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RAMONA MUNICIPAL WATER DISTRICT

**REPORT ON EXAMINATION OF
FINANCIAL STATEMENTS**

FOR THE YEARS ENDED

JUNE 30, 2010 AND 2009

RAMONA MUNICIPAL WATER DISTRICT

INTRODUCTORY SECTION

JUNE 30, 2010

**RAMONA MUNICIPAL WATER DISTRICT
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JUNE 30, 2010**

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RAMONA MUNICIPAL WATER DISTRICT

FINANCIAL SECTION

JUNE 30, 2010

INDEPENDENT AUDITORS' REPORT

Board of Directors
Ramona Municipal Water District
Ramona, California

We have audited the accompanying statements of net assets of the Ramona Municipal Water District as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Ramona Municipal Water District's management. Our responsibility is to express an opinion 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, standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ramona Municipal Water District as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, and with the accounting systems prescribed by the State Controller's office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 20, 2010, on our consideration of the Ramona Municipal Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

INDEPENDENT AUDITORS' REPORT

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The Management's Discussion and Analysis on pages 4 through 10 is not a required part of the basic financial statements, but is Supplementary Information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the 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 the Ramona Municipal Water District. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Hosack, Nagel & Company

San Diego, California
August 20, 2010

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2010**

This section of the Ramona Municipal Water District (the District) annual report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2010. Please read it in conjunction with the District's Financial Statements which follow this section.

FINANCIAL HIGHLIGHTS

While the Statement of Net Assets shows the change in net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and sources of those changes. For fiscal year 2009/2010 total Operating Revenues have decreased by approximately 1.4% to \$20,109,743 and the total operating expenses have increased by approximately 2.7% to \$27,155,563. The decline in revenues reflects declining levels of water sales, while the increase in the operating expenses reflects the increased costs of purchased water. In addition, Property Tax and Penalties have declined by 13.8% to \$5,044,139. The decline in Property Tax revenues reflects reduced real estate valuations due to the continued economic downturn in the local real estate market.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this Management Discussion and Analysis report, the Independent Auditors' Report, and the basic Financial Statements of the District. The basic Financial Statements also include notes that explain in more detail some of the information in the Financial Statements.

BASIC FINANCIAL STATEMENTS

The District's Financial Statements include the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows. These statements are prepared in a manner similar to commercial enterprises. The purpose of the Statement of Net Assets is to report all assets and liabilities of the District as of the date of the statement. The difference between the assets and liabilities is net assets, which represents the portion of total assets not encumbered by debt. Assets and liabilities are reported at historical purchase cost, except for investments, which are reported at fair market value in accordance with accounting pronouncements. Long-term infrastructure assets such as reservoirs, pipes and pumps are reduced by estimated depreciation based upon the expected remaining life of the underlying asset. The District records assets on its books when it takes ownership and liabilities when it incurs the obligation to pay, whether or not it has actually been billed.

The District uses Enterprise Funds to account for the five (5) operating divisions. Those operating divisions are (1) Water, (2) Fire and Paramedic, (3) Parks and Recreation, (4) San Vicente Sewer and (5) Santa Maria Sewer. Each division's operating results are tracked and compared to budget and prior year in the monthly Financial Statements provided to the board. This district wide Financial Statements also provide the consolidated financial results of the five operating divisions, with internal sales eliminated.

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010**

BASIC FINANCIAL STATEMENTS (CONTINUED)

Water

This operating division maintains and services both a potable water system and an untreated water system. The potable system distributes treated water upon demand to 9,257 customers. The untreated system provides irrigation water to 212 customers. Rates for both potable and untreated water are independently set based upon the cost of importing, treating and delivering this water to those customers.

Fire and Paramedic

This operating division provides fire protection services and emergency medical services to 14,075 equivalent dwelling units (EDUs). The District contracts this service with the California Department of Forestry and maintains three fire stations. Rates for both fire service charges per EDU and ambulance calls are independently set based on the cost to service and maintain these three fire stations.

Parks and Recreation

This operating division provides the land and facilities for the well field park. The park is managed and run by the Ramona Parks and Recreation Association on a volunteer basis. The operating division receives funds from personal property taxes and the money it receives through the tax rolls is passed on to the Ramona Parks and Recreation organization.

San Vicente Sewer

This operating division provides sewer service to the San Diego County Estates area of Ramona and services 3,771 equivalent dwelling units (EDUs). A service rate per EDU is independently set based on the cost of treatment and collection of raw sewage of this facility.

Santa Maria Sewer

This operating division provides sewer service to the downtown area of Ramona and services 4,243 equivalent dwelling units (EDUs). A service rate per EDU is independently set based on the cost of treatment and collection of raw sewage of this facility.

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010**

NET ASSETS

A condensed summary of the District's statements' of Net Assets is presented below:

STATEMENT OF NET ASSETS

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash and Investments	\$ 9,586,987	\$ 11,489,780	\$ 14,038,262
Capital assets, net	83,641,023	85,039,208	80,441,098
Other assets	<u>3,755,580</u>	<u>3,068,727</u>	<u>4,386,393</u>
Total assets	<u>\$ 96,983,590</u>	<u>\$ 99,597,715</u>	<u>\$ 98,865,753</u>
Current liabilities	\$ 5,731,166	\$ 6,813,472	\$ 7,684,006
Payable from restricted assets	161,496	157,756	149,118
Other Liabilities	558,221	606,460	561,985
Long-term debt, net of current portion	<u>4,806,669</u>	<u>6,564,085</u>	<u>6,201,084</u>
Total liabilities	<u>11,257,552</u>	<u>14,141,773</u>	<u>14,596,193</u>
Capital assets, net of related debt	77,029,469	76,601,623	72,339,285
Restricted	344,415	378,704	417,149
Unrestricted	<u>8,352,154</u>	<u>8,475,615</u>	<u>11,513,126</u>
Total net assets	<u>85,726,038</u>	<u>85,455,942</u>	<u>84,269,560</u>
Total liabilities and net assets	<u>\$ 96,983,590</u>	<u>\$ 99,597,715</u>	<u>\$ 98,865,753</u>

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010**

NET ASSETS (CONTINUED)

A summary of the District's statements of revenues, expenses and changes in net assets is presented below:

