

PADRE DAM MUNICIPAL WATER DISTRICT

FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

JUNE 30, 2010 AND 2009

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JUNE 30, 2010 and 2009

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December 7, 2010

INDEPENDENT AUDITORS' REPORT

Board of Directors
 Padre Dam Municipal Water District
 Santee, California

We have audited the accompanying basic financial statements of Padre Dam Municipal Water District as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These basic financial statements are the responsibility of the Padre Dam Municipal Water District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Padre Dam Municipal Water District as of June 30, 2010 and 2009, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, PERS Defined Benefit Pension Plan – schedule of funding progress, and Other Post-Employment Benefit Plan – schedule of funding progress, as identified in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Padre Dam Municipal Water District. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Diehl, Evans and Company, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Padre Dam Municipal Water District's (District) financial performance provides an overview of the District's financial activities for the years ended June 30, 2010 and 2009. Please read it in conjunction with 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 they provide. The District's financial statements include four components:

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Basic Financial Statements

The statement of net assets includes all the District's assets and liabilities, with the difference between the two reported as net assets. Net assets may be displayed in the categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted Net Assets
- Unrestricted Net Assets

The statement of net assets provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses and changes in net assets presents information which shows how the District's net assets changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net assets measures the success of the District's operations over the past year and determines whether the District has recovered its costs through current services and other revenues.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement may report cash activity in four categories:

- Operating
- Noncapital and related financing
- Capital and related financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net assets because the statement accounts only 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.

PADRE DAM MUNICIPAL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

For the year ended June 30, 2010, the District's total net assets increased by \$7,879,074. The District's operating revenues of \$46,621,262 increased by \$2,159,709 while operating expenses increased by \$3,317,932. Nonoperating revenues and expenses increased in the current year by \$935,007.

Financial Analysis of the Financial Statements

Net Assets

The District's net assets at June 30, 2010 totaled \$206,278,942 compared with \$198,399,868 at June 30, 2009. The increase in net assets is primarily attributed to operating income of \$2,446,203, nonoperating revenues of \$3,044,351, capital contributions of \$4,690,492, offset by interest expense of \$2,301,972. The following is a summary of the District's statement of net assets:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Change</u>
Assets			
Current Assets	\$ 30,637,227	\$ 24,037,581	\$ 6,599,646
Noncurrent Assets:			
Restricted Assets	42,125,298	7,747,845	34,377,453
Other Noncurrent Assets	642,112	278,827	363,285
Capital Assets	<u>224,452,498</u>	<u>202,589,373</u>	<u>21,863,125</u>
Total Assets	<u>297,857,135</u>	<u>234,653,626</u>	<u>63,203,509</u>
Liabilities			
Current Liabilities	9,892,204	7,188,756	2,703,448
Due to Other Agencies	3,118,760	3,118,760	-
Long-Term Debt	75,605,509	22,759,203	52,846,306
Other Noncurrent Liabilities	<u>2,961,720</u>	<u>3,187,039</u>	<u>(225,319)</u>
Total Liabilities	<u>91,578,193</u>	<u>36,253,758</u>	<u>55,324,435</u>
Net Assets			
Invested in capital assets, net of related debt	176,762,605	178,565,331	(1,802,726)
Restricted for future capital projects	4,925,624	4,560,770	364,854
Restricted for debt service	4,475,420	36	4,475,384
Unrestricted	<u>20,115,293</u>	<u>15,273,731</u>	<u>4,841,562</u>
Total Net Assets	<u>\$ 206,278,942</u>	<u>\$ 198,399,868</u>	<u>\$ 7,879,074</u>

Financial Analysis of the Financial Statements (Continued)

Revenues, Expenses and Changes in Net Assets

The District reported a change in net assets of \$7,879,074 for the year ended June 30, 2010, an increase of \$2,003,434 when compared to the year ended June 30, 2009. Operating revenues were higher than the prior year by \$2,159,709 mostly due to rate increases for water and waste water operations as well as an increase in campground revenues. There was a decrease in amount of water sold due to lower consumption from conservation. Operating expenses were \$3,317,932 higher as a result of the increases in water and sewer services direct costs as well as the higher cost of labor, benefits and utilities. Depreciation expense increased \$375,384 as a result of capital asset additions. The increase in operating expenses was partially offset by a credit in the amount of \$2,300,000 from City of San Diego METRO in current year. The credit was for fiscal years 2006/07 and 2007/08. The nonoperating revenues and expenses increased \$935,007 which is mostly due to the decrease in other nonoperating expense attributable to an estimate of amount due to other agencies in the amount of \$3,118,760 from last year. Net interest expense was higher due to the issuance of the COPs in September 2009. The following is a summary of the District's statement of revenues, expenses and changes in net assets:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Change</u>
Operating Revenues	\$ 46,621,262	\$ 44,461,553	\$ 2,159,709
Operating Expenses	<u>44,175,059</u>	<u>40,857,127</u>	<u>(3,317,932)</u>
Operating Income (Loss)	<u>2,446,203</u>	<u>3,604,426</u>	<u>(1,158,223)</u>
Nonoperating Revenues and (Expenses)	<u>742,379</u>	<u>(192,628)</u>	<u>935,007</u>
Income Before Capital Contributions	3,188,582	3,411,798	(223,216)
Capital Contributions	<u>4,690,492</u>	<u>2,463,842</u>	<u>2,226,650</u>
Changes in Net Assets	7,879,074	5,875,640	2,003,434
Net Assets at Beginning of Year	<u>198,399,868</u>	<u>192,524,228</u>	<u>5,875,640</u>
Net Assets at End of Year	<u>\$ 206,278,942</u>	<u>\$ 198,399,868</u>	<u>\$ 7,879,074</u>

Capital Assets

At June 30, 2010, the District had invested \$224,452,498 in capital assets, net of accumulated depreciation of \$77,577,595 including land, franchises and water rights, a water system, sewer system, water recycling system, buildings, equipment, park and campgrounds and construction-in-progress. This amount represents an increase of \$21,863,125, over the prior year. The following is a summary of the capital assets at June 30, 2010 and 2009, respectively:

PADRE DAM MUNICIPAL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets (Continued)

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Land, franchises and water rights	\$ 1,207,162	\$ 1,207,162
Water system	151,397,932	146,307,351
Sewer system	38,189,317	36,313,577
Water recycling system	25,382,705	25,370,894
Parks and campgrounds	16,527,459	16,108,241
Buildings	14,191,999	14,012,962
Equipment	12,520,264	12,357,211
Construction-in-progress	42,613,255	23,853,884
Total	<u>302,030,093</u>	<u>275,531,282</u>
Less: Accumulated depreciation	<u>(77,577,595)</u>	<u>(72,941,909)</u>
Net Capital Assets	<u>\$ 224,452,498</u>	<u>\$ 202,589,373</u>

Significant construction in progress additions for the year ended June 30, 2010 include:

Automatic Meter Reading	\$7,646,140
ESA Secondary Supply Connection	6,008,887
Five Reservoir Roof Replacement Ph 2	5,880,849
Cottonwood Diversion Structure Upgrade	761,908
El Monte Ground Water Recharge Project	468,827
WSA Valve Replacement Program	412,229

Additional information on the District's capital assets can be found in note 4 of the notes to financial statements.

Long-Term Debt

At June 30, 2010, the District had \$77,675,955 in long-term debt, including certificates of participation, a note payable, State of California loans payable, a capital lease, and other long-term debt. This amount represents an increase of \$53,397,087 due to issuance of COP and AMR debt. The increase from issuance of new debt was partially offset by principal payments. The following is a summary of the long-term debt at June 30, 2010 and 2009, respectively:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Certificates of participation	\$ 58,590,000	\$ 12,710,000
Notes payable	4,011,951	4,228,953
Capital leases	5,379,727	-
State of California loans payable	6,293,384	7,126,767
Other long-term debt	223,528	254,826
Total long-term debt	<u>74,498,590</u>	<u>24,320,546</u>
Less: unamortized deferred charges	(136,238)	-
Less: unamortized premiums/discounts	3,313,603	(41,678)
	<u>\$ 77,675,955</u>	<u>\$ 24,278,868</u>

Additional information on the District's long-term debt can be found in note 6 of the notes to financial statements.

Conditions Affecting Current Financial Position

Operating water sales for the year ended June 30, 2010 were lower than the previous year partly resulting from the inverse relationship between natural precipitation and water sales and lower consumption due to conservation. Management cannot accurately predict rainfall into the future and what its effects might be on water sales and costs of operations.

According to the District's Five Year Business Plan and Budget, spending for preventive maintenance is expected to average \$2.9 million per year and capital replacement and improvements are expected to average \$16.2 million per year. This higher level of spending results in an increase of approximately 9.4% per year in water and 10.4% per year in sewer for the typical customer. Approximately 3% of the increase results from the external pass through of costs from the San Diego County Water Authority, Metropolitan Water District, and City of San Diego Metro. Additionally, 6% of the increase is from internal expenditures to meet the higher level of preventive maintenance and capital replacement needs. The internal rate increase was reduced to 5% for fiscal year 2009/10.

The District issued \$53 million of Certificates of Participation (COP) in September 2009 to partially finance a number of capital improvement projects. The COP's were secured by the District's net revenues and reserve funds. Among the major projects that will be funded are the East County Regional Treated Water Improvement Program and the Five Reservoirs Roof Replacement and Seismic Upgrades Project. The District also entered into a \$5,604,125 capital lease in July 2009 to partially finance the purchase of various new equipment related to the automatic meter reading project.

In April 2009, Padre Dam's wholesale supplier declared a Level 2 Drought Alert and ordered a mandatory, eight percent reduction in water use effective July 1, 2009. In response, Padre Dam adopted additional water use restrictions and a new rate structure that provides customers with a daily allocation of water based on their property size and purchased capacity. The tiered rate structure rewards customers who are already using water efficiently and motivates high water users to conserve. Padre Dam can adjust the new rates as needed in response to decreased water sales in order to maintain adequate revenues for preventive maintenance and capital improvement projects. District-wide water use is approximately 23% less than it was during the same time in 2008 and the new rate structure has been lauded by the San Diego County Taxpayers Association and other government watchdog groups as a fair and effective approach to conservation.

