement is effective for periods beginning after June 15, 2013. This Statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans", and No. 50, "Pension Disclosures", as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 68

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68, "Accounting and Financial Reporting for Pensions". This pronouncement is effective for periods beginning after June 15, 2013. This pronouncement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans, as well as for nonemployer governments that have a legal obligation to contribute to those plans. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.



Combining Schedules



**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS
JUNE 30, 2012**

ASSETS

	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
<u>Current assets:</u>				
Cash and cash equivalents	\$ 9,123,572	\$ 7,010,678	\$ 1,085,730	\$ 1,027,164
Investments	5,923,193	5,923,193	-	-
Accounts receivable - water and wastewater, net	6,808,020	6,808,020	-	-
Interest receivable	28,640	28,640	-	-
Taxes receivable	3,197	3,197	-	-
Other receivables	32,663	32,663	-	-
Inventories	708,128	708,128	-	-
Prepaid expenses and deposits	410,507	410,507	-	-
Work in progress for others	2,362,007	2,320,373	-	41,634
Total Current Assets	25,399,927	23,245,399	1,085,730	1,068,798
<u>Noncurrent Assets:</u>				
Restricted Assets:				
Cash and cash equivalents	110,518	-	110,518	-
Investments	192,359	192,359	-	-
Total Restricted Assets	302,877	192,359	110,518	-
Capital Assets:				
Nondepreciable capital assets	8,077,003	6,312,490	473,240	1,291,273
Depreciable capital assets, net	69,807,801	52,832,424	7,279,487	9,695,890
Total Capital Assets	77,884,804	59,144,914	7,752,727	10,987,163
Other Noncurrent Assets:				
OPEB Asset	200	200	-	-
Total Noncurrent Assets	78,187,881	59,337,473	7,863,245	10,987,163
TOTAL ASSETS	\$ 103,587,808	\$ 82,582,872	\$ 8,948,975	\$ 12,055,961

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS
JUNE 30, 2012**

LIABILITIES AND NET ASSETS

	<u>Total</u>	<u>General</u>	<u>Lower Moosa Wastewater</u>	<u>Woods Valley Ranch Wastewater</u>
<u>Current liabilities:</u>				
Accounts payable	\$ 6,408,200	\$ 6,408,200	\$ -	\$ -
Accrued payroll	219,986	219,986	-	-
Accrued compensated absences	653,900	653,900	-	-
Customer deposits	2,440,227	2,428,783	11,444	-
Current portion of long-term debt	55,000	55,000	-	-
Total Current Liabilities	<u>9,777,313</u>	<u>9,765,869</u>	<u>11,444</u>	<u>-</u>
<u>Noncurrent Liabilities:</u>				
Long-term debt:				
Revenue bonds	55,000	55,000	-	-
Less: Current portion above	<u>(55,000)</u>	<u>(55,000)</u>	<u>-</u>	<u>-</u>
Total Long-Term Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Noncurrent Liabilities:				
Accrued compensated absences	<u>1,261,979</u>	<u>1,261,979</u>	<u>-</u>	<u>-</u>
Total Noncurrent Liabilities	<u>1,261,979</u>	<u>1,261,979</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>11,039,292</u>	<u>11,027,848</u>	<u>11,444</u>	<u>-</u>
<u>Net Assets:</u>				
Investment in capital assets, net of related debt	77,829,804	59,089,914	7,752,727	10,987,163
Restricted for facility expansion	302,877	192,359	110,518	-
Unrestricted	14,415,835	12,272,751	1,074,286	1,068,798
Total Net Assets	<u>92,548,516</u>	<u>71,555,024</u>	<u>8,937,531</u>	<u>12,055,961</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 103,587,808</u>	<u>\$ 82,582,872</u>	<u>\$ 8,948,975</u>	<u>\$ 12,055,961</u>

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
JUNE 30, 2011**

LIABILITIES AND NET ASSETS

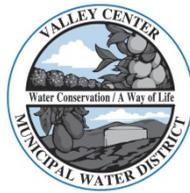
	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
<u>Current liabilities:</u>				
Accounts payable	\$ 5,593,422	\$ 5,593,422	\$ -	\$ -
Accrued payroll	214,092	214,092	-	-
Accrued compensated absences	666,700	666,700	-	-
Customer deposits	2,361,880	2,357,330	4,550	-
Current portion of long-term debt	110,000	110,000	-	-
Total Current Liabilities	8,946,094	8,941,544	4,550	-
<u>Noncurrent Liabilities:</u>				
Long-term debt:				
Revenue bonds	165,000	165,000	-	-
Less: Current portion above	(110,000)	(110,000)	-	-
Total Long-Term Debt	55,000	55,000	-	-
Other Noncurrent Liabilities:				
Accrued compensated absences	1,155,912	1,155,912	-	-
Total Noncurrent Liabilities	1,210,912	1,210,912	-	-
Total Liabilities	10,157,006	10,152,456	4,550	-
<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	12,745,389	10,563,260	1,183,420	998,709
Total Net Assets	94,272,191	72,735,127	8,987,240	12,549,824
 TOTAL LIABILITIES AND NET ASSETS	 \$ 104,429,197	 \$ 82,887,583	 \$ 8,991,790	 \$ 12,549,824

VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD ENDED JUNE 30, 2012

	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
<u>Operating Revenues:</u>				
Water sales and pumping charges	\$ 38,397,602	\$ 38,397,602	\$ -	\$ -
Wastewater charges	1,811,397	-	1,425,913	385,484
Meter installation fees	88,834	88,834	-	-
Other water operating revenues	510,083	510,083	-	-
Total operating revenues	<u>40,807,916</u>	<u>38,996,519</u>	<u>1,425,913</u>	<u>385,484</u>
<u>Operating Expenses:</u>				
Cost of water sold	27,385,538	27,385,538	-	-
Energy and pumping costs	2,522,694	2,412,106	71,602	38,986
Water systems operations	5,008,872	5,008,872	-	-
Wastewater collection and treatment	1,019,208	-	815,713	203,495
Engineering	1,661,797	1,661,797	-	-
General and administrative	3,116,844	2,858,307	188,790	69,747
Depreciation	4,753,297	3,772,061	405,437	575,799
Total operating expenses	<u>45,468,250</u>	<u>43,098,681</u>	<u>1,481,542</u>	<u>888,027</u>
Operating (Loss)	<u>(4,660,334)</u>	<u>(4,102,162)</u>	<u>(55,629)</u>	<u>(502,543)</u>
<u>Nonoperating Revenues and (Expenses):</u>				
Property taxes and assessments	2,499,875	2,499,875	-	-
Investment income	127,900	107,602	11,618	8,680
Other nonoperating revenues	289,382	289,382	-	-
Interest expense	(1,709)	(1,709)	-	-
Other nonoperating expenses	(8,399)	(2,701)	(5,698)	-
Total Nonoperating Revenues and (Expenses)	<u>2,907,049</u>	<u>2,892,449</u>	<u>5,920</u>	<u>8,680</u>
(Loss) Before Contributions	(1,753,285)	(1,209,713)	(49,709)	(493,863)
Capital contributions	29,610	29,610	0	-
Change in Net Assets	<u>(1,723,675)</u>	<u>(1,180,103)</u>	<u>(49,709)</u>	<u>(493,863)</u>
Net Assets at Beginning of Year	<u>94,272,191</u>	<u>72,735,127</u>	<u>8,987,240</u>	<u>12,549,824</u>
NET ASSETS AT END OF YEAR	<u>\$ 92,548,516</u>	<u>\$ 71,555,024</u>	<u>\$ 8,937,531</u>	<u>\$ 12,055,961</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 (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>
(Loss) Before Contributions	(4,563,988)	(4,088,243)	(16,985)	(458,760)
Capital contributions	443,481	116,739	326,742	-
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>\$ 94,272,191</u>	<u>\$ 72,735,127</u>	<u>\$ 8,987,240</u>	<u>\$ 12,549,824</u>