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS

OPERATING REVENUES

	2010	2009	2008
Water sales and service fees	\$ 12,406,722	\$ 13,099,655	\$ 13,525,505
Fire and emergency medical service fees	3,382,491	3,373,353	3,352,772
Sewer service fees	4,320,530	3,923,286	3,821,884
Total Operating Revenues	<u>20,109,743</u>	<u>20,396,294</u>	<u>20,700,161</u>

OPERATING EXPENSES

Water expenses	16,281,729	15,813,167	16,394,228
Fire and emergency medical expenses	4,989,585	4,770,500	5,287,708
Sewer expenses	5,700,183	5,638,196	5,254,302
Park expenses	184,066	190,090	462,465
Total Operating Expenses	<u>27,155,563</u>	<u>26,411,953</u>	<u>27,398,703</u>
Operating Loss	<u>(7,045,820)</u>	<u>(6,015,659)</u>	<u>(6,698,542)</u>

Non-Operating Revenues (Expenses)

Connection and mitigation fees	95,552	408,322	818,712
Property taxes and penalties	5,044,139	5,737,826	5,352,936
Assessment revenue	240,961	84,727	282,089
Investment income	55,934	234,046	648,818
Interest expense	196,944	529,395	121,500
Miscellaneous	166,038	382,359	335,675
Other expense	(54,257)	(315,280)	(17,941)
Total Non-Operating Revenues (Expenses)	<u>5,745,311</u>	<u>7,061,395</u>	<u>7,541,789</u>

INCOME(LOSS) BEFORE CONTRIBUTIONS	<u>(1,300,509)</u>	<u>1,045,736</u>	<u>843,247</u>
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CAPITAL CONTRIBUTIONS	<u>1,570,605</u>	<u>140,646</u>	<u>712,043</u>
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INCREASE (DECREASE) IN NET ASSETS	270,096	1,186,382	1,555,290
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NET ASSETS AT BEGINNING OF YEAR	<u>85,455,942</u>	<u>84,269,560</u>	<u>82,714,270</u>
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NET ASSETS AT END OF YEAR	<u>\$ 85,726,038</u>	<u>\$ 85,455,942</u>	<u>\$ 84,269,560</u>
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**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010**

BUDGETARY HIGHLIGHTS

The district adopts an annual operating budget which includes proposed expenses and the means of financing them. The operating budget was revised on October 27, 2009 to reflect mid-year budget assumptions. A comparison between actual and budgeted amounts are not required nor shown in the financial statement section of this report. Budget information includes depreciation.

A comparison of the operating results for 2010 to the budget is presented below.

COMPARISON OF OPERATING RESULTS TO BUDGET

	<u>Actual</u>	<u>Budget</u>	<u>Favorable (Unfavorable)</u>
OPERATING REVENUES	\$ 20,109,743	\$ 22,387,157	\$ (2,277,414)
OPERATING EXPENSES			
Water expenses	16,281,729	20,492,493	4,210,764
Fire and emergency medical expenses	4,989,585	6,349,242	1,359,657
Sewer expenses	5,700,183	8,483,975	2,783,792
Park expenses	184,066	184,170	104
	<u>27,155,563</u>	<u>35,509,880</u>	<u>8,354,317</u>
TOTAL OPERATING EXPENSES			
OPERATING LOSS	<u>(7,045,820)</u>	<u>(13,122,723)</u>	<u>6,076,903</u>
NON-OPERATING REVENUES (EXPENSES)			
Connection and mitigation fees	95,552	154,660	(59,108)
Property taxes and penalties	5,044,139	5,015,587	28,552
Assessment revenue	240,961	275,000	(34,039)
Investment income	55,934	196,543	(140,609)
Interest expense	196,944	(244,081)	(441,025)
Miscellaneous	166,038	-	166,038
Other expense	(54,257)	(89,000)	(34,743)
	<u>5,745,311</u>	<u>5,308,709</u>	<u>436,602</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)			
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>\$ (1,300,509)</u>	<u>\$ (7,814,014)</u>	<u>\$ 6,513,505</u>

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010**

CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2010, were as follows:

CAPITAL ASSETS					
	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Land	\$ 10,073,828	\$ -	\$ -	\$ -	\$ 10,073,828
Water Property, Plant, Lines, & Equipment	99,797,035	10,692,754	-	-	110,489,789
Fire Protection Property, Building, & Equipment	6,299,488	1,577,409	-	-	7,876,897
Park Buildings and Equipment	227,122	-	-	-	227,122
Sewer-SDCE Property, Plant, Lines & Equipment	20,578,527	2,198,740	-	-	22,777,267
Sewer-Ramona Property, Plant, Line & Equipment	13,146,468	637,407	-	-	13,783,875
Less: Accumulated Depreciation	(82,673,083)	(5,664,060)	-	-	(88,337,143)
Construction in Progress	15,589,823	2,775,669	13,616,105	-	4,749,387
Net Capital Assets	<u>\$ 83,039,208</u>	<u>\$ 12,217,919</u>	<u>\$ 13,616,105</u>	<u>\$ -</u>	<u>\$ 81,641,022</u>

LONG-TERM DEBT

The Long-Term Debt position of the District is presented below and more fully analyzed in Note 6 of the Financial Statements:

LONG-TERM DEBT			
	2010	2009	2008
Assessment bonds	\$ 2,055,000	\$ 2,190,000	\$ 2,325,000
Installment purchase agreements	882,000	1,851,237	3,338,225
Notes, contracts and leases payable	3,674,552	4,441,273	2,513,463
	6,611,552	8,482,510	8,176,688
Less :debt discount	(14,975)	(44,925)	(74,875)
Total Long-Term Debt	<u>\$ 6,596,577</u>	<u>\$ 8,437,585</u>	<u>\$ 8,101,813</u>

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010**

ECONOMIC FACTORS AFFECTING CURRENT FINANCIAL POSITION

Management is unaware of any conditions that would have a significant impact on the District's financial position, net assets, or operating results in terms of past, present and future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our customers 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 any questions about this report or need additional financial information, contact the Ramona Municipal Water District, 105 Earlham Street, Ramona, CA 92065-1599.