Contacting the District's Financial Manager

This financial report is designed to provide our customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Padre Dam Municipal Water District.

PADRE DAM MUNICIPAL WATER DISTRICT

STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

	2010	2009
ASSETS		
Current Assets:		
Cash and cash equivalents (Notes 1 and 2)	\$ 9,650,012	\$ 10,329,127
Restricted cash and cash equivalents (Notes 1 and 2)	310,115	320,107
Investments (Notes 1 and 2)	12,307,335	5,801,828
Accounts receivable, net (Note 1)	6,726,847	6,025,538
Property taxes receivable, net (Note 1)	184,677	197,528
Accounts receivable - other	305,148	213,237
Accrued interest receivable	73,829	67,719
Inventories	919,576	951,091
Prepaid expenses	159,688	131,406
Total Current Assets	<u>30,637,227</u>	<u>24,037,581</u>
Noncurrent Assets:		
Restricted Assets (Notes 1, 2 and 3):		
Cash and cash equivalents	3,281,542	4,820,965
Investments	38,810,587	2,887,719
Accrued interest receivable	33,169	39,161
Total Restricted Assets	<u>42,125,298</u>	<u>7,747,845</u>
Other Noncurrent Assets:		
Bond issuance costs (Note 5)	642,112	278,827
Total Other Noncurrent Assets	<u>642,112</u>	<u>278,827</u>
Capital Assets (Note 4):		
Land, franchise and water rights	1,207,162	1,207,162
Construction in progress	42,613,255	23,853,884
Capital assets, net of depreciation	180,632,081	177,528,327
Total Capital Assets, net of depreciation	<u>224,452,498</u>	<u>202,589,373</u>
Total Noncurrent Assets	<u>267,219,908</u>	<u>210,616,045</u>
Total Assets	<u>297,857,135</u>	<u>234,653,626</u>

(Continued)

PADRE DAM MUNICIPAL WATER DISTRICTSTATEMENTS OF NET ASSETS (Continued)
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 4,047,159	\$ 2,653,062
Accrued expenses and other liabilities	2,644,124	2,523,803
Accrued interest payable	820,360	172,119
Current portion of long-term debt	2,070,446	1,519,665
Liabilities payable from restricted assets:		
Deposits and advances on construction	310,115	320,107
	<u>9,892,204</u>	<u>7,188,756</u>
Total Current Liabilities		
Noncurrent Liabilities:		
Due to Other Agencies	3,118,760	3,118,760
Long-Term Debt (Note 6):		
Capital lease obligations	4,915,498	-
Certificates of participation	61,052,365	12,013,322
Notes payable	4,011,951	4,228,953
State of California loans payable	5,435,030	6,293,400
Other long-term debt	190,665	223,528
	<u>75,605,509</u>	<u>22,759,203</u>
Total Long-Term Debt		
Other Noncurrent Restricted Liabilities:		
Prepaid capacity fees (Note 7)	2,947,339	3,172,527
Accrued pension benefits and other	14,381	14,512
Total Other Noncurrent Restricted Liabilities	<u>2,961,720</u>	<u>3,187,039</u>
Total Noncurrent Liabilities	<u>81,685,989</u>	<u>29,065,002</u>
Total Liabilities	<u>91,578,193</u>	<u>36,253,758</u>
NET ASSETS		
Invested in capital assets, net of related debt	176,762,605	178,565,331
Restricted for future capital projects	4,925,624	4,560,770
Restricted for debt service	4,475,420	36
Unrestricted	20,115,293	15,273,731
	<u>206,278,942</u>	<u>198,399,868</u>
Total Net Assets	<u>\$ 206,278,942</u>	<u>\$ 198,399,868</u>

PADRE DAM MUNICIPAL WATER DISTRICT**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**
For the years ended June 30, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Water operations	\$ 29,297,612	\$ 27,785,038
Waste disposal operations	13,493,371	13,013,970
Park operations	3,830,279	3,662,545
Total Operating Revenues	<u>46,621,262</u>	<u>44,461,553</u>
OPERATING EXPENSES		
Water operations	30,035,200	28,611,570
Waste disposal operations	10,757,684	8,951,384
Park operations	3,382,175	3,294,173
Total Operating Expenses	<u>44,175,059</u>	<u>40,857,127</u>
Operating Income (Loss)	<u>2,446,203</u>	<u>3,604,426</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	209,230	531,489
Restricted investment income	352,750	307,351
Taxes and assessments	2,450,109	2,873,342
Gain on sale of assets	32,262	25,550
Other expenses	-	(3,118,760)
Interest expense	(2,301,972)	(811,600)
Total Nonoperating Revenues (Expenses)	<u>742,379</u>	<u>(192,628)</u>
Income Before Capital Contributions	3,188,582	3,411,798
Capital Contributions	<u>4,690,492</u>	<u>2,463,842</u>
Changes in Net Assets	7,879,074	5,875,640
Total Net Assets, Beginning of Year	<u>198,399,868</u>	<u>192,524,228</u>
Total Net Assets, End of Year	<u>\$ 206,278,942</u>	<u>\$ 198,399,868</u>

PADRE DAM MUNICIPAL WATER DISTRICT**STATEMENTS OF CASH FLOWS**
For the years ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 45,778,640	\$ 44,689,541
Payments for operating goods and services	(23,840,347)	(24,408,410)
Payments to employees	(13,007,651)	(12,652,014)
Net Cash Provided by Operating Activities	<u>8,930,642</u>	<u>7,629,117</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from taxes and assessments	<u>2,462,960</u>	<u>2,694,846</u>
Net Cash Provided by Noncapital and Related Financing Activities	<u>2,462,960</u>	<u>2,694,846</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(26,867,155)	(14,989,442)
Net proceeds from issuance of long-term debt	62,077,044	-
Principal payments on long-term debt	(9,121,081)	(1,784,101)
Proceeds from capital contributions	3,717,508	2,128,392
Interest paid, net of amounts capitalized	(1,602,025)	(820,746)
Proceeds from sale of assets	<u>7,828</u>	<u>25,550</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>28,212,119</u>	<u>(15,440,347)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(68,519,453)	(13,754,486)
Proceeds from sale and maturities of investments	26,091,078	18,392,497
Interest received on investments	<u>594,124</u>	<u>788,955</u>
Net Cash Provided (Used) by Investing Activities	<u>(41,834,251)</u>	<u>5,426,966</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,228,530)	310,582
Cash and Cash Equivalents, Beginning of Year	<u>15,470,199</u>	<u>15,159,617</u>
Cash and Cash Equivalents, End of Year	<u>\$ 13,241,669</u>	<u>\$ 15,470,199</u>

(Continued)

See accompanying independent auditors' report and notes to basic financial statements.

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PADRE DAM MUNICIPAL WATER DISTRICTSTATEMENTS OF CASH FLOWS (Continued)
For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income (loss) to net cash flows provided by operating activities:		
Operating income (loss)	\$ 2,446,203	\$ 3,604,426
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	5,793,400	5,418,016
Amortization	26,133	19,651
(Increase) decrease in accounts receivable	(701,309)	(38,066)
(Increase) decrease in accounts receivable - other	83,875	61,397
(Increase) decrease in inventories	31,515	(178,162)
(Increase) decrease in prepaid expenses	(28,282)	(5,810)
Increase (decrease) in accounts payable	1,394,097	(1,184,643)
Increase (decrease) in accrued expenses and other liabilities	120,321	87,972
Increase (decrease) in deposits and advances on construction	(9,992)	(176,481)
Increase (decrease) in accrued pension benefits and other	(225,319)	20,817
	<u>8,930,642</u>	<u>7,629,117</u>
Net Cash Provided By Operating Activities	<u>\$ 8,930,642</u>	<u>\$ 7,629,117</u>
Financial Statement Classification		
Cash and cash equivalents		
Current assets:		
Cash and cash equivalents	\$ 9,650,012	\$ 10,329,127
Restricted cash and cash equivalents	310,115	320,107
Noncurrent assets:		
Restricted cash and cash equivalents	<u>3,281,542</u>	<u>4,820,965</u>
Total Cash and Cash Equivalents	<u>13,241,669</u>	<u>15,470,199</u>
Investments		
Current assets:		
Investments	12,307,335	5,801,828
Noncurrent assets:		
Restricted investments	<u>38,810,587</u>	<u>2,887,719</u>
Total Investments	<u>51,117,922</u>	<u>8,689,547</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 64,359,591</u>	<u>\$ 24,159,746</u>
Supplemental Disclosures:		
Noncash Investing and Financing Activities		
Contributed Capital for Capital Assets	\$ 797,198	\$ 483,630
Amortization Related to Long-Term Debt	\$ (93,613)	\$ 3,924
Unrealized Gain (Loss) on Investments	\$ (39,112)	\$ 139,078

See accompanying independent auditors' report and notes to basic financial statements.

June 30, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Reporting Entity:

The Padre Dam Municipal Water District (the "District") was organized November 23, 1955, (as Rio San Diego Municipal Water District) pursuant to the Municipal Water District Law of 1911, Division 20 of the Water Code, as the result of an election held December 2, 1952. The name changed to Padre Dam Municipal Water District effective January 1, 1977.

Santee County Water District (formed in 1956 pursuant to the County Water District Law, Division 12 of the Water Code) operated within the territory of the District. As the result of an election held on November 2, 1976, Santee County Water District dissolved and its functions and operations were assumed by the District on December 31, 1976.

The Eastern Service Area was annexed to the District in 1961. The area within Crest Public Utility District was annexed in 1985 when that agency dissolved.

The District purchases its water supply from the San Diego County Water Authority.

The District is comprised of two geographically distinct Service Areas:

Western Service Area

Western Service Area provides retail potable water, recycled water and sewer services to the community of Santee. The Santee Lakes Recreation Preserve and the Santee Water Reclamation Facility are located within this District.

