

MID-PENINSULA WATER DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

PREPARED BY THE
ADMINISTRATION AND INFORMATION SERVICES

This Page Left Intentionally Blank

MID-PENINSULA WATER DISTRICT

**BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

Table of Contents

INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	3
BASIC FINANCIAL STATEMENTS	
Statements of Net Assets.....	10
Statements of Revenues, Expenses and Changes in Net Assets	12
Statements of Cash Flows	13
NOTES TO BASIC FINANCIAL STATEMENTS	15

This Page Left Intentionally Blank

ACCOUNTANCY CORPORATION

3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mid-Peninsula Water District
Belmont, California

We have audited the accompanying basic financial statements of the Mid-Peninsula Water District as of and for the years ended June 30, 2010 and 2009. These basic financial statements are the responsibility of the 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 generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance as to 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 basic financial statements referred to above present fairly in all material respects, the financial position of the Mid-Peninsula Water District as of June 30, 2010 and 2009 and the respective changes in financial position and cash flows, thereof for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

As described in Note 7, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Reporting by Employers of Post Employment Benefits Other than Pensions*.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit the information and we express no opinion on it.



October 10, 2010

This Page Left Intentionally Blank

MID-PENINSULA WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2010

The Mid-Peninsula Water District's (the District's) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual fund issues or concerns.

This Management's Discussion and Analysis is new, and will now be presented at the front of each year's financial statements.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$86,630 (or 0.5%) during the fiscal year ended June 30, 2010. Since the District engages only in the business of providing for the potable water needs of the area within its boundaries, the increase is all in the category of business-type net assets.
- The District's operating revenues decreased by \$200,731 (or 2.92%) from \$6,874,734 during fiscal year ended June 30, 2009 to \$6,674,003 during fiscal year ended June 30, 2010. The decrease in operating revenues was primarily due to decrease in the District's customer usage. Non operating revenues decreased by \$56,559 during the year.
- The District's total operating expenses increased by \$428,031 (or 6.53%) from \$6,555,472 during fiscal year ended June 30, 2009 to \$6,983,503 during fiscal year ended June 30, 2010. Increases in total operating expenses comprised of normal water purchase increases, insurance premiums increases, wages and benefits increases.

USING THIS ANNUAL REPORT

The following graphic format outline of the District's annual report is provided for your review:

MD&A ~ Management's Discussion and Analysis ~

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

FUND FINANCIAL STATEMENTS

The District consists of exclusively one Enterprise fund. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector accounting.

Statements of Net Assets: The focus of the Statements of Net Assets (the "Unrestricted Net Assets") is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire District. Net Assets (formerly equity) are reported in three broad categories:

- Net Assets Invested in Capital Assets, Net of Related Debt: This component of Net Assets consists of all Capital Assets, 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.
- Restricted Net Assets: This component of Net Assets consists of restricted assets; when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.
- Unrestricted Net Assets: Consists of Net Assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt", or "Restricted Net Assets".

Statements of Revenues, Expenses and Changes in Net Assets: (similar to an Income Statement.) The Statements of Revenues, Expenses and Changes in Net Assets includes Operating Revenues (water sales and other user charges), Operating Expenses (source of supply, pumping, transmission and distribution, customer accounts, administrative and general, and depreciation), and Non-Operating Revenue and Expenses (rental income, state augmentation, investment income, construction income, and interest expense).

The focus of the Statements of Revenues, Expenses and Changes in Net Assets is the “Change in Net Assets”, which is similar to Net Income or Loss.

Statements of Cash Flows: This statement discloses net cash provided by, or used for, operating activities, non-capital financing and investing activities, and from capital and related financing activities.

STATEMENT OF NET ASSETS

The following table reflects the condensed Statement of Net Assets compared to prior year. The District is engaged only in Business-Type Activities.