Ramona Municipal Water District

**RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010 AND 2009**

ASSETS

CURRENT ASSETS	2010	2009
Cash and Cash Equivalents	\$ 9,242,572	\$ 11,111,076
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$117,307 and \$130,040 for 2010 and 2009	1,509,863	1,481,394
Taxes Receivable	18,180	10,426
Interest Receivable	11,109	40,817
Inventories	2,144,399	1,472,087
Other Current Assets	5,678	6,739
TOTAL CURRENT ASSETS	12,931,801	14,122,539
RESTRICTED ASSETS		
Cash and Cash Equivalents	344,415	378,704
TOTAL RESTRICTED ASSETS	344,415	378,704
OTHER ASSETS		
Capital Assets, Net	83,641,023	85,039,208
Debt Issue Costs, Net of Accumulated Amortization of \$343,364 and \$322,501 for 2010 and 2009	66,351	57,264
TOTAL OTHER ASSETS	83,707,374	85,096,472
TOTAL ASSETS	\$ 96,983,590	\$ 99,597,715

The notes to the financial statement are an integral part of this statement.

**RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2010 AND 2009**

LIABILITIES

CURRENT LIABILITIES	2010	2009
Accounts Payable	\$ 2,561,449	\$ 1,116,283
Current Portion of Long-Term Debt	1,664,886	1,738,500
Accrued Interest	24,171	37,313
Current Portion of Compensated Absences	208,779	107,022
Other Accrued Expenses	444,087	1,543,107
Deposits	827,794	2,271,247
	<u>5,731,166</u>	<u>6,813,472</u>
TOTAL CURRENT LIABILITIES		
PAYABLE FROM RESTRICTED ASSETS		
Current Portion of Long-Term Debt	140,000	135,000
Accrued Interest	21,497	22,756
	<u>161,497</u>	<u>157,756</u>
TOTAL PAYABLE FROM RESTRICTED ASSETS		
LONG-TERM LIABILITIES		
Assessment Bonds, Net of Current Portion	1,915,000	2,055,000
Installment Purchase Agreements, Net of Current Portion and Debt Discount	668,822	837,077
Notes, Contracts, and Leases Payable, Net of Current Portion	2,222,846	3,672,008
Compensated Absences, Net of Current Portion	558,221	606,460
	<u>5,364,889</u>	<u>7,170,545</u>
TOTAL LONG-TERM LIABILITIES		
TOTAL LIABILITIES	<u>11,257,552</u>	<u>14,141,773</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	77,029,469	76,601,623
Restricted for:		
Assessment Bonds	344,415	378,704
Unrestricted	8,352,154	8,475,615
	<u>85,726,038</u>	<u>85,455,942</u>
TOTAL NET ASSETS		
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 96,983,590</u>	<u>\$ 99,597,715</u>

The notes to the financial statement are an integral part of this statement.

**RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010 AND 2009**

OPERATING REVENUES	2010	2009
Water Sales and Service Fees	\$ 12,406,722	\$ 13,099,655
Fire and Emergency Medical Service Fees	3,382,491	3,373,353
Sewer Service Fees	4,320,530	3,923,286
TOTAL OPERATING REVENUES	20,109,743	20,396,294
OPERATING EXPENSES		
Water Expenses:		
Source of Supply	6,283,848	5,653,506
Treatment Plants	607,563	740,842
Reservoirs and Pumping	1,661,092	2,042,960
Transmission and Distribution	1,443,701	1,530,138
Vehicle Maintenance	249,719	308,343
General and Administrative	2,593,168	2,614,300
Depreciation	3,442,638	2,923,078
	16,281,729	15,813,167
Fire and Emergency Medical Expenses:		
Safety Services	4,356,580	4,042,255
General and Administrative	312,414	435,633
Depreciation	320,591	292,612
	4,989,585	4,770,500
Sewer Expenses:		
Sewer Services	2,285,170	2,445,493
General and Administrative	1,568,351	1,602,897
Depreciation	1,846,662	1,589,806
	5,700,183	5,638,196
Park Expenses:		
Park Maintenance	129,896	134,852
Depreciation	54,170	55,238
	184,066	190,090
TOTAL OPERATING EXPENSES	27,155,563	26,411,953
OPERATING LOSS	(7,045,820)	(6,015,659)

The notes to the financial statement are an integral part of this statement.

**RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010 AND 2009**

NON-OPERATING REVENUES	<u>2010</u>	<u>2009</u>
Connection and Mitigation Fees (Note 12)	95,552	408,322
Property Taxes and Penalties	5,044,139	5,737,826
Assessment Revenue	240,961	84,727
Investment Income	55,934	234,046
Miscellaneous	166,038	382,359
Interest Expense	196,944	529,395
Other Expenses	<u>(54,257)</u>	<u>(315,280)</u>
	<u>5,745,311</u>	<u>7,061,395</u>
 INCOME (LOSS) BEFORE CONTRIBUTIONS	 (1,300,509)	 1,045,736
 CAPITAL CONTRIBUTIONS (Note 12)	 <u>1,570,605</u>	 <u>140,646</u>
 INCREASE IN NET ASSETS	 270,096	 1,186,382
 NET ASSETS - Beginning	 <u>85,455,942</u>	 <u>84,269,560</u>
 NET ASSETS - Ending	 <u>\$ 85,726,038</u>	 <u>\$ 85,455,942</u>

The notes to the financial statement are an integral part of this statement.

**RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Receipts from Customers	\$ 20,081,274	\$ 21,256,811
Other Operating Cash Receipts	-	301
Cash Payments to Suppliers	(18,349,251)	(18,218,397)
Cash Payments to Employees	(3,626,853)	(3,694,076)
	(1,894,830)	(655,361)
NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes and Assessments Collected	5,277,346	5,826,340
	5,277,346	5,826,340
NET CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Connection and Mitigation Fees	95,552	408,322
Acquisition and Construction of Capital Assets	(3,877,469)	(9,318,197)
Repayment of Long-Term Debt	(1,835,120)	335,772
Interest Paid on Long-Term Debt	182,543	486,598
Miscellaneous	63,543	67,078
	(5,370,951)	(8,020,427)
NET CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Interest Received	85,642	300,966
	85,642	300,966
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,902,793)	(2,548,482)
CASH AND CASH EQUIVALENTS - Beginning	11,489,780	14,038,262
CASH AND CASH EQUIVALENTS - Ending	\$ 9,586,987	\$ 11,489,780

The notes to the financial statement are an integral part of this statement.

**RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010 AND 2009**

	2010	2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Loss	(7,045,820)	(6,015,659)
Adjustments to Reconcile Net Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	5,664,060	4,860,733
Amortization of Debt Issue Costs	20,863	20,863
(Increase) Decrease in:		
Accounts Receivable	(28,469)	860,517
Inventories	(672,312)	365,278
Other Current Assets	(19,801)	301
Increase (Decrease) in:		
Accounts Payable	-	(2,023,327)
Accrued Expenses	346,146	1,138,890
Deferred Compensation Benefits Payable	101,757	52,323
Deposits	(261,254)	84,720
	<u>\$ (1,894,830)</u>	<u>\$ (655,361)</u>
CASH AND CASH EQUIVALENTS RECONCILIATION:		
Unrestricted		
Cash and Cash Equivalents	\$ 9,242,572	\$ 11,111,076
Restricted		
Cash and Cash Equivalents	344,415	378,704
	<u>\$ 9,586,987</u>	<u>\$ 11,489,780</u>
NONCASH TRANSACTIONS:		
Contribution of Capital Assets	\$ -	\$ -
	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statement are an integral part of this statement.

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

The notes provided in the Financial Section of this report are considered an integral and essential part of adequate disclosure and fair presentation. The notes include a summary of accounting policies and other necessary disclosure of pertinent matters relating to financial position and results of operations of the Ramona Municipal Water District (the District). The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this report.

NOTE 1 - ORGANIZATION AND OPERATIONS OF THE DISTRICT

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RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

NOTE 1 - ORGANIZATION AND OPERATIONS OF THE DISTRICT

The Ramona Municipal Water District was formed on August 15, 1956, pursuant to the Municipal Water Act of 1911 (California Statutes of 1991, Charter 671 as amended) for the primary purpose of supplying water to Ramona, California and surrounding areas. A five-member Board of Directors elected to staggered four-year terms of office from five (5) geographical divisions governs the District. In addition, the District provides fire protection, paramedic, sewer, and park recreation services.

In 1988, the District completed construction of Lake Ramona, a 12,500 acre-foot reservoir. Untreated water is purchased from the San Diego County Water Authority and pumped to the reservoir, and then sold to agricultural customers.

In 1981, the Ramona Municipal Water District was dissolved and merged with the District. The District managed the fire department until July of 1993, when a contract was entered into between the District and the California Department of Forestry, to provide fire and paramedical staff.

In May of 1975, the District was authorized to provide park and recreational services to the public. The District owns a 166-acre park in conjunction with its well fields. In 1994, the District entered into a contract with the Ramona Parks and Recreation Association (a non-profit public benefit organization), to operate and manage the park.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The accounting methods and procedures adopted by the District conform to generally accepted accounting principles as applied to governmental enterprise funds. In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34 "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments."

This Statement provides for significant changes in financial reporting and is scheduled for phased implementation based on size of the government starting fiscal years ending 2002. On June 30, 2003, the District implemented GASB Statement No. 34 as it specifically relates to enterprise funds.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Accounting (Continued)

The District, as an enterprise fund, accounts for its operations in a manner similar to private business enterprises. The intent of the governing body is that the costs (including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The focus of enterprise fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Under the provisions of Governmental Accounting Standards Board (GASB) Pronouncement No. 20, the District has elected to follow all GASB pronouncements and Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, except for those that conflict with GASB pronouncements. The District's operating revenues are those that result from providing services and producing and delivering goods, and include all other revenues that do not result from transactions defined by GASB Statement No. 9 as capital and related financing, non capital financing, or investing activities.

B. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

C. Revenue Recognition

The District recognizes water and sewer revenue on the accrual basis and includes an accrual for services provided in June but not yet billed. Property taxes are collected by the County of San Diego through the property tax billings. Real property taxes are levied on October 15, against owners of record at March 1, the lien date.

The taxes are due in two installments on November 1, and February 1, and become delinquent after December 10, and April 10, respectively. Property taxes are based on assessed values of real property, which are an approximation of market value and benefit assessments are levied on a per parcel basis. A revaluation of all real property must be made upon sale or completion of construction.

D. Inventory

Inventory consists of water and various warehouse materials, supplies and equipment necessary to service the District. Inventory is stated at the lower of cost or market determined on a first-in, first-out basis.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Property, Plant, and Equipment

Property, Plant, and Equipment are stated at cost. Contributed pipelines are valued at estimated fair market value on date of contribution and recorded as a direct addition to capital contributions.

F. Interest Capitalization

Interest costs incurred while constructing additions to District property and plant are capitalized as part of the specific fixed assets. See Note 5 for interest that was capitalized in 2010, and 2009.

G. Depreciation and Amortization

Depreciation is charged to expense for all fixed assets, including assets contributed to the District, and is computed using the straight-line method over the estimated useful asset lives as follows:

Water Transmission and Distribution System	
Dams and Reservoirs	50 years
Pipelines	50 years
Other	20-25 years
Wastewater Collection, Treatment, and Disposal System	20-50 years
Building and Structures	45 years
Equipment	3-10 years

Discount and issue costs of various debt agreements are recorded at cost and amortized using the straight-line method over the life of the related issue.

H. Cash Equivalents

For purposes of the financial statements, the District considers highly liquid debt instruments (excluding assets whose use is limited) purchased with a maturity of three months or less to be cash equivalents. Funds invested with the Local Agency Investment Fund are considered to be cash equivalents.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full time employees, permits deferment of a portion of current salary to future years. Benefits from the plan are not available to employees until termination, retirement, disability, death or unforeseeable emergencies.

All assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The District does not meet the criteria for fiduciary fund reporting since it does not have either significant administrative involvement (e.g. custody) or performs the investment function. The plan assets are being administered by both the California Public Employee's Retirement System (CalPERS) and Lincoln Financial Group. New employees may only elect a deferred compensation plan with CalPERS. Current employees who have participated with Lincoln Financial Group cannot make additional contributions to their account but must commence a plan with CalPERS.

Therefore, the fair market value of the plan assets at June 30, 2010, for CalPERS of \$853,678 and \$130,744 for Lincoln Financial Group is not included in the District's financial statements. The most current available information of the fair market value of CalPERS is as of June 30, 2008.

NOTE 3 - CASH AND CASH EQUIVALENTS

The District follows the practice of pooling cash and investments of all funds except funds for those required to be held separately by debt restrictions. Pooling is for the purpose of increasing interest earnings and administrative efficiency. Income earned on pooled assets is allocated to all participating funds based on their average cash balances.