Eastern Service Area

Eastern Service Area provides retail potable water service to the communities of Alpine, Crest and Harbison Canyon.

b. Basis of Presentation:

The District is accounted for as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The District has elected under Governmental Accounting Standards Board (GASB) Statement 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989 except for those that conflict with or contradict GASB pronouncements, and as a consequence will continue to apply GASB Statements and Interpretations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Measurement Focus and Basis of Accounting:

“Measurement focus” is a term used to describe *which* transactions are recorded within the various financial statements. “Basis of accounting” refers to *when* transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the “economic resources measurement focus,” and the “accrual basis of accounting.” Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

d. Net Assets:

GASB Statement No. 34, “*Basic Financial Statements - and Management’s Discussion and Analysis - For State and Local Governments*,” established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The District distinguishes operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by water sales, wastewater services and park services while operating expenses pertain directly to the furnishing of those services. Nonoperating revenues and expenses are those revenues and expenses that are not directly associated with the normal business of supplying water, wastewater treatment services and park services.

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.

e. Statements of Cash Flows:

For purposes of the statements of cash flows the District considers all investment instruments purchased with a maturity of three months or less to be cash and cash equivalents.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Investments:

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

g. Accounts Receivable and Allowance for Doubtful Accounts:

Accounts receivable are from billed and unbilled customer accounts and total \$6,726,847 and \$6,025,538 at June 30, 2010 and 2009, respectively. Management believes that all uncollectible accounts have been identified and written-off. Due to historically low write offs of water and sewer revenue billed, no allowance has been established as of June 30, 2010 and 2009.

h. Inventory:

Inventory consists primarily of materials and supplies used in the construction and maintenance of capital assets, and are valued at average cost.

i. Capital Assets:

The District records the acquisition of capital assets and additions, improvements and other capital outlays that significantly extend the life of an asset 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. District policy has set the capitalization threshold for reporting capital assets at \$5,000 and an estimated useful life of greater than three years.

Depreciation is calculated on the straight-line method over the estimated useful lives of the assets which range from three to one hundred years as follows:

Water system	10 - 75 years
Sewer system	10 - 100 years
Water recycling system	5 - 50 years
Parks and campgrounds	5 - 30 years
Buildings	20 - 25 years
Equipment	3 - 10 years

Depreciation totaled \$5,793,400 and \$5,418,016 for the years ended June 30, 2010 and 2009, respectively. Depreciation expense has been allocated to Water Operations, Waste Disposal Operations and Park Operations on the Statements of Revenues, Expenses and Changes in Net Assets. The allocation of depreciation expense for the years ended June 30, 2010 and 2009 are as follows.

	2010	2009
Water Operations	\$ 4,389,313	\$ 4,099,131
Waste Disposal Operations	827,571	759,314
Park Operations	576,516	559,571
	\$ 5,793,400	\$ 5,418,016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

j. Compensated Absences:

Vested or accumulated vacation and sick leave are recorded as expenses and liabilities as benefits accrue to employees. At June 30, 2010 and 2009 accumulated vacation and sick leave totaled \$1,654,948 and \$1,518,277 respectively, and is included in accrued expenses and other liabilities.

k. Restricted Assets and Liabilities:

Certain current liabilities have been classified as current liabilities payable from restricted assets as they will be funded from restricted assets.

l. Use of Estimates:

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and, accordingly, include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

m. Property Taxes:

Property taxes are billed by the County of San Diego to property owners. The District takes into account differences in the property taxes assessed in the two service areas when establishing its water rates for each area. The District's property tax calendar for the fiscal year ended June 30, 2010 was as follows:

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

Property taxes receivable of \$184,677 and \$197,528 as of June 30, 2010 and 2009, respectively, have been reported net of an allowance for estimated uncollectible taxes in the amount of \$11,589 and \$11,962, respectively.

n. Reclassifications:

The District has reclassified certain prior year information to conform with the current year's presentation.

o. Amortization of Deferred Charges, Bond Discounts, Premiums and Issuance Costs:

Deferred charges, bond discounts, premiums and issuance costs are being amortized over the periods of debt maturities. Amortization of bond issuance costs totaled \$26,133, and \$19,651 for the years ended June 30, 2010 and 2009, respectively, and is included in operating expenses. Amortization of bond discounts and premiums totaled \$93,613 and \$3,924 for the years ended June 30, 2010 and 2009, respectively, and is included in interest expense.

p. Interest Expense:

The District incurs interest charges on long-term debt. Interest of \$424,588 and \$178,683 was capitalized as a cost of construction for the years ended June 30, 2010 and 2009, respectively.

2. CASH AND INVESTMENTS:

Cash and investments at June 30, 2010 and 2009 are classified in the accompanying financial statements as follows:

Statements of Net Assets:	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and cash equivalents	\$ 9,650,012	\$10,329,127
Restricted cash and cash equivalents	310,115	320,107
Investments	12,307,335	5,801,828
Noncurrent Assets:		
Restricted:		
Cash and cash equivalents	3,281,542	4,820,965
Investments	<u>38,810,587</u>	<u>2,887,719</u>
Total cash and investments	<u>\$ 64,359,591</u>	<u>\$24,159,746</u>

Cash and investments consist of the following:

Cash on hand	\$ 2,150	\$ 2,150
Deposits with financial institutions	19,295,848	811,244
Investments	<u>45,061,593</u>	<u>23,346,352</u>
Total cash and investments	<u>\$ 64,359,591</u>	<u>\$24,159,746</u>

Investments Authorized by the California Government Code and the District’s Investment policy:

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Entities	5 years	None	None
Banker’s Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Certificates of Deposit	2 years	15%	None
Repurchase Agreements	90 days	None	None
Reverse Repurchase Agreements	90 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
LAIIF	N/A	None	None

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by Debt Agreements:

Investments of debt proceeds held by bond trustee are governed by the general provisions of the California Government Code or the District’s investment policy.

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District’s investments by maturity.

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Commercial Paper	\$ 2,496,175	\$ 2,496,175	\$ -	\$ -	\$ -
CAMP	2,841,336	2,841,336	-	-	-
Local Agency Investment Fund (LAIF)	10,841,730	10,841,730	-	-	-
Money Market Mutual Funds	10,465,707	10,465,707	-	-	-
U.S. Government Sponsored Entities	15,903,270	9,323,253	2,032,812	4,547,205	-
U.S. Treasury Obligations	2,513,375	-	2,513,375	-	-
Total	\$ 45,061,593	\$ 35,968,201	\$ 4,546,187	\$ 4,547,205	\$ -

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District’s investment policy, or debt agreements, and the Standard and Poor’s rating of as year ended for each investment type.

Investment Type	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year End		
				AAA	A-1	Not Rated
Commercial Paper	\$ 2,496,175	A-1	\$ -	\$ -	\$ 2,496,175	\$ -
CAMP	2,841,336	N/A	-	2,841,336	-	-
Local Agency Investment Fund (LAIF)	10,841,730	N/A	-	-	-	10,841,730
Money Market Mutual Funds	10,465,707	AAA	25,670	10,440,037	-	-
U.S. Government Sponsored Entities	15,903,270	N/A	-	15,903,270	-	-
U.S. Treasury Obligations	2,513,375	N/A	2,513,375	-	-	-
Total	\$ 45,061,593		\$ 2,539,045	\$ 29,184,643	\$ 2,496,175	\$ 10,841,730

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk:

The investment policy of the District contains various limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, money market mutual funds, and external investment pools) that represent 5% or more of the District’s investments are as follows:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	U.S. Government Sponsored Entities	\$ 3,274,068
Federal Home Loan Bank Bonds	U.S. Government Sponsored Entities	\$ 4,014,180
Federal National Mortgage Association	U.S. Government Sponsored Entities	\$ 4,581,585

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, an entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, an entity will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2010, \$2,041,115 of the District’s deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

Local Agency Investment Fund (LAIF):

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District’s investment in this pool is reported in the accompanying financial statements at amounts based upon the District’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

California Asset Management Program (CAMP):

The District is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act for the purpose of exercising the common power of its Participants to invest funds. The investments are limited to investments permitted by California Government Code. The District reports its investment in CAMP at the fair value amounts provided by CAMP, which is the same value of the pool share. At June 30, 2010 and 2009 the fair value approximated is the District’s cost.

3. RESTRICTED ASSETS:

Restricted assets were provided by, and are to be used for, the following:

Funding Source	Use	2010	2009
Customer and construction deposits	Various	\$ 310,115	\$ 320,107
Capacity expansion funds and accrued interest receivable	Acquisition and construction	7,872,960	7,733,296
Debt proceeds, capital contributions and interest earned	Debt service and acquisition and construction	34,237,957	37
Pensions and other	Various	14,381	14,512
		<u>\$ 42,435,413</u>	<u>\$ 8,067,952</u>

4. CAPITAL ASSETS:

The following is a summary of changes in Capital Assets for the year ended June 30, 2010:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated:				
Land, Franchise and Water Rights	\$ 1,207,162	\$ -	\$ -	\$ 1,207,162
Construction in Progress	23,853,884	26,319,576	(7,560,205)	42,613,255
Total Capital Assets Not Depreciated	<u>25,061,046</u>	<u>26,319,576</u>	<u>(7,560,205)</u>	<u>43,820,417</u>
Capital Assets, Being Depreciated:				
Water System	146,307,351	5,268,587	(178,006)	151,397,932
Sewer System	36,313,577	1,938,320	(62,580)	38,189,317
Water Recycling System	25,370,894	22,234	(10,423)	25,382,705
Parks and Campgrounds	16,108,241	476,792	(57,574)	16,527,459
Buildings	14,012,962	205,435	(26,398)	14,191,999
Equipment	12,357,211	1,013,770	(850,717)	12,520,264
Total Capital Assets Being Depreciated	250,470,236	8,925,138	(1,185,698)	258,209,676
Less Accumulated Depreciation:	<u>(72,941,909)</u>	<u>(5,793,400)</u>	<u>1,157,714</u>	<u>(77,577,595)</u>
Total Capital Assets Being Depreciated, Net	<u>177,528,327</u>	<u>3,131,738</u>	<u>(27,984)</u>	<u>180,632,081</u>
Total Capital Assets, Net	<u>\$ 202,589,373</u>	<u>\$ 29,451,314</u>	<u>\$ (7,588,189)</u>	<u>\$ 224,452,498</u>