Statistical Section



STATISTICAL SECTION

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

CONTENTS	PAGE
Financial Trends	45
<i>These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.</i>	
Revenue Capacity	48
<i>These schedules contain information to help the reader access the District's two most significant local revenue sources, water sales and property levies.</i>	
Debt Capacity	57
<i>These schedules present information to help the reader access the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	59
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.</i>	
Operating Information	61
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.</i>	

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

Table I
NET ASSETS BY COMPONENT
Last Ten Fiscal Years

	Fiscal year ended				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009⁽¹⁾</u>	<u>2008</u>
Primary government					
Invested in capital assets, net of related debt	\$ 77,829,804	\$ 81,249,809	\$ 83,824,468	\$ 85,622,542	\$ 72,376,226
Restricted	302,877	276,993	268,225	503,862	652,253
Unrestricted	14,415,835	12,745,389	14,300,005	15,843,119	15,976,619
Total primary government net assets	<u>\$ 92,548,516</u>	<u>\$ 94,272,191</u>	<u>\$ 98,392,698</u>	<u>\$ 101,969,523</u>	<u>\$ 89,005,098</u>

	Fiscal year ended				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Primary government					
Invested in capital assets, net of related debt	\$ 68,354,318	\$ 62,887,148	\$ 61,272,644	\$ 56,324,985	\$ 49,471,743
Restricted	1,300,411	2,363,055	2,112,513	1,340,938	1,104,843
Unrestricted	16,617,224	16,292,789	16,996,464	22,079,945	21,594,937
Total primary government net assets	<u>\$ 86,271,953</u>	<u>\$ 81,542,992</u>	<u>\$ 80,381,621</u>	<u>\$ 79,745,868</u>	<u>\$ 72,171,523</u>

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

Source: Valley Center Municipal Water District

Net Assets

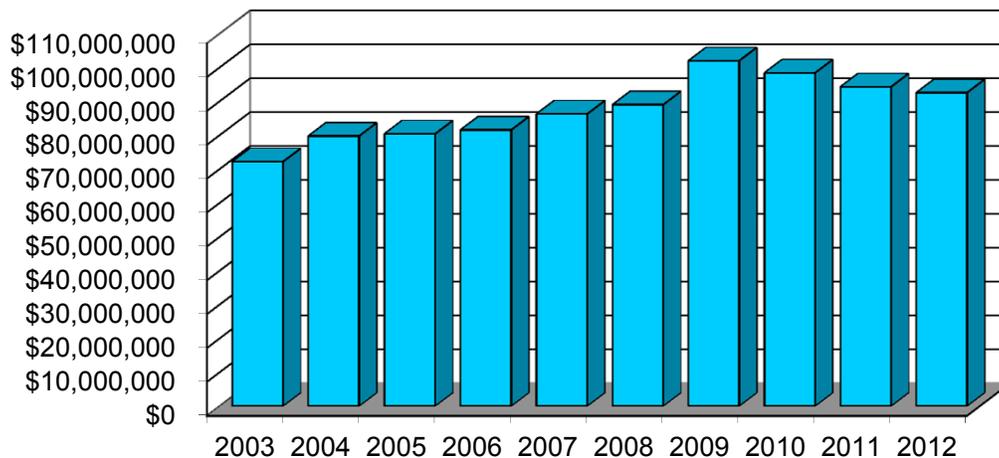


Table II
CHANGES IN NET ASSETS
Last Ten Fiscal Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Operating Revenues:										
Water sales ⁽¹⁾	\$ 35,457,375	\$ 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
Pumping charges	2,940,227	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
Wastewater charges	1,811,397	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
Meter installation fees	88,834	57,748	87,065	155,358	128,342	210,145	474,070	479,791	546,437	241,218
Other water operating revenues	510,083	554,997	798,548	797,534	974,774	502,240	567,040	320,187	277,930	254,118
Total operating revenues	\$ 40,807,916	\$ 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
Operating Expenses:										
Cost of water sold ⁽²⁾	\$ 27,385,538	\$ 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
Energy and pumping costs	2,522,694	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
Water systems operations	5,008,872	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
Wastewater collection and treatment	1,019,208	907,388	841,443	866,812	748,447	784,551	641,189	638,092	551,085	432,270
Engineering	1,661,797	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
General and administrative	3,116,844	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
Depreciation	4,753,297	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
Total operating expenses	\$ 45,468,250	\$ 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
Operating Income (Loss)	\$ (4,660,334)	\$ (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)
Nonoperating Revenues and (Expenses):										
Property taxes and assessments	\$ 2,499,875	\$ 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
Investment income	127,900	132,978	220,489	476,566	898,899	1,003,835	564,566	575,887	220,553	557,188
Other nonoperating revenues ⁽³⁾	289,382	315,542	208,413	192,882	256,550	551,289	225,686	887,902	574,795	680,093
Interest expense	(1,709)	(3,883)	(5,929)	(9,470)	(20,289)	(28,791)	(28,564)	(23,099)	(51,573)	(87,541)
Other nonoperating expenses ⁽⁴⁾	(8,399)	(22,217)	(51,146)	(31,275)	(66,492)	(1,339)	(190,155)	(91,909)	(12,404)	(28,677)
Total Nonoperating Revenues and (Expenses)	\$ 2,907,049	\$ 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
Income (Loss) Before Contributions	\$ (1,753,285)	\$ (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
Capital contributions	29,610	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
Change in Net Assets	\$ (1,723,675)	\$ (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
Net Assets at Beginning 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
Restatement ⁽⁵⁾	\$ -	\$ -	\$ -	\$ 2,436,921	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restated Net Assets at Beginning of Year	\$ 94,272,191	\$ 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
NET ASSETS AT END OF YEAR	\$ 92,548,516	\$ 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

(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.