Cash in all financial institutions up to \$250,000, is insured by the Federal Deposit Insurance Corporation (FDIC). Investments with brokerage firms are insured by the Securities Investor Protection Corporation (SIPC).

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

Deposits in financial institutions in excess of \$100,000 are collateralized by the financial institutions in accordance with Section 53652 of the California Government Code. Under the California Government Code, a financial institution is required to secure deposits in excess of \$250,000 made by state or local government units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies.

Cash and Cash Equivalents at June 30, 2010 and 2009 are as follows:

	Carrying Amount and Bank Balance	
	2010	2009
Cash on Hand	\$ 1,350	\$ 1,350
Cash on Deposit	1,756,622	402,265
Money Market Account	67,489	378,704
Short-Term Investments	-	-
State of California Local Agency Investment Fund	7,762,526	10,707,461
Total Cash and Cash Equivalents	\$ 9,587,987	\$ 11,489,780
Unrestricted	\$ 9,242,572	\$ 11,111,076
Restricted	344,415	378,704
Total Cash and Cash Equivalents	\$ 9,586,987	\$ 11,489,780

The State of California Government code and the District's investment policy authorize investments in bank certificates of deposit, obligations of the U.S. Treasury and its agencies and instrumentalities, commercial paper, bankers' acceptances, repurchase agreements, the State of California Local Agency Investment Fund and the San Diego County Treasurer's pooled investment fund.

The District's pooled investments at June 30, 2010, are categorized below to give an indication of the level of risk assumed by the District. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held in the District's name by the trust department of the bank from which the securities were acquired or its agent. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer from which the securities were acquired, but not in the District's name.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

All certificates of deposit are entirely insured or collateralized. The California Government Code requires California banks and savings and loans associations to secure District deposits by pledging government securities that equal at least 110% of the District's deposits. California law permits financial institutions to secure District deposits by the pledging of first trust deed mortgage notes in excess of 150% of the District's deposit. The District may waive collateral requirements for deposits that are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

Restricted Cash and Cash Equivalents

The District has funds held by a trustee restricted for the payment or security of certain debt, invested in accordance with the bond indenture specifying the types of investments its trustee may make.

Classification of Cash and Cash Equivalents by Credit Risk

The District's pooled investments at June 30, 2010, and 2009 are categorized below to give an indication of the level of risk assumed by the District. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held in the District's name by the trust department of the bank from which the securities were acquired or its agent. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer from which the securities were acquired, but not in the District's name.

Cash and Cash Equivalents held by the District at June 30, 2010, are as follows:

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Checking and Savings	\$ 1,755,622	\$ -	\$ -	\$ 1,755,622	\$ 1,755,622
Money Market Accounts	-	67,489	-	67,489	67,489
Short-Term Investments	-	-	-	-	-
Cash Equivalents Not Subject to Categorization:					
Local Agency Investment Fund	-	-	-	7,762,526	7,762,526
Cash on Hand	-	-	-	1,350	1,350
Total Cash and Cash Equivalents	\$ 1,755,622	\$ 67,489	\$ -	\$ 9,586,987	\$ 9,586,987

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

Cash and Cash Equivalents held by the District at June 30, 2009, are as follows:

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Checking and Savings	\$ 1,922,010	\$ -	\$ -	\$ 1,922,010	\$ 402,265
Money Market Accounts	-	378,704	-	378,704	378,704
Short-Term Investments	-	-	-	-	-
Cash Equivalents Not Subject to Categorization:					
Local Agency Investment Fund	-	-	-	10,707,461	10,707,461
Cash on Hand	-	-	-	1,350	1,350
	<u>\$ 1,922,010</u>	<u>\$ 378,704</u>	<u>\$ -</u>	<u>\$ 13,009,525</u>	<u>\$ 11,489,780</u>
Total Cash and Cash Equivalents	<u>\$ 1,922,010</u>	<u>\$ 378,704</u>	<u>\$ -</u>	<u>\$ 13,009,525</u>	<u>\$ 11,489,780</u>

NOTE 4 - RECEIVABLES

Receivables of the District were as follows:

	2010	2009
Utility Billings	\$ 1,176,598	\$ 1,065,700
Agricultural Rebates	65,757	81,704
EMS Receivables	154,495	173,529
Miscellaneous	113,013	160,461
	<u>\$ 1,509,863</u>	<u>\$ 1,481,394</u>
TOTAL	<u>\$ 1,509,863</u>	<u>\$ 1,481,394</u>

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 5 - CAPITAL ASSETS

Changes in Capital Assets for the year ended June 30, 2010, were as follows:

	Balance at June 30, 2008	Additions	Deletions	Transfers	Balance at June 30, 2009
Land	\$ 10,073,828	\$ -	\$ -	\$ -	\$ 10,073,828
Water Property, Plant, Lines, and Equipment	99,797,035	10,692,754	-	-	110,489,789
Fire Protection Property, Building and Equipment	6,299,488	1,577,409	-	-	7,876,897
Park Buildings and Equipment	2,227,122	-	-	-	2,227,122
Sewer-SDCE Property, Plant, Lines, and Equipment	19,950,552	2,198,740	-	-	22,149,292
Sewer-Ramona Property, Plant, Lines, and Equipment	13,774,443	637,407	-	-	14,411,850
Less: Accumulated Depreciaton	<u>(82,673,083)</u>	<u>(5,664,060)</u>	<u>-</u>	<u>-</u>	<u>(88,337,143)</u>
Construction in Progress	15,589,823	2,775,669	13,616,105	-	4,749,387
Net Capital Assets	<u>\$ 85,039,208</u>	<u>\$ 12,217,919</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,641,022</u>

Changes in Capital Assets for the year ended June 30, 2009, were as follows:

	Balance at June 30, 2008	Additions	Deletions	Transfers	Balance at June 30, 2009
Land	\$ 7,643,140	\$ 2,430,688	\$ -	\$ -	\$ 10,073,828
Water Property, Plant, Lines, and Equipment	98,492,116	1,872,133	567,214	-	99,797,035
Fire Protection Property, Building and Equipment	5,939,287	360,201	-	-	6,299,488
Park Buildings and Equipment	1,999,698	227,424	-	-	2,227,122
Sewer-SDCE Property, Plant, Lines, and Equipment	20,020,293	38,808	108,549	-	19,950,552
Sewer-Ramona Property, Plant, Lines, and Equipment	13,600,867	232,035	58,459	-	13,774,443
Less: Accumulated Depreciaton	<u>(78,546,572)</u>	<u>(4,860,733)</u>	<u>734,222</u>	<u>-</u>	<u>(82,673,083)</u>
Construction in Progress	11,292,269	4,297,554	-	-	15,589,823
Net Capital Assets	<u>\$ 80,441,098</u>	<u>\$ 4,598,110</u>	<u>\$ 1,468,444</u>	<u>\$ -</u>	<u>\$ 85,039,208</u>

During the years ended June 30, 2010, and 2009, the District capitalized interest of \$464,663 and \$852,626 respectively, into construction in progress.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 6 - LONG-TERM DEBT

District long-term debt at June 30, 2010, and 2009, consists of assessment bonds, installment purchase agreements, notes, contracts, and leases payable. All debt was issued to finance District capital improvements and is collateralized by those assets.

Assessment Bonds:	2010	2009
<p>On March 14, 2000, the Board of Directors formed Assessment District No. 99-1. Assessment District No. 99-1 issued bonds in the aggregate principal amount of \$3,355,000 in August 2000. The bonds mature in various amounts ranging from \$85,000 to \$265,000 on September 2 of each year from 2001 until 2020. Interest rates range from 4.75% to 6.60%. The bonds are secured by a pledge of all assessment revenues.</p>	\$ 2,055,000	\$ 2,190,000
Less: Current Portion	(140,000)	(135,000)
TOTAL LONG-TERM ASSESSMENT BONDS	\$ 1,915,000	\$ 2,055,000
Installment Purchase Agreements:		
<p>Installment Purchase Agreement payable to Municipal Finance Corporation with interest at 4.92% payable semi-annually, principal payable annually with principal payments commencing October 2004, ranging from \$50,000 to \$1,162,000 through 2010, at which time a final payment of \$768,450 is due.</p>	\$ 750,000	\$ 1,465,000
<p>Installment Purchase Agreement series 2001 payable to Zions First National Bank with interest at 4.51%, payable in semi-annual principal and interest payments ranging from \$134,977 to \$1,795,820 through 2010. The debt proceeds were used to prepay and defuse the 1990 Certificates of Participation.</p>	132,000	386,238
Less: Current Portion	882,000	1,851,238
Less: Debt Discount	(882,000)	(969,236)
Less: Debt Discount	-	(44,925)
TOTAL LONG-TERM INSTALLMENT PURCHASE AGREEMENTS	\$ -	\$ 837,077

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Notes, Contracts, and Leases Payable:	2010	2009
Notes Payable to Farmers Home Administration with interest at 5.00%, used to finance the acquisition and construction of water distribution, storage and related works and facilities, payments of \$115,190 including interest due annually through 2018.	\$ 746,831	\$ 821,126
Note Payable to California - Bank & Trust with interest at 4.26% refinanced to 4.27% used to finance current year operating expenses including repairs and improvements, monthly payments of \$ 23,572 including interest, due 2015.	1,178,665	1,403,596
Credit Agreement in the amount of \$2,000,000 to Union Bank of California with interest at 3.84%, used to finance capital improvements at the San Vicente sanitation facility. Monthly principal payments of \$33,898 plus interest, through November 2013.	1,389,830	1,796,610
Credit Agreement in the amount of \$425,000 to Union Bank of California with interest at 2.90%, used to finance capital improvements at the San Vicente sanitation facility. Monthly principal payments of \$5,059.52 plus interest, through May 2012.	359,226	419,940
	3,674,552	4,441,272
Less: Current Portion	(782,886)	(769,264)
TOTAL NOTES, CONTRACTS, AND LEASES PAYABLE	\$ 2,891,666	\$ 3,672,008

Future long-term maturities as of June 30, 2010, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 1,804,886	\$ 287,088	\$ 2,091,974
2012	1,179,919	224,483	1,404,402
2013	906,291	177,891	1,084,182
2014	694,558	139,118	833,676
2015	440,117	111,430	551,547
2016-2020	1,390,781	92,847	1,483,628
Thereafter	195,000	75,331	270,331
TOTAL	\$ 6,611,552	\$ 1,108,188	\$ 7,719,740

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Changes in Long-Term Debt for the year ended June 30, 2010, consist of the following:

	June 30, 2009	New Debt Incurred	Principal Payments	June 30, 2010
Assessment Bonds	\$ 2,190,000	\$ -	\$ (135,000)	\$ 2,055,000
Installment Purchase Agreements Notes, Contracts, and Leases Payable	1,851,237	-	(969,237)	882,000
	<u>4,441,273</u>	-	<u>(766,721)</u>	<u>3,674,552</u>
	8,482,510	-	(1,870,958)	6,611,552
Less: Debt Discount	(44,925)	-	-	-
	<u>\$ 8,437,585</u>	<u>\$ -</u>	<u>\$ (1,870,958)</u>	<u>\$ 6,611,552</u>

Changes in Long-Term Debt for the year ended June 30, 2009, consist of the following:

	June 30, 2008	New Debt Incurred	Principal Payments	June 30, 2009
Assessment Bonds	\$ 2,325,000	\$ -	\$ (135,000)	\$ 2,190,000
Installment Purchase Agreements Notes, Contracts, and Leases Payable	3,338,225	-	(1,486,988)	1,851,237
	<u>2,513,463</u>	<u>2,425,000</u>	<u>(497,190)</u>	<u>4,441,273</u>
	8,176,688	2,425,000	(2,119,178)	8,482,510
Less: Debt Discount	(74,875)	-	29,950	(44,925)
	<u>\$ 8,101,813</u>	<u>\$ 2,425,000</u>	<u>\$ (2,089,228)</u>	<u>\$ 8,437,585</u>

NOTE 7 - DISTRICT EMPLOYEES RETIREMENT SYSTEM

Plan Description

The Ramona Municipal Water District contributes to the California Public Employees Retirement System (CalPERS), which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS 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 District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through board action. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 7 - DISTRICT EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

Funding Policy

Active plan members in CalPERS are required to contribute 8% of their covered salary. The District makes the contributions required of District employees on their behalf for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2009/2010 was 22.907%. 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 Cost

For the fiscal year 2009/2010, the District's annual pension cost was \$1,069,086, and the District contributed its share of \$774,183 and the employee's share of \$294,903. The required contribution for fiscal year 2009/2010 was determined as part of the June 30, 2006, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included an 8.25% investment rate of return (net of administrative expenses) and include an inflation component of 3.5%. The actuarial value of CalPERS assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. CalPERS' unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis.