4. CAPITAL ASSETS (CONTINUED):

The following is a summary of changes in Capital Assets for the year ended June 30, 2009:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated:				
Land, Franchise and Water Rights	\$ 1,207,162	\$ -	\$ -	\$ 1,207,162
Construction in Progress	19,617,135	14,416,702	(10,179,953)	23,853,884
Total Capital Assets Not Depreciated	<u>20,824,297</u>	<u>14,416,702</u>	<u>(10,179,953)</u>	<u>25,061,046</u>
Capital Assets, Being Depreciated:				
Water System	141,608,608	4,698,743	-	146,307,351
Sewer System	34,192,407	2,121,170	-	36,313,577
Water Recycling System	23,971,879	1,399,015	-	25,370,894
Parks and Campgrounds	15,384,635	723,606	-	16,108,241
Buildings	13,576,768	436,194	-	14,012,962
Equipment	10,757,391	1,857,595	(257,775)	12,357,211
Total Capital Assets Being Depreciated	239,491,688	11,236,323	(257,775)	250,470,236
Less Accumulated Depreciation:	<u>(67,781,668)</u>	<u>(5,418,016)</u>	<u>257,775</u>	<u>(72,941,909)</u>
Total Capital Assets Being Depreciated, Net	<u>171,710,020</u>	<u>5,818,307</u>	<u>-</u>	<u>177,528,327</u>
Total Capital Assets, Net	<u>\$ 192,534,317</u>	<u>\$ 20,235,009</u>	<u>\$ (10,179,953)</u>	<u>\$ 202,589,373</u>

5. OTHER NONCURRENT ASSETS:

Deferred bond issue costs totaled \$642,112 and \$278,827, net of accumulated amortization of \$53,985 and \$173,334 as of June 30, 2010 and 2009, respectively. The costs are amortized using the straight-line method based on the estimated term of the related bond debt. Amortization expense of \$26,133 and \$19,651 for the years ended June 30, 2010 and 2009 is included in operating expenses.

6. LONG-TERM DEBT:

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010	Due within One Year
Certificates of Participation:					
1996 Certificates of Participation	\$ 7,575,000	\$ -	\$ (7,575,000)	\$ -	\$ -
2004 Certificates of Participation	5,135,000	-	(240,000)	4,895,000	250,000
2009 Certificates of Participation	-	53,695,000	-	53,695,000	465,000
1996 COPS Unamortized Discount	(55,627)	-	55,627	-	
2004 COPS Unamortized Premium	13,949	-	(872)	13,077	
2009 COPS Unamortized Premium	-	3,402,348	(101,822)	3,300,526	
2009 COPS Unamortized Deferred Charges	-	(145,319)	9,081	(136,238)	
Net Certificates of Participation	12,668,322	56,952,029	(7,852,986)	61,767,365	715,000
Notes Payable:					
California Bank and Trust	4,228,953	-	(217,002)	4,011,951	-
Capital Leases:					
Government Capital Corp	-	5,604,125	(224,398)	5,379,727	464,229
State of California Loans Payable:					
1995 State Water Resources Control Board	4,918,502	-	(551,232)	4,367,270	568,320
1996 State Water Resources Control Board	2,208,265	-	(282,151)	1,926,114	290,034
Total State of California Loans Payable	7,126,767	-	(833,383)	6,293,384	858,354
Other Long-Term Debt:					
Lakeside Detachment Liability	254,826	-	(31,298)	223,528	32,863
	<u>\$ 24,278,868</u>	<u>\$ 62,556,154</u>	<u>\$ (9,159,067)</u>	<u>\$ 77,675,955</u>	<u>\$ 2,070,446</u>

Certificates of Participation (COPS):

\$7,575,000 of the 1996 Certificates of Participation were refunded in September 2009 with a portion of the proceeds from the 2009 Certificates of Participation.

The 2004 Certificates of Participation are dated August 18, 2004, secured by net revenues of the District and reserve funds, with annual principal payments from \$95,000 to \$430,000 plus interest at 3.0% to 4.75%.

On September 1, 2009, the District issued \$53,695,000 of 2009 Capital Improvement and Refunding Project, Series A Certificates of Participation which consisted of serial bonds and term bonds. \$27,020,000 of serial bonds mature annually from October 1, 2010 to October 1, 2029 and bear varying interest rates between 2.00% and 5.25%. An \$11,600,000 term bond matures on October 1, 2034 and bears an interest rate of 5.25%, and a \$15,075,000 term bond matures on October 1, 2039 and bears interest of 5.25%. The COPs were issued in part to refinance the 1996 Certificates of Participation and in part to finance various improvements to the District’s Water and Sewer System. The savings between the cash flow required to service the old debt and the cash flow required to service the new debt is \$1,278,568 and represents an economic gain on refunding of \$998,791.

6. LONG-TERM DEBT (CONTINUED):

Future debt service requirements for the certificates of participation are as follows:

For the Year Ended June 30,	2004 COPS		2009 COPS		Total COPS	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 250,000	\$ 198,226	\$ 465,000	\$ 2,602,181	\$ 715,000	\$ 2,800,407
2012	255,000	190,268	510,000	2,589,881	765,000	2,780,149
2013	265,000	181,423	555,000	2,573,906	820,000	2,755,329
2014	275,000	171,698	615,000	2,556,356	890,000	2,728,054
2015	285,000	161,195	635,000	2,536,019	920,000	2,697,214
2016-2020	1,595,000	624,220	6,655,000	12,124,731	8,250,000	12,748,951
2021-2025	1,970,000	238,015	8,660,000	10,300,706	10,630,000	10,538,721
2026-2030	-	-	8,925,000	8,212,422	8,925,000	8,212,422
2031-2035	-	-	11,600,000	5,544,000	11,600,000	5,544,000
2036-2040	-	-	15,075,000	2,061,806	15,075,000	2,061,806
	<u>\$ 4,895,000</u>	<u>\$ 1,765,045</u>	<u>\$ 53,695,000</u>	<u>\$ 51,102,008</u>	<u>\$ 58,590,000</u>	<u>\$ 52,867,053</u>

Note Payable:

In April 1996, the District obtained an unsecured loan from California Bank and Trust, which was refinanced in 2002 and again in 2007, in the amount of \$5,000,000. The note now bears interest at 61% of the prime rate (1.98% at June 30, 2010). The note requires interest only payments. The entire unpaid principal and interest balance is due May 1, 2012. This note is payable from revenues levied by the District for purposes other than the payment of principal and interest of bonded debt.

Future debt service requirements for the California Bank and Trust Note are as follows:

For the Year Ended June 30,	California Bank and Trust	
	Principal	Interest
2011	\$ -	\$ 84,579
2012	4,011,951	84,579
	<u>\$ 4,011,951</u>	<u>\$ 169,158</u>

6. LONG-TERM DEBT (CONTINUED):

Capital Lease:

The District entered into a capital lease agreement on July 16, 2009 with Government Capital Corporation for the purchase of various new equipment in the amount of \$5,604,125. The capital lease is for a term of 10 years with biannual lease payments of \$351,892 which include interest at 6.75%. Upon the expiration of the lease term the equipment can be purchased for \$1.00.

Future minimum lease payments under the capital lease are as follows:

For the Year Ended June 30,	Government Capital Corp	
	Principal	Interest
2011	\$ 464,229	\$ 239,556
2012	485,591	218,194
2013	507,937	195,848
2014	531,311	172,474
2015	555,761	148,024
2016-2020	2,834,898	332,135
	<u>\$ 5,379,727</u>	<u>\$ 1,306,231</u>

Loans Payable:

In August 1995, the District obtained a loan of \$10,173,515 from the State Water Resources Control Board for the construction of the Santee Water Reclamation Facility expansion. The loan bears interest at 3.1% with annual installments of \$703,705, including interest. The District shall maintain a dedicated source of revenue sufficient to provide reasonable assurance of the repayment of the loan.

In April 1996, the District obtained a loan of \$5,000,000 from the State Water Resources Control Board for the construction of the Santee Water Reclamation Facility expansion. The loan bears interest at 2.8% with annual installments of \$343,982, including interest. The District shall maintain a dedicated source of revenue sufficient to provide reasonable assurance of the repayment of the loan.

Future debt service requirements for the State Water Resources Control Board loans are as follows:

For the Year Ended June 30,	1995 State Water Loan		1996 State Water Loan		Total State Water Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 568,320	\$ 135,402	\$ 290,034	\$ 53,931	\$ 858,354	\$ 189,333
2012	585,921	117,785	298,173	45,810	884,094	163,595
2013	604,084	99,621	306,521	37,461	910,605	137,082
2014	622,811	80,894	315,104	28,878	937,915	109,772
2015	642,137	61,569	323,927	20,055	966,064	81,624
2016-2019	1,343,997	62,731	392,355	11,259	1,736,352	73,990
	<u>\$ 4,367,270</u>	<u>\$ 558,002</u>	<u>\$ 1,926,114</u>	<u>\$ 197,394</u>	<u>\$ 6,293,384</u>	<u>\$ 755,396</u>

6. LONG-TERM DEBT (CONTINUED):

Other Long-Term Debt:

The District had a wholesale agreement with Lakeside Water District. Effective November 16, 2006 Lakeside Water District (Lakeside) detached from the District. Per the detachment agreement, the District will make ten annual payments to Lakeside totaling \$448,000. The District estimates that the net present value of the remaining payments is \$223,528 assuming a 5% rate of return. The Lakeside detachment liability is reported on the statement of net assets as other long-term debt.