TABLE 1
STATEMENT OF NET ASSETS

	2010	2009	Increase (Decrease)	Percent Increase (Decrease)
Assets:				
Current Assets	\$ 3,390,373	\$ 4,384,249	\$ (993,876)	-22.67%
Capital Assets	14,746,206	13,543,055	1,203,151	8.88%
Total Assets	18,136,579	17,927,304	209,275	1.17%
Liabilities:				
Current Liabilities	515,286	353,120	162,166	45.92%
Long-Term Liabilities	243,332	282,853	(39,521)	-13.97%
Total Liabilities	758,618	635,973	122,645	19.28%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	14,627,894	13,286,445	1,341,449	10.10%
Unrestricted	2,750,067	4,004,886	(1,254,819)	-31.33%
Total Net Assets	\$ 17,377,961	\$ 17,291,331	\$ 86,630	0.50%

Major Factors Affecting the Statement of Net Assets

- Current assets decreased by 22.67% primarily due to a tier structure that had the first tier at a lower rate than the purchase price of water, a decrease in water sales of almost 6% and a loss of tenants at 2 locations.
- Capital assets increased by 8.88% primarily due to current year capital assets acquisitions costs of \$1,203,151, net of current year depreciation of \$1,064,978.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Table 2 compares the revenues and expenses for the current and previous fiscal year. The District is engaged only in Business-Type Activities.

TABLE 2
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Revenues:				
Operating revenues:				
Water sales and other use charge	\$ 6,674,003	\$ 6,874,734	\$ (200,731)	-2.92%
Non-operating revenues:				
Rent, taxes, interest and other income	<u>408,252</u>	<u>464,811</u>	<u>(56,559)</u>	-12.17%
Total Revenues	<u>7,082,255</u>	<u>7,339,545</u>	<u>(257,290)</u>	-3.51%
Expenses:				
Operating expenses:				
Source of supply	2,412,785	2,339,559	73,226	3.13%
Pumping	331,980	309,398	22,582	7.30%
Transmission and distribution	647,990	689,343	(41,353)	-6.00%
Customer accounts	387,211	322,855	64,356	19.93%
Administrative and general	2,138,559	1,884,029	254,530	13.51%
Depreciation	1,064,978	1,010,288	54,690	5.41%
Non-operating expenses:				
Interest expense	<u>12,122</u>	<u>27,495</u>	<u>(15,373)</u>	-55.91%
Total Expense	<u>6,995,625</u>	<u>6,582,967</u>	<u>412,658</u>	6.27%
Increase (Decrease) in Net Asset	<u>\$ 86,630</u>	<u>\$ 756,578</u>	<u>\$ (669,948)</u>	-88.55%

Major Factors Affecting the Statement of Revenue, Expenses and Changes In Net Assets

- Operating revenues decreased by 2.92% primarily due to a decrease in water consumption by customers.
- Source of supply expenses increased by 3.13%, pumping increased by 7.3%, transmission and distribution decreased by 6% and customer accounts increased by 19.93% primarily due to increased water purchase costs, pumping cost and an increase in the cost of benefits.

BUDGETARY HIGHLIGHTS

The District's Board of Directors adopts the budget for every fiscal year, prior to the beginning of that fiscal year. The District's fiscal year ended June 30, 2010 budget reflected total revenues of \$8,291,553, and total expenditures of \$7,339,460. Actual revenues and expenditures for the fiscal year ended June 30, 2010 were within the budgeted amounts.

CAPITAL ASSETS

As of June 30, 2010, the District had \$11,749,211 invested in capital assets as reflected in the following schedule, which represents a net increase (addition, deductions and depreciation) of \$713,025 or 6.46% from June 30, 2009.

TABLE 3
CAPITAL ASSETS (NET OF DEPRECIATION)
JUNE 30, 2010

The following reconciliation summarizes the changes in Capital Assets.