Three-year trend information for CalPERS:

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$ 1,025,231	100%	\$ - 0 -
June 30, 2009	\$ 1,081,396	100%	\$ - 0 -
June 30, 2010	\$ 1,069,086	100%	\$ - 0 -

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 7 - DISTRICT EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

FUNDED STATUS OF PLAN

Valuation Date	Entry Age Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a) - (b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	Unfunded Actuarial Accrued Liability As a % of Payroll [(a)-(b)]/(c)
June 30, 2006	\$ 620,492,183	\$ 501,707,110	\$ 118,785,073	80.9%	\$ 126,049,770	94.2%
June 30, 2007	\$ 699,663,524	\$ 576,069,687	\$ 123,593,837	82.3%	\$ 139,334,562	88.7%
June 30, 2008	\$ 776,166,719	\$ 641,167,624	\$ 134,999,095	82.6%	\$ 155,115,302	87.0%

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster.

The District is a participating member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), which arranges for and provides general liability, property damage, and dam failure liability insurance to its member agencies. The District pays a premium commensurate with the level of coverage requested. The District has elected to self-insure for a portion of property damage coverage in the amount of \$10,000 per occurrence.

Noted below are condensed audited financial statements of the Authority as of September 30, 2009:

Assets	<u>\$ 124,067,027</u>
Liabilities	
Current Liabilities	\$ 38,564,342
Non-Current Liabilities	<u>45,429,021</u>
Total Liabilities	<u>83,993,363</u>
Net Assets	
Invested in Capital Assets	978,142
Unrestricted	<u>39,095,522</u>
Total Net Assets	<u>40,073,664</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 124,067,027</u>

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 8 - RISK MANAGEMENT (CONTINUED)

The Authority had no long-term debt at September 30, 2009:

Revenue	<u>\$ 21,082,354</u>
Operating Expenses	(25,663,970)
Non-Operating Revenue	<u>6,294,982</u>
Change in Net Assets	1,713,366
NET ASSETS - Beginning	<u>38,360,298</u>
NET ASSETS - Ending	<u><u>\$ 40,073,664</u></u>

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS

The District currently provides Other Post Employment Benefits (OPEB) by making a contribution towards retiree health benefits based on the least expensive District-sponsored medical plan. Currently there are 13 retirees receiving the benefit and 55 employees are either currently eligible for the benefit or are earning service credit for eligibility towards the benefit.

Plan Description

To be eligible for retiree health benefits, an employee must retire from the District on or after age 50 according to the following tiers:

- Tier 1 (Hire prior to January 1, 2005) – five (5) years of full time District employment/50 years of age;
- Tier 2 (Hire on/after January 1, 2005) – ten (10) years of full time employment/50 years of age; and
- Tier 3 (Hired after January 1, 2008) – 10 years of full time service/50 years of age/sum of age and service with the District equals to 65.

The District's contribution is based on a percentage of the least expensive District-sponsored medical plan for eligible employees at the date of retirement. For employees with less than 25 years of eligible service at retirement, the District's contribution percentage is 86.76% for retiree only coverage and 68.17% for retiree plus spouse coverage. With employees with greater than 25 years of eligible service at retirement, the District's contribution percentage is 100% for retiree only coverage and 75% for retiree plus spouse coverage. The retiree must pay any additional costs above the District's contribution including future increases in the cost of coverage. The District's contribution is also provided to retirees as a cash benefit if opting out of the District-sponsored plan.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

The District's contribution ceases when the retiree reaches Medicare eligibility age, currently age 65. The District's contribution for spouses ceases upon the earlier of the spouse attaining Medicare eligibility age, spouse's death or retiree's death.

The District makes the following contributions:

Monthly Payments

Retiree Only	\$390.75
Retiree Plus Spouse	\$781.50
Effective Date	1/1/2009

Funding Policy

The District does not establish a trust account for this plan. The District funds the plan on a pay-as-you-go basis.

Annual OPEB Cost

The District's most recent OPEB cost is presented as follow:

	As of July 1, 2008
Present Value of Future Benefits	
Active Employees	\$779,370
Retired Employees	\$195,185
Total Present Value of Future Benefits	\$974,555
Accrued Liability	
Active Employees	\$388,753
Retired Employees	\$195,185
Total Accrued Liability	\$583,938
Assets - Funded Amounts	\$0
Total Unfunded Accrued Liability	\$583,938
Annual Required Contributions	
Service Costs at End of Year	\$44,808
Thirty (30) Year Amortization of Unfunded Accrued Liability	\$37,986
Total Annual Required Contributions	\$82,794

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

The District provided 2007-2008 annual OPEB Cost analysis which is the most recent available information.

Actuarial Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. In order to perform the valuation, the actuary must make certain assumptions regarding such items as rate of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare inflation and interest rates.

NOTE 10 - EARLY RETIREMENT INCENTIVE

The District does not provide early retirement incentives for their employees.

NOTE 11 - LEASE

At June 30, 2010, the District was not committed to any future minimum long-term capital or operating lease payments.

NOTE 12 - CAPITAL CONTRIBUTIONS

Capital Contributions consist of the following:

Contributions of Water and Sewer Systems

Contributions of Water and Sewer Systems by developers and property owners are valued based upon the District engineers' estimates of cost and are recorded as capital contributions. Water and Sewer Systems acquired by merging are also recorded as capital contributions.

Connection and Mitigation Fees

Connection and Mitigation Fees are charged to developers and property owners to join the District's water and sewer system. These fees are charged to those requiring permanent service from the facilities that have been constructed, are presently being constructed, or will be constructed in the future years.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 12 - CAPITAL CONTRIBUTIONS (CONTINUED)

Connection and Mitigation Fees (Continued)

The District adopted (GASB) Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions," to record Connection and Mitigation Fees. Under Statement No. 33, the District recognizes connection and mitigation fees as revenue.