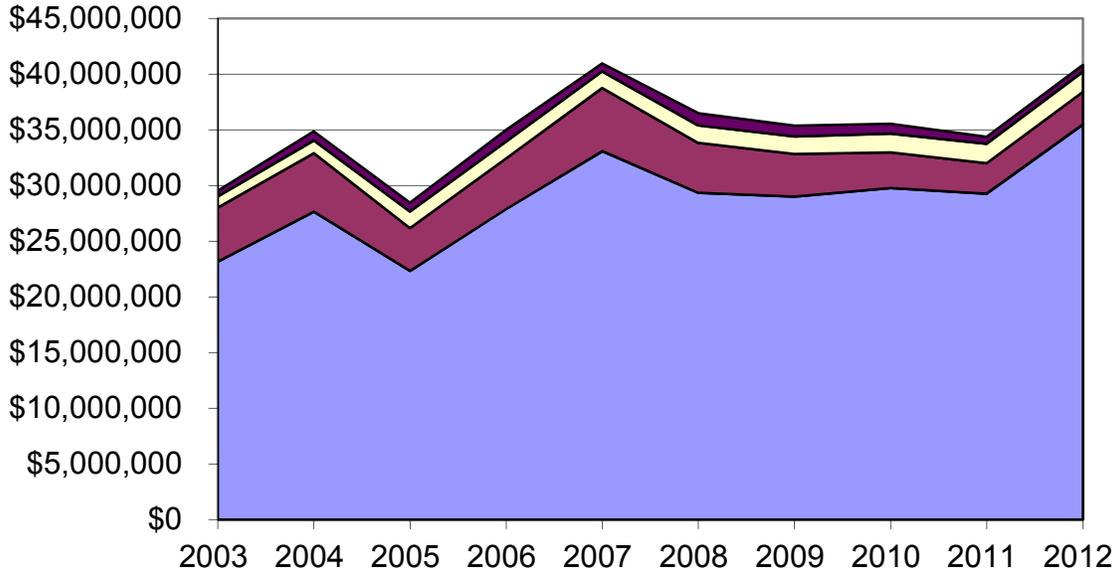
(3) Includes energy settlement of \$248,270 in 2007, \$473,798 in 2005, \$421,1554 in 2004, and \$556,444 in 2003.

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

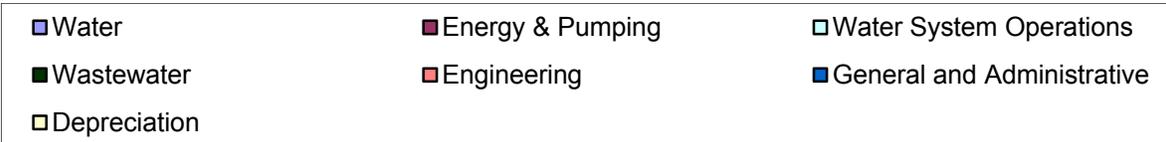
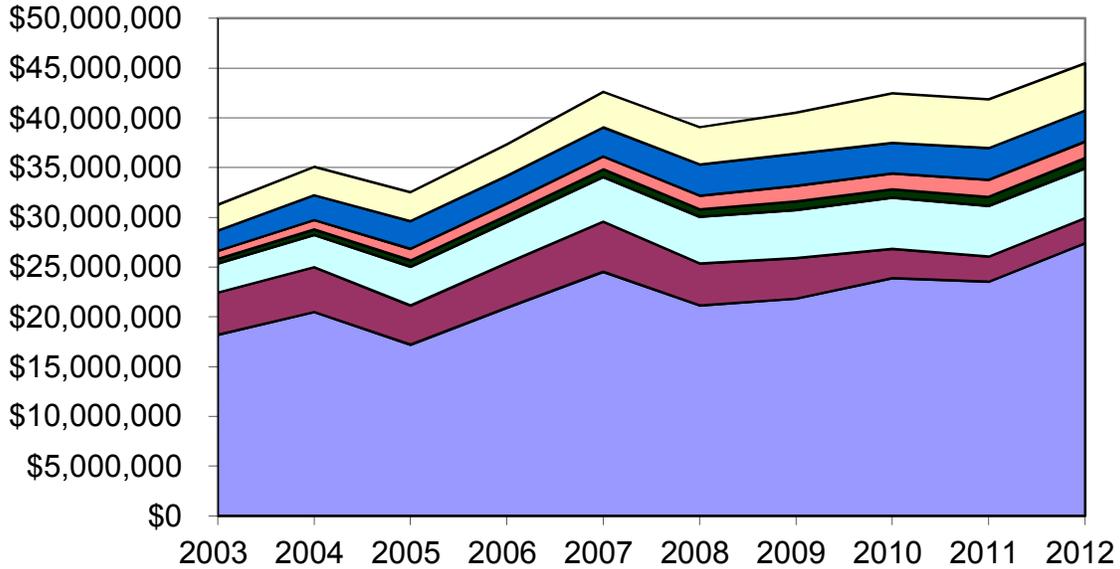
(5) Restatement of prior balance of \$2,491,415 in 2009 per GASB 45 for Retirement Health Plan Liability recorded as expense in prior years and \$(54,494) per GASB 51 for Feasibility Study recorded as capital asset in prior year.

Source: Valley Center Municipal Water District

Operating Revenues



Operating Expenses



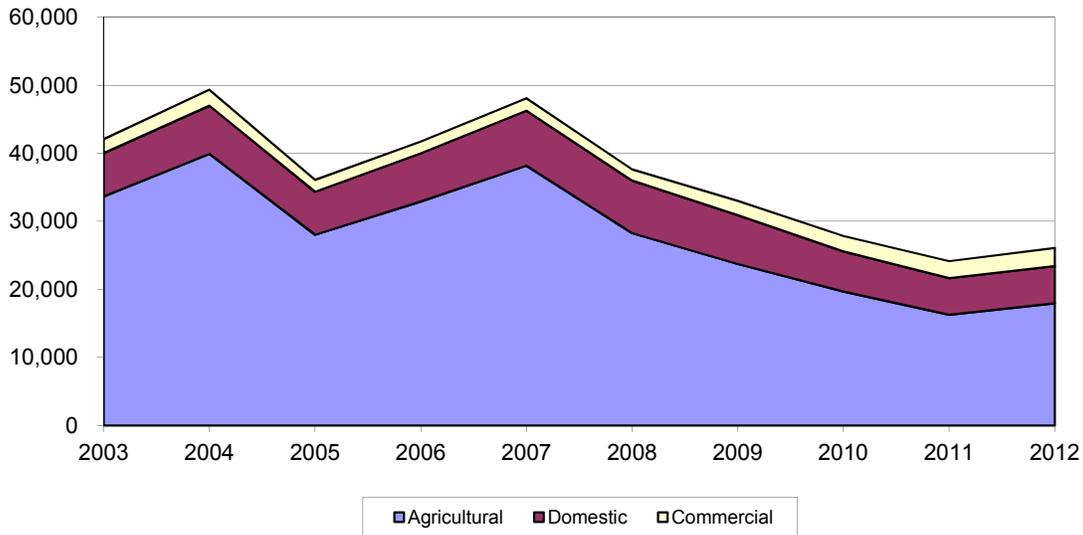
**Table III
WATER SALES BY USER TYPE (1)
Last Ten Fiscal Years**