	2010	2009	Increase (Decrease)	Percent Increase (Decrease)
Water plant	\$ 32,540,845	\$ 30,763,592	\$ 1,777,253	5.78%
Accumulated depreciation	(20,791,634)	(19,727,406)	(1,064,228)	5.39%
Net capital assets	<u>\$ 11,749,211</u>	<u>\$ 11,036,186</u>	<u>\$ 713,025</u>	6.46%

DEBT ADMINISTRATION

As of June 30, 2010, the District had \$118,312 in debt outstanding:

TABLE 4
OUTSTANDING DEBT
JUNE 30, 2010

	2010	2009
Note payable, current portion	\$ 118,312	\$ 138,298
Note payable, net of current portion	<u>-</u>	<u>118,312</u>
Total Outstanding Debt	<u>\$ 118,312</u>	<u>\$ 256,610</u>

ECONOMIC FACTORS

The District was adversely impacted by the rising costs of maintaining the water distribution plants and facilities, and rising premiums for insurance and benefits. The District's goal is to minimize the impact of these rising costs through prudent management, budgeting and forecasting efforts.

FINANCIAL CONTACT

The individual to be contacted regarding this report is Paul Regan, General Manager, at (650) 591-8941. Written requests may be submitted to Paul Regan, General Manager at Mid-Peninsula Water District, P.O. Box 129, Belmont, California 94002-0129.

MID-PENINSULA WATER DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009

ASSETS	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and cash equivalents (Note 2)	\$2,641,137	\$3,574,222
Accounts receivable	557,410	592,174
Materials and supplies (Note 1E)	162,717	169,494
Deferred construction charges (Note 1I)	<u>29,109</u>	<u>48,359</u>
Total Current Assets	<u>3,390,373</u>	<u>4,384,249</u>
Property, Plant, and Equipment (Note 3):		
Land	1,045,264	1,045,264
Water plant	32,540,845	30,763,592
Construction in progress	<u>1,951,731</u>	<u>1,461,605</u>
	35,537,840	33,270,461
Less accumulated depreciation	<u>20,791,634</u>	<u>19,727,406</u>
Total Property, Plant, and Equipment	<u>14,746,206</u>	<u>13,543,055</u>
Total Assets	<u>18,136,579</u>	<u>17,927,304</u>

(Continued)

See accompanying notes to basic financial statements

MID-PENINSULA WATER DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009

LIABILITIES	<u>2010</u>	<u>2009</u>
Current Liabilities		
Accounts payable	\$368,894	\$187,323
Accrued benefits	28,080	27,499
Note payable, current portion (Note 4)	<u>118,312</u>	<u>138,298</u>
Total Current Liabilities	<u>515,286</u>	<u>353,120</u>
Long-Term Liabilities		
Customer deposits	9,824	1,717
Accrued benefits	173,808	162,824
Net OPEB obligation (Note 7)	59,700	
Note payable, net of current portion (Note 4)	<u></u>	<u>118,312</u>
Total Long-Term Liabilities	<u>243,332</u>	<u>282,853</u>
Total Liabilities	<u>758,618</u>	<u>635,973</u>
NET ASSETS (Note 5)		
Invested in capital assets, net of related debt	14,627,894	13,286,445
Unrestricted	<u>2,750,067</u>	<u>4,004,886</u>
Total Net Assets	<u>\$17,377,961</u>	<u>\$17,291,331</u>

See accompanying notes to basic financial statements

MID-PENINSULA 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 service charges	\$6,239,936	\$6,449,246
Capital expense charges (Note 10)	420,303	420,818
Other revenue	13,764	4,670
Total Operating Revenues	<u>6,674,003</u>	<u>6,874,734</u>
OPERATING EXPENSES:		
Source of supply	2,412,785	2,339,559
Pumping	331,980	309,398
Transmission and distribution	647,990	689,343
Customer accounts	387,211	322,855
Administrative and general	2,138,559	1,884,029
Depreciation (Note 3)	1,064,978	1,010,288
Total Operating Expenses	<u>6,983,503</u>	<u>6,555,472</u>
NET OPERATING INCOME	<u>(309,500)</u>	<u>319,262</u>
NONOPERATING REVENUE (EXPENSE)		
Rent	199,325	208,029
State augmented fund	188,321	186,494
Interest income	20,606	70,288
Interest expense	(12,122)	(27,495)
Nonoperating revenue, net	<u>396,130</u>	<u>437,316</u>
CHANGES IN NET ASSETS	86,630	756,578
NET ASSETS AT BEGINNING OF YEAR	<u>17,291,331</u>	<u>16,534,753</u>
NET ASSETS AT END OF YEAR	<u><u>\$17,377,961</u></u>	<u><u>\$17,291,331</u></u>