Future debt service requirements for the Lakeside detachment liability are as follows:

For the Year Ended June 30,	Payable	
	Principal	Interest
2011	\$ 32,863	\$ 11,176
2012	34,506	9,533
2013	36,231	7,808
2014	38,043	5,996
2015	39,945	4,094
2016-2017	41,940	2,099
	<u>\$ 223,528</u>	<u>\$ 40,706</u>

7. PREPAID CAPACITY FEES:

The District records capacity fees collected as a liability until its duty to perform has been completed and service has begun at which time these fees are recorded as capital contributions. Following is a summary of the prepaid capacity fee liability at June 30:

	2010	2009
Balance, Beginning of Year	\$ 3,172,527	\$ 2,967,870
Add: Construction and Capacity Fees Received	2,092,005	1,943,984
Less: Water and Sewer Connections	(2,308,501)	(1,738,329)
Refunds	(8,692)	(998)
Balance, End of Year	<u>\$ 2,947,339</u>	<u>\$ 3,172,527</u>

8. DEFINED BENEFIT PENSION PLAN:

Plan Description

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

Funding Policy

Active plan members in the Plan are required to contribute 8% of their annual covered salary of which the District pays 7% on behalf of the employees. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates were 16.241% and 16.261% for the years ended June 30, 2010 and 2009, 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.

Annual Pension Costs

For the fiscal year ended June 30, 2010, the District’s annual pension cost and actual contribution was \$1,725,304. The required contribution for the fiscal year ended June 30, 2010 was determined as part of the June 30, 2007 actuarial valuation.

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

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	29 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

8. DEFINED BENEFIT PENSION PLAN (CONTINUED):

Annual Pension Costs (Continued)

Initial unfunded liabilities are amortized over a closed period that depends on the plan’s date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan’s accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Three-Year Trend Information for PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$1,725,304	100%	\$-0-
June 30, 2009	\$1,670,949	100%	\$-0-
June 30, 2008	\$1,438,565	100%	\$-0-

Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the plan was 80.5% funded. The actuarial accrued liability (AAL) for benefits was \$57,868,427, and the actuarial value of assets was \$46,599,625, resulting in an unfunded actuarial accrued liability (UAAL) of \$11,308,802. The covered payroll (annual payroll of active employees covered by the plan) was \$9,703,168, and the ratio of the UAAL to the covered payroll was 116.5%.

The schedule of funding progress, presented as *required supplementary information* following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over the time relative to the actuarial accrued liability for benefits.

9. OTHER POST EMPLOYMENT BENEFITS:

Plan Description

The District’s defined benefit postemployment healthcare plan, (DPHP), provides medical benefits to eligible retired District employees and beneficiaries. DPHP is part of the Public Agency portion of the California Employers’ Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees’ Retirement Law. DPHP 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.

9. OTHER POST EMPLOYMENT BENEFITS (CONTINUED):

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. The plan is fully funded by the District for members who meet full eligibility requirements and were hired on or before August 27, 2002. For members hired after August 27, 2002 the plan is fully funded by the District provided they meet higher eligibility requirements. Additional limitations are placed on coverage for members hired after August 8, 2006. Reduced benefits are available to members hired after August 27, 2002 and before August 8, 2006.

The District’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 16.4% of the annual covered payroll.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the District’s annual OPEB cost for the years ending June 30, 2010 and 2009, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation:

	<u>2010</u>	<u>2009</u>
Annual Required Contribution (ARC)	\$ 1,604,761	\$ 1,510,882
Interest on net OPEB obligation	-	-
Adjustment to Annual Required Contribution (ARC)	<u>-</u>	<u>-</u>
Annual OPEB cost (expense)	1,604,761	1,510,882
Contributions made	<u>1,604,761</u>	<u>1,510,882</u>
Increase in net OPEB obligation	-	-
Net OPEB obligation - beginning of year	<u>-</u>	<u>-</u>
Net OPEB obligation - end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

9. OTHER POST EMPLOYMENT BENEFITS (CONTINUED):

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years 2010, 2009 and 2008 were as follows:

<u>THREE-YEAR TREND INFORMATION FOR CERBT</u>			
<u>Fiscal Year</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/10	\$ 1,604,761	100%	\$ -
6/30/09	\$ 1,510,882	100%	\$ -
6/30/08	*	*	*

* GASB 45 was implemented in fiscal year 2009.

Funded Status and Funding Progress

The funded status of the plan as of the June 30, 2009 actuarial valuation was as follows:

Actuarial Accrued Liability (AAL)	\$ 16,919,634
Actuarial Value of Plan Assets	\$ 2,327,666
Unfunded Actuarial Accrued Liability (UAAL)	\$ 14,591,968
Funded Ratio (Actuarial Value of Plan Assets/AAL)	13.76%
Covered Payroll (Active Plan Members)	\$ 9,761,175
UAAL as a Percentage of Covered Payroll	149.49%

Actuarial Methods and Assumptions

The required contribution was determined as part of the June 30, 2009, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.75% investment rate of return. The District’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a fixed 30-year period. The average remaining amortization period at June 30, 2010 was 27 years.

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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

10. REIMBURSEMENT CONTRACTS:

The District has entered into a number of reimbursement contracts with developers who have made contributions to the District to aid in the construction of water and sewer facilities. These contracts are to be repaid as new connections are made to the related water and sewer facilities. The District’s liability is limited to collecting the applicable connection fees and payment of the fees to the developers. Usually, only connections made within ten years from the date of each contract qualify for repayment; the contracts are void after that date.

11. COMMITMENTS AND CONTINGENCIES:

Leases

The District entered into a twenty-five year agreement in 1976 with the City of San Diego for the use of a portion of a major water transmission line. In December 2002, the lease was extended for an additional ten years. The minimum annual payments under the terms of the agreement are \$33,339 through the year 2012.

The District entered into a lease agreement in 1997 with the City of San Diego for the use of an antenna for the purpose of a mobile relay station and as a data relay station. The lease was amended in February 2008 to extend the lease to February 2018. Monthly payments are \$1,360 with an annual cost of living increase of 3%.

The District has entered into various lease agreements for vehicles, all of which are categorized as operating leases and expire during fiscal year ending June 30, 2011.

Rent expense under these noncancelable leases was \$72,942 and \$72,438 for the year ended June 30, 2010 and 2009.

Future minimum lease payments as of June 30, 2010 are as follows:

2011	\$ 73,461
2012	56,696
2013	21,432
2014	19,487
2015	20,072
2016-2018	<u>63,900</u>
	<u>\$ 255,048</u>

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, resulting from such litigation would not materially affect the operations or financial condition of the District.

Construction Contracts

The District has entered into various contracts for the purchase of material and construction of facilities. The amounts contracted for are based on the contractors estimated cost of construction. At June 30, 2010 and 2009 the total unpaid amount on these contracts was \$17,506,707 and \$1,164,131, respectively.

12. CERTIFICATION OF RATE COVENANT REQUIREMENTS:

In connection with the execution and delivery of the outstanding Certificates of Participation, the District agreed to meet certain covenants to maintain and collect gross revenues sufficient in each fiscal year to provide district net revenues which meet or exceed required ratios, as defined in the Rate Covenant section of the Official Statements. The District has complied with the Rate Covenants as outlined in the 2004 Certificates of Participation agreement and the 2009 Certificates of Participation agreement for the year ending June 30, 2010.

District Net Revenues / (Annual Installment Payments + Debt Service on Parity Debt):

Minimum required 1.20	Actual 3.29
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District Net Revenues - (Rate Stabilization and Capital Replacement Funds at beginning of fiscal year) / (Annual Installment Payments + Debt Service on Parity Debt):

Minimum required 1.05	Actual 3.12
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Water System Net Revenues / (Annual Installment Payments on Water System Debt + Debt Service on Water System Parity Debt):

Minimum required 1.00	Actual 1.47
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13. RISK MANAGEMENT:

The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority, created pursuant to California Government Code Sections 6500 et. seq., effective July 1, 2009 through June 30, 2010. During its membership, the following policies were in effect:

General and Auto Liability - Public Officials' and Employees' Errors and Omissions and Employment Practices Liability: Total risk financing limits of \$2.5 million, combined single limit at \$2.5 million per occurrence, subject to the following deductibles:

- \$10,000 per occurrence for third party general liability and auto liability property damage.
- \$50,000 per occurrence for third party employees Errors and Omissions and Employment Practices.

Employee Dishonesty Coverage - Total of \$400,000 per loss includes Public Employee Dishonesty, Forgery or Alteration and Theft, and Disappearance and Destruction.

Property Loss - Replacement cost, for property on file, if replaced and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of \$1 billion per occurrence, subject to \$2,000 deductible per occurrence.

Boiler and Machinery - Replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible.

Comprehensive and Collision - On selected vehicles, with deductibles of \$250/\$500 or \$500/\$1,000, as elected; ACV limits, fully self-funded by SDRMA.

13. RISK MANAGEMENT (CONTINUED):

Public Officials' Personal Liability - \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage's, deductible of \$50,000 per claim.

Workers' Compensation & Employer's Liability – Statutory limits per occurrence for Workers' compensation and \$5 million for Employer's Liability Coverage.

The District purchased the excess coverage layer listed below. The limits for the General and Auto Liability, Public Officials' and Employees, Errors and Omissions and Employment Practices Liability were increased by the amount below.

- \$5 Million Excess Coverage Layer

Members are subject to dividends and/or assessments, in accordance with the Sixth Amended Joint Powers Agreement and amendments thereto. No such dividends have been declared, nor have any assessments been levied. Presently, there are no known refunds or credits due to the District.

14. SUBSEQUENT EVENT:

On October 1, 2010, the District entered into an installment sale agreement with Government Capital Corporation to finance the purchase and site work necessary to install 7 land based cabins and 3 floating cabins at Santee Lakes. The total amount financed, including legal and closing costs, is \$1,415,000. The term of the agreement is 15 years with an effective interest rate of 5.147%. Annual payments of \$137,682 are required. The agreement is subordinate to the existing COPs and State loans and is secured by a pledge of Park and District net revenues.