Fiscal Year	Domestic		Commercial		Certified Agricultural ⁽³⁾		Total		Average Direct Rate ⁽²⁾
	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	
2012	\$10,529,179	5,486.0	\$3,891,893	2,661.7	\$21,036,302	17,942.8	\$35,457,375	26,090.5	\$ 1,359
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

- (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



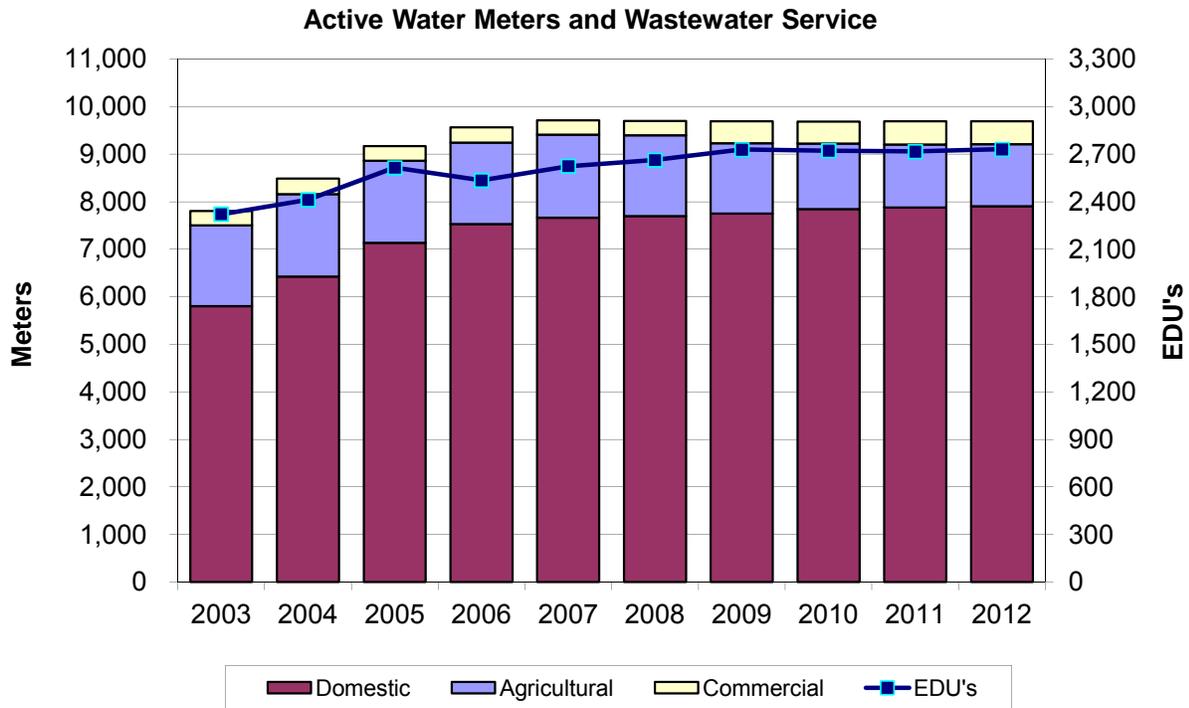
**Table IV
ACTIVE WATER METERS AND WASTEWATER SERVICES
Last Ten Fiscal Years**

Fiscal Year Ended	Domestic	Commercial	Certified Agricultural ⁽²⁾	Total Active	All Inactive Meters	Total	Wastewater EDUs
2012	7,904	486	1,304	9,694	903	10,597	2,731
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

(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

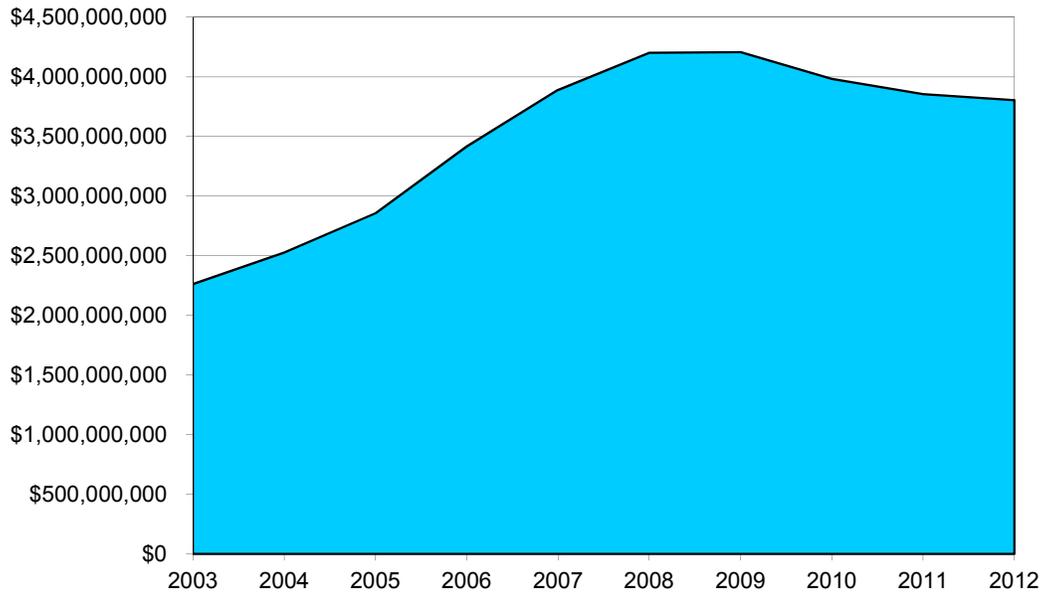


**Table V
ASSESSED VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years**

Fiscal Year Ended	Secured			Net Assessed Value	Assessed Unsecured Value	Total Assessed Value	Tax Rate
	Real Property	Personal Property	Exemptions				
2012	\$3,831,030,133	\$325,570	\$25,754,739	\$3,805,600,964	\$24,459,608	\$3,830,060,572	0
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

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

Assessed Value of Taxable Property



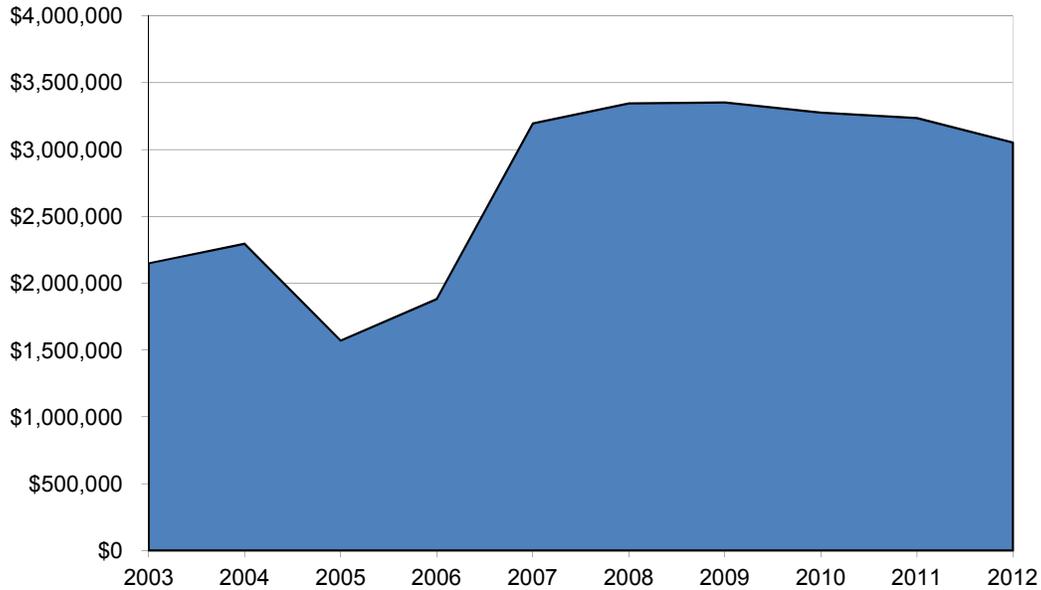
**Table VI
PROPERTY TAX AND ASSESSMENT LEVIES AND COLLECTIONS (1)
Last Ten Fiscal Years**