See accompanying notes to basic financial statements

MID-PENINSULA 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 and users	\$6,695,003	\$6,996,529
Other operating revenue	13,764	4,670
Payments to suppliers	(3,564,261)	(4,177,967)
Payments to employees	(2,078,278)	(1,874,300)
Cash Flows from Operating Activities	<u>1,066,228</u>	<u>948,932</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Rent	<u>199,325</u>	<u>208,029</u>
Net Cash Flows From Noncapital Financing Activities	<u>199,325</u>	<u>208,029</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(2,079,808)	(770,936)
Principal paid on notes payable	(138,298)	(129,942)
Interest paid on notes payable	<u>(1,138)</u>	<u>(27,495)</u>
Cash Flows (used for) Capital and Related Financing Activities	<u>(2,219,244)</u>	<u>(928,373)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	<u>20,606</u>	<u>70,288</u>
Cash Flows from Investing Activities	<u>20,606</u>	<u>70,288</u>
NET CASH FLOWS	(933,085)	298,876
Cash and cash equivalents at beginning of year	<u>3,574,222</u>	<u>3,275,346</u>
Cash and cash equivalents at end of year	<u><u>\$2,641,137</u></u>	<u><u>\$3,574,222</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	(\$309,500)	\$319,262
Adjustment to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	1,064,978	1,010,288
Decrease in accounts receivable	34,764	126,465
Net OPEB obligation	59,700	
(Increase) in other current assets	26,027	(107,002)
Increase (decrease) in accounts payable and unearned rental income	181,571	(392,404)
Increase in accrued benefits	581	9,729
(Decrease) in customer deposits	<u>8,107</u>	<u>(17,406)</u>
Net cash provided by operating activities	<u><u>\$1,066,228</u></u>	<u><u>\$948,932</u></u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Contributions of capital assets	<u><u>\$188,321</u></u>	<u><u>\$186,494</u></u>

See accompanying notes to basic financial statements

This Page Left Intentionally Blank

MID-PENINSULA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
--

A. *General*

Mid-Peninsula Water District is a political subdivision of the State of California, established on July 2, 1929 to provide for the potable water needs of the area within its boundaries. Effective July 1, 2000, the District changed its name from Belmont County Water District. The District maintains and operates a system of storage tanks and water mains. It purchases water from the San Francisco Water District for distribution to its customers through this system.

B. *Reporting Entity*

The District operates in an enterprise capacity. An enterprise fund is used to account for the financing of services to the general public on a continuing basis with operating and other costs recovered primarily through user charges.

C. *Basis of Accounting*

Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

These Standards require that the financial statements described below be presented.

The Statement of Net Assets and the Statement of Activities display information about the Mid-Peninsula Water District. Business-type activities are financed in whole or in part by fees charged to external parties.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as interest income and connection fees, result from nonexchange transactions or ancillary activities.

Enterprise funds are accounted for on the flow of economic resources measurement focus utilizing full accrual accounting. Under this method, assets and revenues are recorded when earned, and liabilities and expenses are recorded when the related obligations are incurred. The District follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

D. *Cash Equivalents*

For cash flow purposes, cash and cash equivalents are defined as the book balance in demand deposits, as well as short-term investments with a maturity date within one year of the date acquired by the District.