Required Supplementary Information

Schedule of Funding Progress for PERS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (A)	<u>Actuarial Liability (AAL) Entry Age</u> (B)	<u>Unfunded AAL (UAAL)</u> (B-A)	<u>Funded Status</u> (A/B)	<u>Annual Covered Payroll</u> (C)	<u>UAAL as a Percentage of Covered Payroll</u> [(B-A)/C]
June 30, 2006	\$38,798,120	\$48,257,867	\$9,459,747	80.4%	\$7,903,507	119.7%
June 30, 2007	\$42,571,447	\$52,833,128	\$10,261,681	80.6%	\$8,511,844	120.6%
June 30, 2008	\$46,599,625	\$57,868,427	\$11,308,802	80.5%	\$9,703,168	116.5%

Schedule of Funding Progress for OPEB*

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (A)	<u>Actuarial Liability (AAL) Entry Age</u> (B)	<u>Unfunded AAL (UAAL)</u> (B-A)	<u>Funded Status</u> (A/B)	<u>Annual Covered Payroll</u> (C)	<u>UAAL as a Percentage of Covered Payroll</u> [(B-A)/C]
June 30, 2007	\$2,030,869	\$16,437,500	\$14,406,631	12.36%	\$8,147,615	176.82%
June 30, 2008	N/A	N/A	N/A	N/A	N/A	N/A
June 30, 2009	\$2,327,666	\$16,919,634	\$14,591,968	13.76%	\$9,761,175	149.49%

* - GASB 45 was implemented on July 1, 2008. First actuarial valuation performed based on June 30, 2007 information.

N/A – The District is only required to perform annual actuarial valuations biennially. An actuarial valuation was not performed for the year ending June 30, 2008.

Supplementary Information

PADRE DAM MUNICIPAL WATER DISTRICT

SCHEDULE OF INCOME (LOSS) BEFORE CONTRIBUTIONS BY FUND SERVICES
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Water</u>	<u>Sewer</u>	<u>Park</u>	<u>Other</u>	<u>Restricted</u>	<u>Total</u>
Operating Revenues:						
Water Sales	\$ 19,914,217	\$ -	\$ -	\$ -	\$ -	\$ 19,914,217
Sewer Revenues	-	13,479,662	-	-	-	13,479,662
System Charges	4,585,277	-	-	-	-	4,585,277
Park Fees	-	-	3,817,943	-	-	3,817,943
Other Operating Income	4,798,118	13,709	12,336	-	-	4,824,163
Total Operating Revenues	<u>29,297,612</u>	<u>13,493,371</u>	<u>3,830,279</u>	<u>-</u>	<u>-</u>	<u>46,621,262</u>
Operating Expenses:						
Direct Expenses						
Water Purchases	11,428,849	-	-	-	-	11,428,849
Sewer METRO Costs	-	4,051,177	-	-	-	4,051,177
Other Operating Expenses	1,937,836	1,776,900	231,124	-	-	3,945,860
Internal Expenses						
Salary and Wages	8,410,126	2,612,320	855,424	-	-	11,877,870
Employee Benefits	4,883,835	1,533,820	488,461	-	-	6,906,116
Professional Services	275,361	191,987	99,882	-	-	567,230
Materials, Supplies, Vehicle, & Bldg. Rent	1,851,613	794,049	583,581	-	-	3,229,243
Administrative Expenses	602,751	188,909	111,222	-	-	902,882
Utilities	300,064	325,848	476,527	-	-	1,102,439
Depreciation and Amortization	4,403,647	827,571	588,315	-	-	5,819,533
Billing Credits	(4,058,882)	(1,544,897)	(52,361)	-	-	(5,656,140)
Total Operating Expenses	<u>30,035,200</u>	<u>10,757,684</u>	<u>3,382,175</u>	<u>-</u>	<u>-</u>	<u>44,175,059</u>
Operating Income (Loss)	<u>(737,588)</u>	<u>2,735,687</u>	<u>448,104</u>	<u>-</u>	<u>-</u>	<u>2,446,203</u>
Nonoperating Revenues and (Expenses):						
Investment Income	199,468	42,252	(8,797)	(23,693)	-	209,230
Restricted Investment Income	-	-	-	-	352,750	352,750
Taxes and Assessments	2,450,109	-	-	-	-	2,450,109
Gain on Sale of Assets	-	-	-	32,262	-	32,262
Other Expense	-	-	-	-	-	-
Interest Expense	(2,014,040)	(91,111)	(196,821)	-	-	(2,301,972)
Total Nonoperating Revenues and (Expenses)	<u>635,537</u>	<u>(48,859)</u>	<u>(205,618)</u>	<u>8,569</u>	<u>352,750</u>	<u>742,379</u>
Income (Loss) Before Contributions	<u>\$ (102,051)</u>	<u>\$ 2,686,828</u>	<u>\$ 242,486</u>	<u>\$ 8,569</u>	<u>\$ 352,750</u>	<u>\$ 3,188,582</u>

See accompanying independent auditors' report.

PADRE DAM MUNICIPAL WATER DISTRICT

SCHEDULE OF INCOME (LOSS) BEFORE CONTRIBUTIONS BY FUND SERVICES
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Water</u>	<u>Sewer</u>	<u>Park</u>	<u>Other</u>	<u>Restricted</u>	<u>Total</u>
Operating Revenues:						
Water Sales	\$ 19,092,960	\$ -	\$ -	\$ -	\$ -	\$ 19,092,960
Sewer Revenues	-	13,000,464	-	-	-	13,000,464
System Charges	3,718,655	-	-	-	-	3,718,655
Park Fees	-	-	3,648,896	-	-	3,648,896
Other Operating Income	4,973,423	13,506	13,649	-	-	5,000,578
Total Operating Revenues	<u>27,785,038</u>	<u>13,013,970</u>	<u>3,662,545</u>	<u>-</u>	<u>-</u>	<u>44,461,553</u>
Operating Expenses:						
Direct Expenses						
Water Purchases	10,834,177	-	-	-	-	10,834,177
Sewer METRO Costs	-	2,633,171	-	-	-	2,633,171
Other Operating Expenses	2,119,158	1,692,288	242,020	-	-	4,053,466
Internal Expenses						
Salary and Wages	7,952,638	2,470,050	817,334	-	-	11,240,022
Employee Benefits	4,706,640	1,478,171	496,662	-	-	6,681,473
Professional Services	253,771	176,934	113,009	-	-	543,714
Materials, Supplies, Vehicle, & Bldg. Rent	1,696,853	727,681	567,241	-	-	2,991,775
Administrative Expenses	494,165	154,877	38,427	-	-	687,469
Utilities	299,410	325,137	494,995	-	-	1,119,542
Depreciation and Amortization	4,106,983	759,314	571,370	-	-	5,437,667
Billing Credits	(3,852,225)	(1,466,239)	(46,885)	-	-	(5,365,349)
Total Operating Expenses	<u>28,611,570</u>	<u>8,951,384</u>	<u>3,294,173</u>	<u>-</u>	<u>-</u>	<u>40,857,127</u>
Operating Income (Loss)	<u>(826,532)</u>	<u>4,062,586</u>	<u>368,372</u>	<u>-</u>	<u>-</u>	<u>3,604,426</u>
Nonoperating Revenues and (Expenses):						
Investment Income	354,806	76,425	(34,479)	134,737	-	531,489
Restricted Investment Income	-	-	-	-	307,351	307,351
Taxes and Assessments	2,873,342	-	-	-	-	2,873,342
Gain on Sale of Assets	-	-	-	25,550	-	25,550
Other Expense	-	(3,118,760)	-	-	-	(3,118,760)
Interest Expense	(558,150)	(59,978)	(193,472)	-	-	(811,600)
Total Nonoperating Revenues and (Expenses)	<u>2,669,998</u>	<u>(3,102,313)</u>	<u>(227,951)</u>	<u>160,287</u>	<u>307,351</u>	<u>(192,628)</u>
Income (Loss) Before Contributions	<u>\$ 1,843,466</u>	<u>\$ 960,273</u>	<u>\$ 140,421</u>	<u>\$ 160,287</u>	<u>\$ 307,351</u>	<u>\$ 3,411,798</u>

See accompanying independent auditors' report.