Fiscal Year Ended	Levy			Total Collections ⁽²⁾	Net Delinquent ⁽³⁾	Percent Delinquent ⁽⁴⁾
	Property Taxes	Special Assessments ⁽⁶⁾	Total Levy			
2012	\$2,003,970	\$1,074,342	\$3,078,312	\$3,051,951	\$26,361	0%
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%

- (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, 2012**

2011-12 Assessed Valuation: \$3,830,060,572

	Total Debt <u>6/30/2012</u>	<u>% Applicable (1)</u>	District's Share of <u>Debt 6/30/12</u>
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			
Metropolitan Water District	\$196,545,000	0.212	\$416,675
Palomar Pomerado Hospital District	479,863,205	7.340	35,221,959
Palomar Community College District	318,573,901	4.930	15,705,693
Escondido Union High School District	101,449,212	7.378	7,484,923
Fallbrook Union High School District	12,430,071	1.350	167,806
Bonsall Union School District	16,204,680	3.802	616,102
Escondido Union School District	46,524,622	7.693	3,579,139
Valley Center-Pauma Unified School District	1,759,147	96.979	1,706,003
Valley Center-Pauma Unified School District Community Facilities District No. 2003-1	9,065,000	100.000	9,065,000
City of Escondido	77,295,000	0.048	37,102
Valley Center Municipal Water District	0	100.000	0
Valley Center Municipal Water District Assessment District No. 96-1	720,000	100.000	720,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			<u><u>\$74,720,402</u></u>
OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	\$ 395,115,000	1.111	\$4,389,728
San Diego County Pension Obligations	787,112,618	1.111	8,744,821
San Diego County Superintendent of Schools Certificates of Participation	18,750,000	1.111	208,313
Palomar Community College District Certificates of Participation	5,820,000	4.930	286,926
Escondido Union High School District Certificates of Participation	60,645,000	7.378	4,474,388
Bonsall Union School District Certificates of Participation	1,865,000	3.802	70,907
Escondido Union School District Certificates of Participation	21,985,000	7.693	1,691,306
City of Escondido Certificates of Participation	50,402,090	0.048	24,193
TOTAL OVERLAPPING GENERAL FUND DEBT			<u><u>\$19,890,582</u></u>
TOTAL DIRECT DEBT			\$0
TOTAL OVERLAPPING DEBT			<u>\$94,610,984</u>
COMBINED TOTAL DEBT			<u><u>\$94,610,984</u></u> (2)

Ratios to Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	1.95%
Combined Total Debt	2.47%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/12: \$0

2011-12 TYPICAL TOTAL TAX RATE (TRA 94-075): 1.09434

(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.

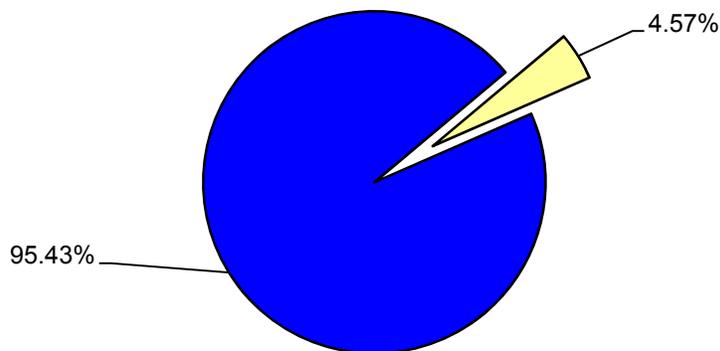
**Table VIII
PROPERTY OWNERS BY HIGHEST CUMULATIVE NET ASSESSED PROPERTY VALUE
Current Fiscal Year**

<u>Property Owner</u>	<u>Cumulative Net Assessed Value</u>	<u>Percent of District Total Net Assessed Value</u>
Welk Resort Platinum Owners Association	\$78,374,802	2.05%
Welk Resort Group Inc.	30,242,940	0.79%
Rimrock Springs LLC	15,702,592	0.41%
Welk Resort Properties Inc.	10,539,681	0.28%
Josephine Development LLC	7,930,523	0.21%
Skyline Ranch Country Club LLC	7,518,959	0.20%
Federal Boulevard Properties LLC	6,206,231	0.16%
Bell Holdings LLC	5,983,218	0.16%
MLSK LLC	5,960,000	0.16%
Welk Garden Villas, Inc.	5,893,937	0.15%
Total Top Ten Property Owners	\$174,352,883	4.57%
Other Property Owners	\$3,655,707,689	95.43%
Total Assessed Valuation	\$3,830,060,572	100.00%

Data Source: 2011 Master Property Records from San Diego County Used for 2011-12 Property Taxes

Data for the period ended June 30, 2003, is not available.

PRINCIPAL PROPERTY OWNERS



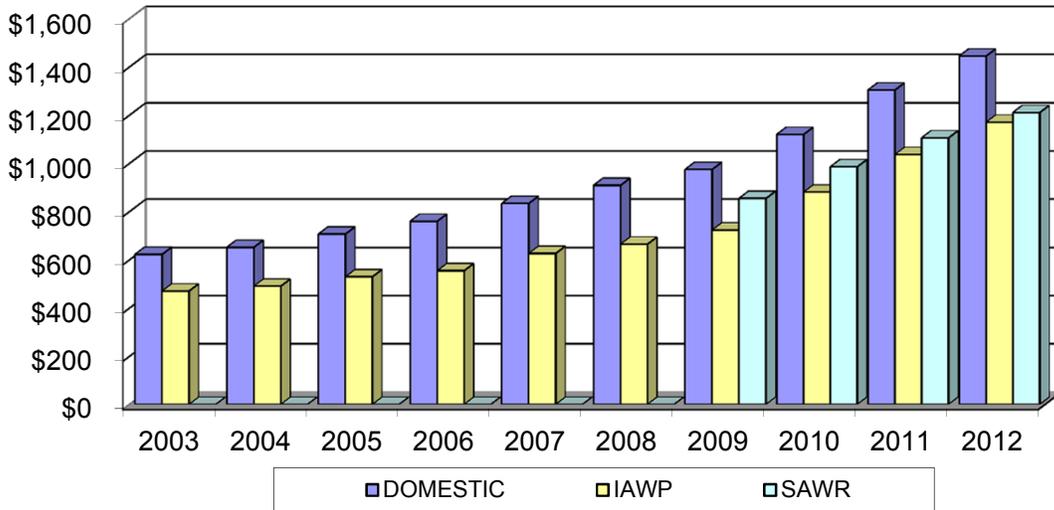
**Table IX
WATER RATES
Last Ten Fiscal Years**