MID-PENINSULA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
--

E. Materials and Supplies

Materials and supplies are stated at the lower of cost (first in – first out) or market value. Inventories consist primarily of parts and supplies used to maintain the distribution system including mains, metering equipment and hydrants used for fire suppression within the District.

F. Compensated Absences

Vested or accumulated vacation, sick leave and compensated time off are recorded as an expense and a liability as the benefits accrue to employees. The liability is reduced as employees take the time off and are paid for the accrued liability.

G. Use of Estimates

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

H. Revenues

Customer water meters are read on a monthly basis. Bills are rendered and income is recognized in the period in which meters are read. The District does not accrue income for water distributed but not yet billed at the end of the year.

Effective January 1, 1999, California State law required water districts to report capacity charges collected and spent separately from operating revenue and expense and any fees unspent at year-end be show in a separate equity fund.

I. Deferred Construction Charges and Construction Advances

Contractors developing projects, which include construction of facilities to bring water from District mains into the project, deposit a construction advance with the District for an amount estimated to cover the District's costs related to the project. The District accounts for expenditures as construction in progress until the completion of the project, the final inspection and approval of the District, then it is capitalized as part of capital assets. At the completion of the project, any excess funds are returned to the contractor.

J. Reclassification

The District changed the classification of certain amounts in the current year financial statements to improve their presentation. Amounts for the prior fiscal year have been reclassified to conform to the current year presentation.

MID-PENINSULA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2 – CASH AND INVESTMENTS

A. Composition

The District's cash and cash equivalents consisted of the following at June 30:

	2010	2009
Petty Cash	\$400	\$400
Cash in Bank	192,986	233,890
Certificate of Deposit	160,000	160,000
Local Agency Investment Fund	2,287,751	3,179,932
Total Cash and Investments	<u>\$2,641,137</u>	<u>\$3,574,222</u>

B. Collateralization of Cash and Cash Equivalents

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the District's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the District's name and places the District ahead of general creditors of the institution pledging the collateral. The District has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

C. Interest Rate and Credit Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2010, these investments matured in an average of 203 days.

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. The District's only investments are in the California Local Agency Investment Fund which is not rated at June 30, 2010.

MID-PENINSULA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2 – CASH AND INVESTMENTS (Continued)

D. Investments Authorized by the District

The District's Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District, and approved percentages and maturities are not exceeded.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None	N/A
U.S. Treasury Obligations	5 years	None	None	N/A
State of California Obligations	5 years	None	None	N/A
California Local Agency Obligations	5 years	None	None	N/A
U.S. Agency Obligations	5 years	None	None	N/A
Bankers' Acceptances	180 days	None	40%	30%
Commercial Paper	270 days	A-1/P-1/F-1	25%	10%
Negotiable Certificates of Deposit	5 years	None	30%	N/A
Repurchase Agreements	1 year	None	None	N/A
Reverse Repurchase Agreements	92 days	None	20%	N/A
Securities Lending Arrangements	92 days	None	20%	N/A
Medium-Term Notes	5 years	A	30%	N/A
Mutual Funds	N/A	None	20%	10%
Money Market Funds	N/A	None	20%	N/A
Collateralized Bank Deposits	5 years	None	None	N/A
Mortgage-Pass Through Securities	5 years	AA	20%	N/A
Local Agency Investment Fund	N/A	None	None	N/A

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost or, if contributed, at estimated value at time of acquisition. Depreciation is recognized on buildings, furniture, fixtures, equipment and subsurface lines by the straight-line method over their estimated useful lives. Estimated service lives are:

Transmission and distribution	7-33 years
Pumping plant	8-33 years
Source of supply	33 years
Intangible asset	33 years

District policy is to capitalize all assets, which cost \$3,000 or more, and to charge to current operations all additions under that cost limit. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are also expensed in the current period.