NOTE 13 - VACATION, SICK LEAVE AND COMPENSATORY TIME

Vacation and Sick Leave

Based on the Memorandum of Understanding between the District and the District's Employees Association for the period of January 1, 2008 through December 31, 2011, all eligible employees are entitled to vacation and sick leave referred to as Comprehensive Annual Leave (CAL Time). Accrual of CAL Time begins on the employee's hire as follows:

<u>Commencement of CAL Time Accrual</u>	<u>CAL Time Accrual Per Period (Hours)</u>	<u>CAL Time Accrual Annually (Days)</u>
0	6.8	22.10
6	8.3	26.98
11	9.9	32.18
16	11.4	37.05

Accrual of CAL Time shall cease when an employee reaches the maximum cap of 1,040 hours and does not accrue until the balance of the unused time again falls below 1,040 hours. Unless CAL Time is used for an absence due to the employee's illness or injury, it will only be scheduled and taken with the approval of the employee's immediate supervisor. No employee may take more than twenty-five (25) consecutive days of CAL Time without the written approval of the General Manger.

Probationary employees may use accrued CAL Time from their hire date for approved absence away from work related to the employee's inability to work due to the employee's illness or injury, and are eligible to use their CAL Time for vacation purposes after six (6) months of employment with the District.

Employees who are laid off, resigns, retires, or is otherwise separated from the service of the District, shall be paid for all accrued CAL Time upon separation from employment with the District. The amount of payment is calculated based upon the employee's regular straight time hourly rate of pay in effect for the employee's regular job, on the last work day of the employee's employment.

**RAMONA MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

NOTE 13 - VACATION, SICK LEAVE AND COMPENSATORY TIME (CONTINUED)

Compensatory Time (Comp Time)

When an employee works beyond their regularly scheduled workday or duty shift, the employee shall be paid either by use of comp time at a rate of one and one-half hours (1½) from each overtime hour worked over eight (8) hours in a workday or at the rate of time and one-half of their regular hourly rate of pay for all time worked over eight (8) hours in a workday. Hours worked which are eligible for double time pay may be compressed either by use of comp time or pay.

No employee shall be allowed to accumulate over sixty (60) hours of unused comp time without the written permission of the department head.

**RAMONA MUNICIPAL WATER DISTRICT
SUPPLEMENTARY INFORMATION SECTION**

JUNE 30, 2010

**RAMONA MUNICIPAL WATER DISTRICT
ORGANIZATION
JUNE 30, 2010**

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Jim Robinson	President	December 31, 2011
Bryan Wadlington	Vice President	December 31, 2013
Darrell Beck	Secretary	December 31, 2013
Red Hager	Treasurer	December 31, 2013
George L. Boggs	Director	December 31, 2011

General Manager

Ralph McIntosh

Chief Financial Officer

David P. Barnum

**RAMONA MUNICIPAL WATER DISTRICT
ASSESSED VALUATION
JUNE 30, 2010**

The assessed valuation of the Ramona Municipal Water District at June 30, 2010, is as follows:

Assessed Valuation

Secured Property	\$ 3,350,635,751
Unsecured Property	<u>46,994,125</u>
Total Assessed Valuation	<u><u>\$ 3,397,629,876</u></u>

RAMONA MUNICIPAL WATER DISTRICT
OTHER INDEPENDENT AUDITORS' REPORTS SECTION
JUNE 30, 2010

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Ramona Municipal Water District
Ramona, California

We have audited the financial statements of the Ramona Municipal Water District (the District) as of and for the year ended June 30, 2010, and have issued our report thereon dated August 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Page 2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Management, Board of Directors, Audit/Finance Committee, others within the entity, federal awarding agencies and pass-through entities, where applicable, and is not intended to be and should not be used by anyone other than these specified parties.

Hoelscher, Nagel & Company

San Diego, California
August 20, 2010

MANAGEMENT LETTER

ROY T. HOSAKA, C.P.A.
JAMES C. NAGEL, C.P.A.

MEMBER
CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

August 20, 2010

Board of Directors
Ramona Municipal Water District
Ramona, California

In connection with our examination of the financial statements of the Ramona Municipal Water District (the District) for the year ended June 30, 2010, we made a study of your accounting procedures and system of internal controls. In addition, we observed the District's policies and operating methods.

As a result of this examination, we would like to present a Management Comment for consideration by the District. This suggestion is based primarily on the work performed during the audit engagement, and we do not wish to imply that it covers every possible weakness. Nevertheless, we do think it deserves your careful evaluation.

1. Indirect and Cost Allocation

Finding

Indirect and cost allocation (overhead) has been in effect for a number of years. No records could be located to determine how this allocation was determined. This could lead to potential misallocation of overhead costs. In addition, the Engineering Department has not been properly allocating overhead costs but appears to allocate charges or costs to closed projects, projects that have not been budgeted and costs that are attributable to other departments within the District.

Recommendation

The District should implement a study to determine a workable cost allocation method for each department within the District. This may entail coordinating a method of overhead allocation between the Finance Department and various departments within the District. The Board of Directors should formally approve this method of the overhead allocation.

If you should have any questions concerning this finding, or wish any assistance in implementing this finding, we would welcome the opportunity to discuss it with you.

Sincerely,


Hosaka, Nagel & Company

**RAMONA MUNICIPAL WATER DISTRICT
FINDINGS AND RECOMMENDATIONS SECTION**

JUNE 30, 2010

**RAMONA MUNICIPAL WATER DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Section I -- Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:
 One or more material weaknesses identified? Yes X No
 One or more significant deficiencies identified that
 are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:
 One or more material weaknesses identified? Yes N/A No
 One or more significant deficiencies identified that
 are not considered to be material weaknesses? Yes N/A

Type of auditors' report issued on compliance for
 major programs: N/A

Any audit findings disclosed that are required to be
 reported in accordance with Circular A-133,
 Section 510(a)? N/A

Identification of major programs

CFDA Number

N/A

Name of Federal Program

N/A

Dollar threshold used to distinguish between
 Type A and Type B programs: N/A

Auditee qualified as low-risk auditee? N/A

**RAMONA MUNICIPAL WATER DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Section II -- Financial Statement Findings

No matters were reported.

Section III -- Federal Award Findings and Questioned Costs

No matters were reported.

**RAMONA MUNICIPAL WATER DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
JUNE 30, 2010**

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
None	N/A	N/A