PADRE DAM MUNICIPAL WATER DISTRICT

SCHEDULE OF INCOME (LOSS) BEFORE CONTRIBUTIONS (BUDGET TO ACTUAL)
FOR THE YEAR ENDED JUNE 30, 2010

	PRIOR YEAR		CURRENT YEAR			CURRENT YEAR ACTUAL TO - FAV/(UNFAV)			
	ACTUAL	A C T U A L	%	B U D G E T	%	BUDGET	%	PRIOR YEAR	%
	\$	\$		\$		\$		\$	
Operating Revenues:									
Revenues:									
Water Sales	\$ 19,092,960	\$ 19,914,217	42.7	\$ 24,375,656	46.5	\$ (4,461,439)	(18.3)	\$ 821,257	4.3
Infrastructure Access Charge	557,709	611,001	1.3	561,323	1.1	49,678	8.9	53,292	9.6
Energy Billings	1,182,218	1,117,457	2.4	1,385,160	2.6	(267,703)	(19.3)	(64,761)	(5.5)
CWA/MWD Credits	326,732	263,173	0.6	344,777	0.7	(81,604)	(23.7)	(63,559)	(19.5)
Padre Dam Sewer Processing Fee	1,692,288	1,776,900	3.8	1,776,900	3.4	-	-	84,612	5.0
Sewer Revenues	13,000,464	13,479,662	28.9	15,336,140	29.3	(1,856,478)	(12.1)	479,198	3.7
System Charges	3,718,655	4,585,277	9.8	4,136,359	7.9	448,918	10.9	866,622	23.3
Park Fees	3,648,896	3,817,943	8.2	3,497,948	6.7	319,995	9.1	169,047	4.6
Other Revenues	1,241,631	1,055,632	2.3	955,876	1.8	99,756	10.4	(185,999)	(15.0)
Total Operating Revenues	44,461,553	46,621,262	100.0	52,370,139	100.0	(5,748,877)	(11.0)	2,159,709	4.9
Operating Expenses:									
Direct Expenses:									
Water Purchases	10,834,177	11,428,849	24.5	13,526,917	25.8	2,098,068	15.5	(594,672)	(5.5)
Infrastructure Access Charge	554,588	607,824	1.3	561,323	1.1	(46,501)	(8.3)	(53,236)	(9.6)
Energy Purchases	1,564,570	1,330,012	2.9	1,385,160	2.6	55,148	4.0	234,558	15.0
Sewer METRO Costs	2,633,171	4,051,177	8.7	7,634,280	14.6	3,583,103	46.9	(1,418,006)	(53.9)
Padre Dam Sewer Treatment	1,692,288	1,776,900	3.8	1,776,900	3.4	-	-	(84,612)	(5.0)
Fish Stock, Propane, & Retail	242,020	231,124	0.5	208,369	0.4	(22,755)	(10.9)	10,896	4.5
Total Direct Expenses	17,520,814	19,425,886	41.7	25,092,949	47.9	5,667,063	22.6	(1,905,072)	(10.9)
Internal Expenses:									
Salary & Wages	11,240,022	11,877,870	25.5	12,383,152	23.6	505,282	4.1	(637,848)	(5.7)
Employee Benefits	6,681,473	6,906,116	14.8	7,580,161	14.5	674,045	8.9	(224,643)	(3.4)
Professional Services	543,714	567,230	1.2	1,096,698	2.1	529,468	48.3	(23,516)	(4.3)
Materials, Supplies, Vehicle, & Bldg. Rent	2,991,775	3,229,243	6.9	4,904,696	9.4	1,675,453	34.2	(237,468)	(7.9)
Administrative Expenses	687,469	902,882	1.9	1,471,787	2.8	568,905	38.7	(215,413)	(31.3)
Utilities	1,119,542	1,102,439	2.4	1,221,877	2.3	119,438	9.8	17,103	1.5
Billing Credits	(5,365,349)	(5,656,140)	(12.1)	(4,101,196)	(7.8)	1,554,944	37.9	290,791	5.4
Subtotal	17,898,646	18,929,640	40.6	24,557,175	46.9	5,627,535	22.9	(1,030,994)	(5.8)
Depreciation & Amortization	5,437,667	5,819,533	12.5	5,993,710	11.4	174,177	2.9	(381,866)	(7.0)
Total Internal Expenses	23,336,313	24,749,173	53.1	30,550,885	58.3	5,801,712	19.0	(1,412,860)	(6.1)
Total Operating Expenses	40,857,127	44,175,059	94.8	55,643,834	106.2	11,468,775	20.6	(3,317,932)	(8.1)
Operating Income (Loss)	3,604,426	2,446,203	5.2	(3,273,695)	(6.2)	5,719,898	174.7	(1,158,223)	(32.1)
Nonoperating Revenues and (Expenses):									
Interest Income (Designated)	396,752	232,923	0.5	541,332	1.0	(308,409)	(57.0)	(163,829)	(41.3)
Interest Income (Restricted)	229,435	368,569	0.8	480,049	0.9	(111,480)	(23.2)	139,134	60.6
Gain (Loss) on Investments	212,653	(39,512)	(0.1)	-	-	(39,512)	N/A	(252,165)	(118.6)
Taxes and Assessments	2,873,342	2,450,109	5.2	3,006,518	5.7	(556,409)	(18.5)	(423,233)	(14.7)
Gain (Loss) on Sale of Other Capital Assets	25,550	32,262	0.1	-	-	32,262	N/A	6,712	26.3
Other Expense	(3,118,760)	-	-	-	-	-	N/A	3,118,760	100.0
Interest Expense	(811,600)	(2,301,972)	(4.9)	(2,763,522)	(5.2)	461,550	16.7	(1,490,372)	(183.6)
Total Nonoperating Revenues and (Expenses)	(192,628)	742,379	1.6	1,264,377	2.4	(521,998)	(41.3)	935,007	485.4
Income (Loss) Before Contributions	\$ 3,411,798	\$ 3,188,582	6.8	\$ (2,009,318)	(3.8)	\$ 5,197,900	258.7	\$ (223,216)	(6.5)

PADRE DAM MUNICIPAL WATER DISTRICT

SCHEDULE OF INCOME (LOSS) BEFORE CONTRIBUTIONS (BUDGET TO ACTUAL)
FOR THE YEAR ENDED JUNE 30, 2009

	PRIOR YEAR		CURRENT YEAR				CURRENT YEAR ACTUAL TO - FAV/(UNFAV)			
	ACTUAL	A C T U A L	B U D G E T	B U D G E T	B U D G E T	P R I O R Y E A R				
	\$	\$	%	\$	%	\$	%	\$	%	
Operating Revenues:										
Revenues:										
Water Sales	\$ 18,562,998	\$ 19,092,960	42.9	\$ 21,935,786	46.3	\$ (2,842,826)	(13.0)	\$ 529,962	2.9	
Infrastructure Access Charge	501,258	557,709	1.3	550,332	1.1	7,377	1.3	56,451	11.3	
Energy Billings	1,286,999	1,182,218	2.7	1,436,211	3.0	(253,993)	(17.7)	(104,781)	(8.1)	
CWA/MWD Credits	329,867	326,732	0.7	289,068	0.6	37,664	13.0	(3,135)	(1.0)	
Padre Dam Sewer Processing Fee	1,611,705	1,692,288	3.8	1,692,288	3.6	-	-	80,583	5.0	
Sewer Revenues	12,534,987	13,000,464	29.2	13,224,243	27.9	(223,779)	(1.7)	465,477	3.7	
System Charges	3,492,010	3,718,655	8.4	3,974,159	8.4	(255,504)	(6.4)	226,645	6.5	
Park Fees	3,498,247	3,648,896	8.2	3,356,251	7.1	292,645	8.7	150,649	4.3	
Other Revenues	1,098,496	1,241,631	2.8	927,000	2.0	314,631	33.9	143,135	13.0	
Total Operating Revenues	42,916,567	44,461,553	100.0	47,385,338	100.0	(2,923,785)	(6.2)	1,544,986	3.6	
Operating Expenses:										
Direct Expenses:										
Water Purchases	10,689,937	10,834,177	24.4	12,838,479	27.1	2,004,302	15.6	(144,240)	(1.3)	
Infrastructure Access Charge	498,792	554,588	1.3	550,332	1.2	(4,256)	(0.8)	(55,796)	(11.2)	
Energy Purchases	1,401,695	1,564,570	3.5	1,436,211	3.0	(128,359)	(8.9)	(162,875)	(11.6)	
Sewer METRO Costs	5,743,067	2,633,171	5.9	6,335,070	13.4	3,701,899	58.4	3,109,896	54.2	
Padre Dam Sewer Treatment	1,611,705	1,692,288	3.8	1,692,288	3.6	-	-	(80,583)	(5.0)	
Fish Stock, Propane, & Retail	228,118	242,020	0.5	207,335	0.4	(34,685)	(16.7)	(13,902)	(6.1)	
Total Direct Expenses	20,173,314	17,520,814	39.4	23,059,715	48.7	5,538,901	24.0	2,652,500	13.1	
Internal Expenses:										
Salary & Wages	10,402,239	11,240,022	25.3	11,516,279	24.3	276,257	2.4	(837,783)	(8.1)	
Employee Benefits	5,211,505	6,681,473	15.0	7,336,610	15.5	655,137	8.9	(1,469,968)	(28.2)	
Professional Services	566,907	543,714	1.2	764,497	1.6	220,783	28.9	23,193	4.1	
Materials, Supplies, Vehicle, & Bldg. Rent	3,467,101	2,991,775	6.7	3,895,057	8.2	903,282	23.2	475,326	13.7	
Administrative Expenses	977,380	687,469	1.6	999,233	2.1	311,764	31.2	289,911	29.7	
Utilities	1,022,466	1,119,542	2.5	1,179,551	2.5	60,009	5.1	(97,076)	(9.5)	
Billing Credits	(4,542,842)	(5,365,349)	(12.0)	(4,141,548)	(8.7)	1,223,801	29.5	822,507	18.1	
Subtotal	17,104,756	17,898,646	40.3	21,549,679	45.5	3,651,033	16.9	(793,890)	(4.6)	
Depreciation & Amortization	5,804,290	5,437,667	12.2	5,772,044	12.2	334,377	5.8	366,623	6.3	
Total Internal Expenses	22,909,046	23,336,313	52.5	27,321,723	57.7	3,985,410	14.6	(427,267)	(1.9)	
Total Operating Expenses	43,082,360	40,857,127	91.9	50,381,438	106.4	9,524,311	18.9	2,225,233	5.2	
Operating Income (Loss)	(165,793)	3,604,426	8.1	(2,996,100)	(6.4)	6,600,526	220.3	3,770,219	2,274.1	
Nonoperating Revenues and (Expenses):										
Interest Income (Designated)	783,671	396,752	0.9	527,477	1.1	(130,725)	(24.8)	(386,919)	(49.4)	
Interest Income (Restricted)	480,311	229,435	0.5	486,879	1.0	(257,444)	(52.9)	(250,876)	(52.2)	
Gain (Loss) on Investments	166,018	212,653	0.5	-	-	212,653	N/A	46,635	(28.1)	
Taxes and Assessments	2,607,495	2,873,342	6.4	2,863,350	6.0	9,992	0.3	265,847	10.2	
Gain (Loss) on Sale of Other Capital Assets	7,500	25,550	0.1	35,640	0.1	(10,090)	(28.3)	18,050	240.7	
Other Expense	(2,030,869)	(3,118,760)	(7.0)	-	-	(3,118,760)	N/A	(1,087,891)	(53.6)	
Interest Expense	(1,042,737)	(811,600)	(1.8)	(1,083,146)	(2.3)	271,546	25.1	231,137	22.2	
Total Nonoperating Revenues and (Expenses)	971,389	(192,628)	(0.4)	2,830,200	5.9	(3,022,828)	(106.8)	(1,164,017)	(119.8)	
Income (Loss) Before Contributions	\$ 805,596	\$ 3,411,798	7.7	\$ (165,900)	(0.5)	\$ 3,577,698	2,156.5	\$ 2,606,202	323.5	