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	VCMWD	Total	MWD/ SDCWA Wholesale	VCMWD	Total	MWD/ SDCWA Wholesale	VCMWD	Total		
2012	\$1,292	\$152	\$1,444	\$1,018	\$152	\$1,170	\$1,058	\$152	\$1,210	\$28.00	\$38.25
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

- (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	
2012	\$48.75	\$89.00	\$98.60	
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)

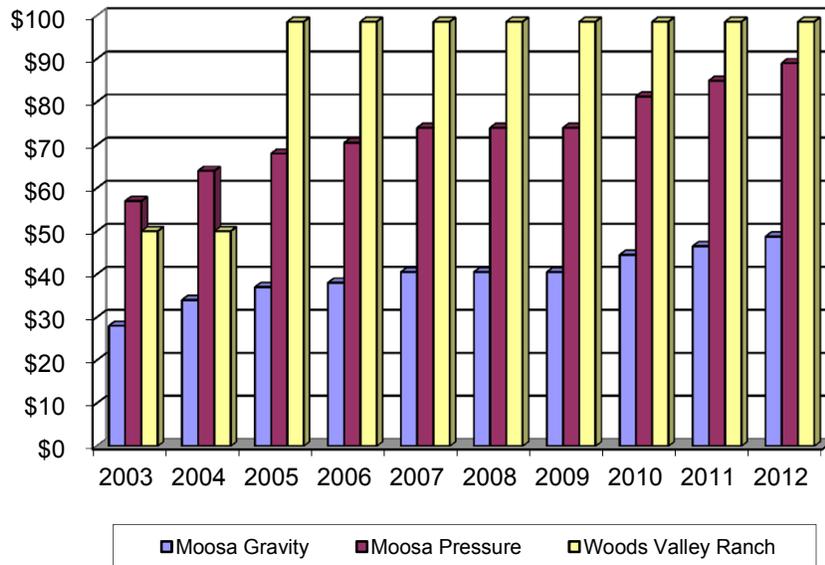
(1) Rate as of January 1.

(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

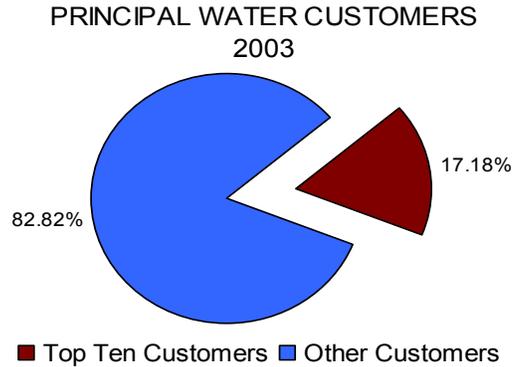
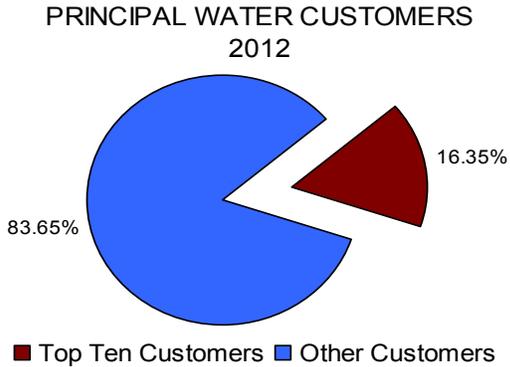


**Table XI
PRINCIPAL WATER CUSTOMERS
Current Fiscal Year and Nine Years Prior**

Fiscal year ended June 30, 2012		
<u>Customer</u>	<u>Usage in Acre Feet</u>	<u>Percent of Water Sold</u>
Coykendall, H. C. J.	736.3	2.82%
Stehly, N. J. C.	726.9	2.79%
Grandon Ranch Corp.	555.5	2.13%
Harlan Beck & Associates	532.6	2.04%
Rancho Sereno	344.7	1.32%
Rancho Trio	291.2	1.12%
Gregory Wang	281.6	1.08%
Rancho Erico	276.5	1.06%
BSTCO	269.2	1.03%
A-1 Sunshine Farms, LLC	249.2	0.96%
Total Top Ten Customers	4,263.7	16.35%
Other Customers	21,826.8	83.65%
Total Water Sales	26,090.5	100.00%

Fiscal year ended June 30, 2003		
<u>Customer</u>	<u>Usage in Acre Feet</u>	<u>Percent of Water Sold</u>
Stehly, N. J. C.	1,207.0	2.87%
Sierra Pacific Farms	1,143.6	2.72%
BSTCO	998.7	2.37%
Harlan Beck & Associates	753.3	1.79%
Grandon Ranch Corp.	664.8	1.58%
DeJong, John	591.8	1.41%
Paradise Leased	550.2	1.31%
Rancho Sereno	441.7	1.06%
Coykendall, H. C. J.	438.2	1.04%
Clayes, Dr. Joseph	434.4	1.03%
Total Top Ten Customers	7,223.7	17.18%
Other Customers	34,846.9	82.82%
Total Water Sales	42,070.6	100.00%

Source: Valley Center Municipal Water District



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

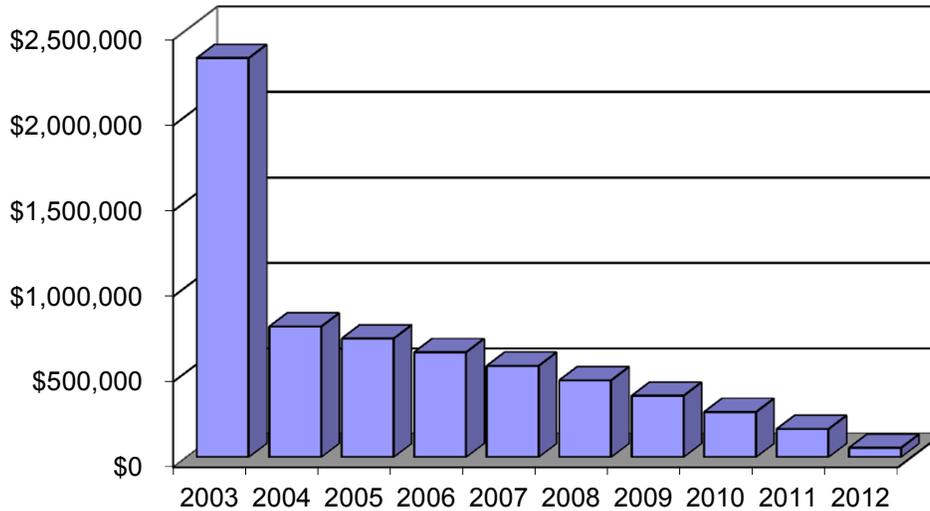
Fiscal Year Ended	General Obligation Bonds ⁽²⁾	Revenue Bonds	Term Loan	Total	Percentage of Personal Income ⁽¹⁾	Per Capita ⁽¹⁾
2012	\$0	\$55,000	\$0	\$55,000	0.01%	2
2011	0	165,000	0	165,000	0.02%	6
2010	0	265,000	0	265,000	0.03%	10
2009	0	360,000	0	360,000	0.04%	14
2008	0	450,000	0	450,000	0.06%	18
2007	0	535,000	0	535,000	0.07%	21
2006	0	615,000	0	615,000	0.08%	24
2005	0	695,000	0	695,000	0.10%	28
2004	0	765,000	0	765,000	0.12%	33
2003	0	835,000	1,500,000	2,335,000	0.40%	104