MID-PENINSULA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT (Continued)

Changes in property, plant and equipment accounts are summarized below:

	Balance at June 30, 2009	Additions	Deletion	Transfers & Adjustments	Balance at June 30, 2010
Capital assets not being depreciated:					
Land	\$1,045,264				\$1,045,264
Construction in progress	1,461,605	\$2,268,129		(\$1,778,003)	1,951,731
Total capital assets not being depreciated	2,506,869	2,268,129		(1,778,003)	2,996,995
Capital assets being depreciated:					
Transmission and distribution	23,825,954			2,089,045	25,914,999
Pumping plant	6,169,533		(\$750)	(339,165)	5,829,618
Source of supply	649,601				649,601
Intangible asset	118,504			28,123	146,627
Total capital assets being depreciated:	30,763,592		(750)	1,778,003	32,540,845
Less accumulated depreciation for:					
Transmission and distribution	16,116,077	867,566			16,983,643
Pumping plant	2,929,138	184,500	(750)		3,112,888
Source of supply	617,154	8,876			626,030
Intangible asset	65,037	4,036			69,073
Total accumulated depreciation	19,727,406	\$1,064,978	(\$750)		20,791,634
Net capital assets being depreciated	11,036,186				11,749,211
Total capital assets, net	\$13,543,055				\$14,746,206

NOTE 4 – NOTE PAYABLE

A. Current Year Transactions and Balances

	Balance June 30, 2009	Retirements	Balance June 30, 2010	Due within one year
Note payable	\$256,610	(\$138,298)	\$118,312	\$118,312

The District has a promissory note payable to the First National Bank of Northern California, collateralized by the real property at 3 Dairy Lane, Belmont, CA. The note is due October 1, 2011, and interest is accrued on the principal at 6.25% annually. Principal and interest payments are due monthly.

B. Debt Service Requirements

For The Year Ending June 30	Principal	Interest
2011	\$118,312	\$15,452
Total payments due	\$118,312	\$15,452

MID-PENINSULA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 5 – NET ASSETS

Net Assets is the excess of all the District's assets over all its liabilities, regardless of fund. Net Assets are divided into two captions and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

Unrestricted describes the portion of Net Assets which is not restricted as to use.

NOTE 6 – DEFINED BENEFIT PENSION PLAN

Substantially all District employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the Miscellaneous Plan. Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full-time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CALPERS; the District must contribute these amounts. The District's labor contracts require it to pay employee contributions as well as its own. The Plans' provisions and benefits in effect at June 30, 2010, are summarized as follows:

	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50
Monthly benefits, as a % of annual salary	1.426%-2.418%
Required employee contribution rates	7%
Required employer contribution rates	11.743%

In order to retire with full medical, dental and vision, an employee must have 20 years of service with the District and be 55 or older. CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the District must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The District does not have a net pension obligation since it pays these actuarially required contributions monthly.

MID-PENINSULA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 6 – DEFINED BENEFIT PENSION PLAN (Continued)

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.0%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

As required by State law, effective July 1, 2005, the District's Plan was terminated, and the employees in the plan were required by CALPERS to join a new State-wide pool. One of the conditions of entry to these pools was that the District true-up any unfunded liability in the former Plan, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The District satisfied its Plan's unfunded liability of \$423,121 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 11 years. The required actuarial contributions and related rates for the year ended June 30 were as follows:

	Contribution Amount	Contribution Rate
2008	\$123,187	10.665%
2009	137,178	11.198%
2010	145,410	11.473%

As a result of the pool, CALPERS has calculated actuarial values funding progress for all participants in total which is presented at June 30:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2006	\$2,754,396,608	\$2,492,226,176	\$262,170,432	90.5%	\$699,897,835	37.5%
2007	2,611,746,790	2,391,434,447	220,312,343	91.6%	665,522,859	33.1%
2008	2,780,280,768	2,547,323,278	232,957,490	91.6%	688,606,681	33.8%

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

MID-PENINSULA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS
--

During fiscal year 2009-2010, the District implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect prior year's financial statements. Required disclosures are presented below.