SCHEDULE OF CHANGE IN CASH, CASH EQUIVALENTS AND INVESTMENTS
FOR THE YEAR ENDED JUNE 30, 2010

	Retail	Water Recycling	Sewer	Park	Total Designated	Restricted CEF/AMR/ Other	Restricted '09 COP	Other Non-Operating	Grand Total
Cash Flows From Operating Activities:									
Operating Income (Loss)	\$ (1,628,823)	\$ 891,235	\$ 2,735,687	\$ 448,104	\$ 2,446,203	\$ -	\$ -	\$ -	\$ 2,446,203
Depreciation	3,704,976	684,337	827,571	576,516	5,793,400	-	-	-	5,793,400
Amortization	12,095	2,239	-	11,799	26,133	-	-	-	26,133
Accounts Receivable	(454,582) *	(66,640) *	(180,087) *	- *	(701,309)	-	-	-	(701,309)
Accounts Receivable - Other	54,367 *	7,970 *	21,538 *	- *	83,875	-	-	-	83,875
Inventory	20,427 *	2,995 *	8,093 *	- *	31,515	-	-	-	31,515
Prepaid Expenses	(18,333) *	(2,687) *	(7,262) *	- *	(28,282)	-	-	-	(28,282)
Accounts Payable	903,640 *	132,471 *	357,986 *	- *	1,394,097	-	-	-	1,394,097
Accrued Expense and Other Liabilities	77,991 *	11,433 *	30,897 *	- *	120,321	-	-	-	120,321
Deposits & Advances on Construction	(6,477) *	(949) *	(2,566) *	- *	(9,992)	-	-	-	(9,992)
Accrued Pension Benefits and Other	(146,050) *	(21,410) *	(57,859) *	- *	(225,319)	-	-	-	(225,319)
Net Cash Provided by Operating Activities	2,519,231	1,640,994	3,733,998	1,036,419	8,930,642	-	-	-	8,930,642
Cash & Cash Equivalents and Investments From Noncapital and Related Financing Activities:									
Property Tax Receipts	2,462,960	-	-	-	2,462,960	-	-	-	2,462,960
Net Cash Provided (Used) by Noncapital and Related Financing Activities	2,462,960	-	-	-	2,462,960	-	-	-	2,462,960
Cash Flows From Capital and Related Financing Activities:									
Acquisition and Construction of Capital Assets	(19,503,213)	(550,869)	(1,449,135)	(480,194)	(21,983,411)	(4,883,744)	-	-	(26,867,155)
Net Proceeds from Issuance of Long-Term Debt	-	-	-	-	-	5,604,125	56,472,919	-	62,077,044
Principal Payments on Long-Term Debt	(888,387)	(685,358)	(280,153)	(240,000)	(2,093,898)	-	(7,027,183)	-	(9,121,081)
Proceeds from Capital Contributions	-	-	-	-	-	3,717,508	-	-	3,717,508
Interest Paid, Net of Amount Capitalized	(1,233,496)	(252,621)	80,913	(196,821)	(1,602,025)	-	-	-	(1,602,025)
Proceeds from Sale of Assets	-	-	-	-	-	-	-	7,828	7,828
Net Cash Provided (Used) by Capital and Related Financing Activities	(21,625,096)	(1,488,848)	(1,648,375)	(917,015)	(25,679,334)	4,437,889	49,445,736	7,828	28,212,119
Cash Flows From Investing Activities:									
Interest Received on Investments	156,111	9,760	31,826	22,303	220,000	108,809	265,315	-	594,124
Net Cash Provided by Investing Activities	156,111	9,760	31,826	22,303	220,000	108,809	265,315	-	594,124
Transfers:									
Transfers	5,480	803	2,171	-	8,454	-	-	(8,454)	-
Transfers Sales Proceeds Woodside Property	44,573	6,329	21,177	-	72,079	-	-	(72,079)	-
Transfers 2009 COP	11,582,039	-	-	-	11,582,039	4,112,405	(15,694,444)	-	-
Transfers 2009 AMR	5,382,892	-	-	-	5,382,892	(5,382,892)	-	-	-
Transfers LWD Detachment	44,800	-	-	-	44,800	-	-	(44,800)	-
Transfers Other	1,524,395	799,926	552,990	41,428	2,918,739	(2,919,365)	-	626	-
Net Transfers	18,584,179	807,058	576,338	41,428	20,009,003	(4,189,852)	(15,694,444)	(124,707)	-
Net Increase (Decrease) in Cash and Cash Equivalents and Investments	2,097,385	968,964	2,693,787	183,135	5,943,271	356,846	34,016,607	(116,879)	40,199,845
Cash and Cash Equivalents and Investments at Beginning of Year	4,255,588	2,920,153	5,525,394	611,470	13,312,605	8,028,791	-	2,818,350	24,159,746
Cash and Cash Equivalents and Investments at End of Year	\$ 6,352,973	\$ 3,889,117	\$ 8,219,181	\$ 794,605	\$ 19,255,876	\$ 8,385,637	\$ 34,016,607	\$ 2,701,471	\$ 64,359,591

* Note: Allocation (of changes in receivables/payables/other assets) are based upon a constant percentage (overhead allocation percentage) applied throughout the fiscal year.

PADRE DAM MUNICIPAL WATER DISTRICT

SCHEDULE OF CHANGE IN CASH, CASH EQUIVALENTS AND INVESTMENTS
FOR THE YEAR ENDED JUNE 30, 2009

	Retail	Water Recycling	Sewer	Park	Total Designated	Restricted CEF/AMR/ Other	Restricted '09 COP	Other Non-Operating	Grand Total
Cash Flows From Operating Activities:									
Operating Income (Loss)	\$ (1,872,415)	\$ 1,045,883	\$ 4,062,586	\$ 368,372	\$ 3,604,426	\$ -	\$ -	\$ -	\$ 3,604,426
Depreciation	3,460,400	638,731	759,314	559,571	5,418,016	-	-	-	5,418,016
Amortization	5,613	2,239	-	11,799	19,651	-	-	-	19,651
Accounts Receivable	(24,674) *	(3,617) *	(9,775) *	- *	(38,066)	-	-	-	(38,066)
Accounts Receivable - Other	39,797 *	5,834 *	15,766 *	- *	61,397	-	-	-	61,397
Inventory	(115,483) *	(16,929) *	(45,750) *	- *	(178,162)	-	-	-	(178,162)
Prepaid Expenses	(3,766) *	(552) *	(1,492) *	- *	(5,810)	-	-	-	(5,810)
Accounts Payable	(767,874) *	(112,568) *	(304,201) *	- *	(1,184,643)	-	-	-	(1,184,643)
Accrued Expense and Other Liabilities	57,023 *	8,359 *	22,590 *	- *	87,972	-	-	-	87,972
Deposits & Advances on Construction	(114,393) *	(16,770) *	(45,318) *	- *	(176,481)	-	-	-	(176,481)
Accrued Pension Benefits and Other	13,493 *	1,978 *	5,346 *	- *	20,817	-	-	-	20,817
Net Cash Provided by Operating Activities	677,721	1,552,588	4,459,066	939,742	7,629,117	-	-	-	7,629,117
Cash & Cash Equivalents and Investments From Noncapital and Related Financing Activities:									
Property Tax Receipts	2,694,846	-	-	-	2,694,846	-	-	-	2,694,846
Net Cash Provided (Used) by Noncapital and Related Financing Activities	2,694,846	-	-	-	2,694,846	-	-	-	2,694,846
Cash Flows From Capital and Related Financing Activities:									
Acquisition and Construction of Capital Assets	(8,040,889)	(868,976)	(2,154,921)	(814,823)	(11,879,609)	(3,109,833)	-	-	(14,989,442)
Net Proceeds from Issuance of Long-Term Debt	-	-	-	-	-	-	-	-	-
Principal Payments on Long-Term Debt	(733,969)	(572,772)	(242,360)	(235,000)	(1,784,101)	-	-	-	(1,784,101)
Proceeds from Capital Contributions	-	-	-	-	-	2,128,392	-	-	2,128,392
Interest Paid, Net of Amount Capitalized	(355,314)	(209,048)	(62,912)	(193,472)	(820,746)	-	-	-	(820,746)
Proceeds from Sale of Assets	-	-	-	-	-	-	-	25,550	25,550
Net Cash Provided (Used) by Capital and Related Financing Activities	(9,130,172)	(1,650,796)	(2,460,193)	(1,243,295)	(14,484,456)	(981,441)	-	25,550	(15,440,347)
Cash Flows From Investing Activities:									
Interest Received on Investments	493,437	49,979	144,346	37,989	725,751	303,090	-	-	1,028,841
Net Cash Provided by Investing Activities	493,437	49,979	144,346	37,989	725,751	303,090	-	-	1,028,841
Transfers:									
Transfers	-	-	-	-	-	-	-	-	-
Transfers Sales Proceeds Woodside Property	23,948	3,400	11,378	-	38,726	-	-	(38,726)	-
Transfers 2009 COP	-	-	-	-	-	-	-	-	-
Transfers 2009 AMR	-	-	-	-	-	-	-	-	-
Transfers LWD Detachment	44,800	-	-	-	44,800	-	-	(44,800)	-
Transfers Other	2,697,218	990,534	(1,605,535)	(64,210)	2,018,007	(1,992,462)	-	(25,545)	-
Net Transfers	2,765,966	993,934	(1,594,157)	(64,210)	2,101,533	(1,992,462)	-	(109,071)	-
Net Increase (Decrease) in Cash and Cash Equivalents and Investments	(2,498,202)	945,705	549,062	(329,774)	(1,333,209)	(2,670,813)	-	(83,521)	(4,087,543)
Cash and Cash Equivalents and Investments at Beginning of Year	6,753,790	1,974,448	4,976,332	941,244	14,645,814	10,699,604	-	2,901,871	28,247,289
Cash and Cash Equivalents and Investments at End of Year	\$ 4,255,588	\$ 2,920,153	\$ 5,525,394	\$ 611,470	\$ 13,312,605	\$ 8,028,791	\$ -	\$ 2,818,350	\$ 24,159,746

* Note: Allocation (of changes in receivables/payables/other assets) are based upon a constant percentage (overhead allocation percentage) applied throughout the fiscal year.