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

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

Source: Valley Center Municipal Water District

Outstanding Debt



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

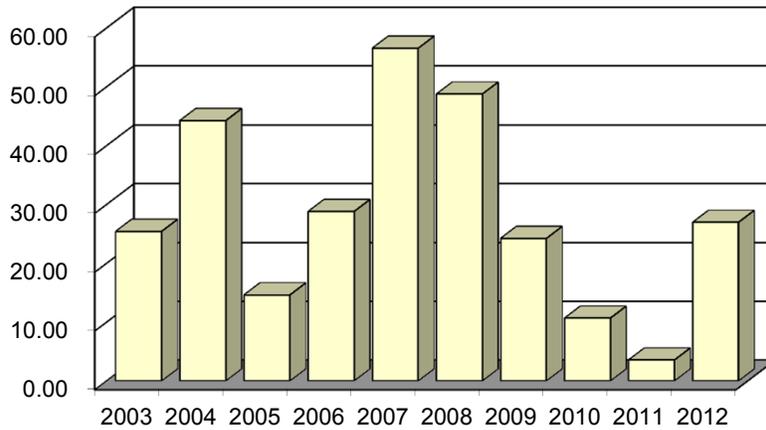
Fiscal Year Ended	Operating Revenues ⁽¹⁾	Nonoperating Revenues ⁽¹⁾	Gross Revenues	Less:		Net Available Revenues	Debt Service			Coverage Ratio
				Operating Expenses ⁽¹⁾⁽²⁾			Principal	Interest	Total	
2012	\$40,807,916	\$2,917,156	\$43,725,072	\$40,713,095		\$3,011,977	\$110,000	\$1,709	\$111,709	26.96
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

(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)
2012	25,453	901,036,000	35,400	4.5%
2011	25,450	875,480,000	34,400	5.1%
2010	25,378	848,488,000	33,434	5.2%
2009	25,337	861,458,000	34,000	4.7%
2008	25,350	768,105,000	30,300	2.7%
2007	25,337	739,840,000	29,200	2.1%
2006	25,129	726,228,000	28,900	1.9%
2005	24,485	688,029,000	28,100	2.0%
2004	23,510	641,823,000	27,300	2.3%
2003	22,490	580,242,000	25,800	2.6%

Other Statistics: ⁽⁵⁾

Jobs in area	5,491
Median age	43.5
% High school graduate	89%
% Bachelor's degree or higher	36%

- (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) Calculated using the estimated per capita personal income.
- (3) Per capita personal income for base year 2010 by U.S. Census Bureau for the Valley Center Census Designated Place (CDP) which is a close approximation of the VCMWD area. 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: U.S. Census Bureau, 2010 Census

Source: Valley Center Municipal Water District except as noted.

Per Capita Personal Income and Population

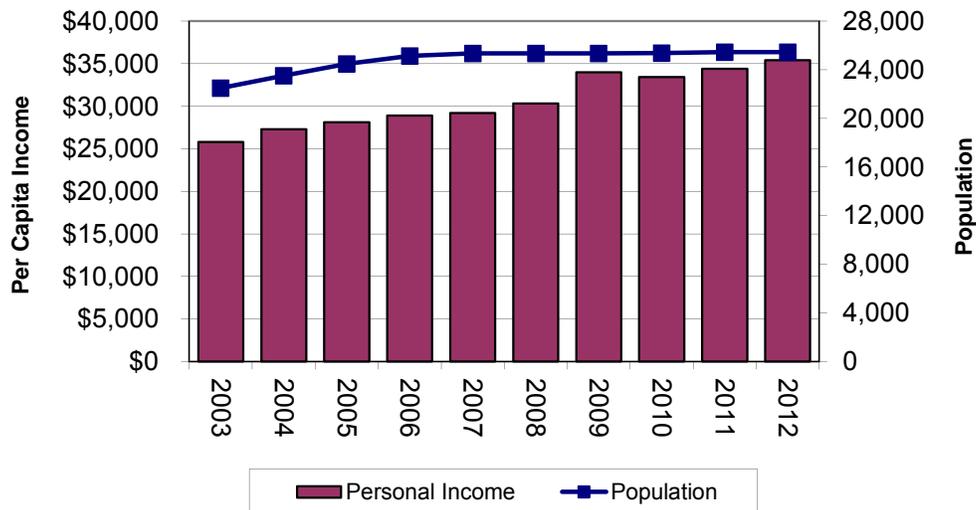


Table XV
PRINCIPAL EMPLOYERS - COUNTY OF SAN DIEGO
Current Fiscal Year and Nine Years Prior

Fiscal year ended June 30, 2012			Fiscal year ended June 30, 2003		
Employer Name	Industry	Employees	Employer Name	Industry	Employees
U.S. Department of Defense	Government	136,664	Federal Government	Government	39,800
Federal Government	Government	46,300	State of California	Government	39,200
State of California	Government	45,500	U.C. San Diego	Education	19,301
University of California at San Diego	Education	27,393	County of San Diego	Government	17,951
North Island Naval Air Station	Government	27,000	Sharp Healthcare	Healthcare	11,642
County of San Diego	Government	15,109	Scripps Health	Healthcare	8,237
Sharp Healthcare	Healthcare	14,969	SBC Pacific Bell	Telecommunications	7,178
Scripps Health	Healthcare	13,830	Kaiser Permanente	Healthcare	7,145
San Diego Unified School District	Education	13,730	US Postal Service San Diego	Government	6,619
Qualcomm	Telecommunications	<u>10,509</u>	Community College	Education	<u>5,878</u>
Total Number Employed in San Diego County		<u><u>1,594,435</u></u>			<u><u>1,454,406</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,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Pumping	4.21	4.55	5.44	5.24	5.54	5.59	5.21	5.49	5.18	4.58
Water Systems Operations	32.42	34.04	33.80	36.14	39.14	39.34	37.14	37.37	35.92	33.71
Wastewater Collection and Treatment	5.44	5.45	5.64	6.11	5.91	4.90	5.07	3.93	3.63	3.66
Engineering	10.82	12.46	13.46	11.27	13.52	12.90	9.96	9.44	8.83	8.55
General and Administrative	12.25	12.50	13.00	13.00	15.00	14.00	13.00	13.00	13.00	12.95
Capital Outlay ⁽¹⁾	3.06	4.36	2.50	3.31	6.21	5.42	5.90	6.05	6.62	4.86
Developer Projects ⁽²⁾	1.05	1.14	1.16	4.93	4.68	3.85	3.72	2.72	2.32	1.69
Total Employees ⁽³⁾	69.25	74.50	75.00	80.00	90.00	86.00	80.00	78.00	75.50	70.00
Average Years of Service	12.46	11.37	10.37	10.24	9.07	9.37	10.91	10.25	11.56	11.75