A. *Plan Description and Funding Policy*

The District provides post employment health care benefits for all employees who terminate or retire from the District after achieving age 55 with at least 20 years of service. For employees hired before June 28, 2008, District-paid benefits are available to eligible beneficiaries.

The cost of the benefits provided by the Plan is currently being paid by the District on a pay-as-you-go basis. The long-term strategy for funding the benefits provided under the Plan is currently being evaluated.

B. *Actuarial Assumptions*

The annual required contribution (ARC) was determined as part of a July 1, 2009 actuarial valuation using the projected unit credit actuarial cost method. All projections use the mortality rates and probabilities of retirement, turnover, and disability that are used in the pension valuations done by PERS for the District. The new 2010 tables have been used. The actuarial assumptions included (a) 7.00% investment rate of return, (b) 3.00% projected annual salary increase, and (c) 5% to 9% health inflation increases. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and 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 revision at least triennially as results are compared to past expectations and new estimates are made about the future. The District's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis using a 30 year amortization period.

MID-PENINSULA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS (Continued)

C. Funding Progress and Funded Status

In accordance with the District's budget, the annual required contribution (ARC) to the Plan are based on pay-as-you-go financing. During the fiscal year ended June 30, 2010, the District has calculated and recorded the Net OPEB Obligation, representing the difference between the ARC, and contributions, as presented below:

Annual required contribution (ARC) and Annual OPEB cost	\$108,700
Contributions:	
Benefits Payment	<u>49,000</u>
Net OPEB Obligation at June 30, 2010	<u><u>\$59,700</u></u>

As of June 30, 2010, four retirees were receiving benefits.

The District's Net OPEB Obligation (NOO) is recorded in the Statement of Net Assets and is calculated as follows:

Fiscal Year	Annual OPEB Cost (AOC)	Actual Contribution	Percentage of ARC Contributed	Net OPEB Obligation
June 30, 2010	\$108,700	\$49,000	45%	\$59,700

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the October 27, 2010 actuarial study is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]
7/1/2009	\$0	\$1,046,600	\$1,046,600	0.00%	\$1,190,000	87.95%

MID-PENINSULA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 8 – DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In 1998, the District complied with the new Trust/Custodial account requirements applicable to existing governmental 457(f) plans. All amounts of compensation deferred under the plan and all assets of the plan are being held in a Trust/Custodial Fund with the District appointed as, and serving as, Trust/Custodian for the exclusive benefit of the plan participants and their beneficiaries, and the assets shall not be diverted for any other purpose. All the plan assets are no longer the rights of the District, nor subject to claims brought by general creditors of the District. Plan assets are not included in the District's financial statements.

NOTE 9 – RISK MANAGEMENT

The District has purchased commercial insurance for property, liability and workers' compensation in the insurance marketplace through Johndrow, Leveroni and Vreeburg Insurance Services, the Districts' selected insurance broker/consultant. During the fiscal year which ended June 30, 2010 the District paid \$157,435 for current year coverage.

Liabilities under these programs are accrued and charged to expense when the claims are reasonably determinable and when the existence of the District's liability is probable.

The following is a summary of the insurance policies in force carried by the District as of June 30, 2010:

Type of Coverage	Limits	Deductibles
General Liability	\$3,000,000	\$10,000
Worker's Compensation	1,000,000	
	per occurrence	None
Commercial Umbrella	10,000,000	None
Equipment	362,016	1,000
Business Automotive	1,000,000	500
Crime	250,000	250
Real Property	17,046,100	1,000

The District paid no material uninsured losses during the last three fiscal years. There were no material uninsured claims liabilities at June 30, 2010.

MID-PENINSULA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 10 – CAPITAL EXPENSE CHARGE

The Board established a “Capital Expense Charge” effective July 1, 1995. The charge is \$4.43 per month for all customers. The revenue from this source for the years ended June 30, 2010 and 2009 was \$420,303 and \$420,818 respectively.

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES

The District is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the District.

This Page Left Intentionally Blank