(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

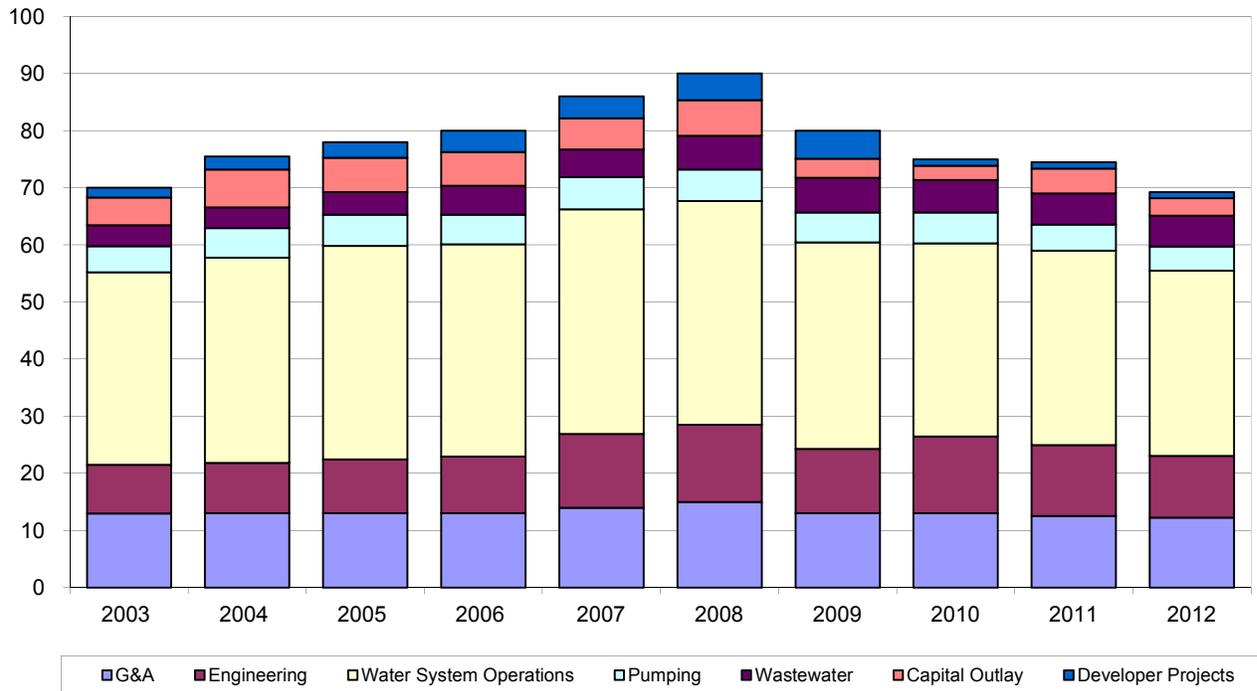


Table XVII
Operating and Capital Indicators
Last Ten Fiscal Years

	<u>2012</u>	<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>
Water:										
Service area (acres)	64,253	64,253	64,253	64,253	64,253	64,253	64,253	64,253	64,253	62,100
Miles of water main (8 inches and larger)	297	297	297	297	295	294	291	289	283	273
Number of enclosed reservoirs	42	42	42	42	42	42	42	41	41	41
Capacity of enclosed reservoirs (AF)	421	421	421	421	421	421	421	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	100	96	96	96	96	96	96	96
Total pump capacity (horsepower)	20,050	19,785	19,785	19,785	19,940	19,940	19,940	19,940	19,940	19,940
Number of service connections	10,597	10,576	10,556	10,493	10,408	10,392	10,251	9,853	9,175	8,482
Number of meters in service	9,694	9,692	9,688	9,690	9,696	9,745	9,621	9,217	8,537	7,841
Production peak (m.g.d.)	49.87	55.30	65.27	53.96	78.90	84.98	81.70	80.46	81.43	82.59
Average production (m.g.d.)	24.77	22.80	26.35	30.33	35.12	45.04	40.26	34.02	46.58	38.99
Total rainfall (inches)	12.21	23.94	19.01	14.10	19.33	7.56	13.47	33.96	11.18	18.87
Average daily temperature (F.)	61.3	61.1	61.6	62.7	63.3	63.1	63.8	62.3	64.2	62.0
Electricity purchased (1,000 kWh)	15,595	16,984	18,480	25,362	29,839	36,000	31,828	27,418	35,794	28,057
Natural gas purchased (1,000 therms)	119	99	390	190	209	362	347	368	576	923
Mainline repairs	18	16	11	31	39	37	21	42	23	19
Wastewater:										
Miles of sewer lines	57	57	56	56	56	55	54	53	52	46
Number of treatment plants	2	2	2	2	2	2	2	3	2	2
Maximum capacity of treatment plants (m.g.d.)	0.57	0.57	0.57	0.57	0.55	0.55	0.55	0.56	0.54	0.54
Average dry weather flow (m.g.d.)	0.37	0.39	0.37	0.35	0.37	0.34	0.34	0.35	0.29	0.31
Number of sewer connections	2,731	2,717	2,722	2,729	2,663	2,689	2,600 ⁽¹⁾	2,685	2,599	2,563

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
2011-12**

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
FRANCISCO DUMBRIQUE
COREY ELMENDORF
GREG FEIK
PATRICIA GARCIA
LUIZ GONZALEZ
TROY GOSWICK
WALLY GRABBE
CLARENCE HICKS
ALBERT HOYLE

RYAN HUGHES
TONY JACQUEZ
WILLIAM JEFFREY
CHRISTINE JOHNSON
DOUGLAS JOHNSON
THAD KLIMAS
CHRISTOPHER KRATZ
ERIC LAVENTURE
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
CLIFFORD REEH
ROY RUTHERFORD
ROBERTO SALAZAR
JULEE SCOTT
YVETTE SERRATO
FRANCESCA SHOUGH
DANIEL SHUBIN
MOSES SHUBIN
TIMOTHY SJOBRING
JAMES SULLINS
JARED THOMAS
DEBORAH TILLEY
ROBERT TRUESDALE
GLENDA VALENZUELA
PAUL VILLALOBOS
GERARD VILLALPANDO
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