

**MID-PENINSULA WATER DISTRICT**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**PREPARED BY THE**  
**ADMINISTRATION AND INFORMATION SERVICES**

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**MID-PENINSULA WATER DISTRICT**

**BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**Table of Contents**

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

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## 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, 2009 and 2008. 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, 2009 and 2008 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.

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.

*Maze & Associates*

September 18, 2009

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## MID-PENINSULA WATER DISTRICT

### *MANAGEMENT'S DISCUSSION AND ANALYSIS* FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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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 \$756,578 (or 4.58%) during the fiscal year ended June 30, 2009. 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 \$125,557 (or 1.79%) from \$7,000,291 during fiscal year ended June 30, 2008 to \$6,874,734 during fiscal year ended June 30, 2009. The decrease in operating revenues was primarily due to decrease in the District's customer usage. Non operating revenues increased by \$89,976 during the year.
- The District's total expenses increased by \$96,439 (or 1.49%) from \$6,486,528 during fiscal year ended June 30, 2008 to \$6,582,967 during fiscal year ended June 30, 2009. Increases in total 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 ~

~ Notes to Financial Statements ~

~Statement of Cash Flows~

## 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**

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
<b>Assets:</b>				
Current Assets	\$ 4,384,249	\$ 4,104,836	\$ 279,413	6.81%
Capital Assets	<u>13,543,055</u>	<u>13,595,913</u>	<u>(52,858)</u>	-0.39%
Total Assets	<u>17,927,304</u>	<u>17,700,749</u>	<u>226,555</u>	1.28%
<b>Liabilities:</b>				
Current Liabilities	515,944	890,263	(374,319)	-42.05%
Long-Term Liabilities	<u>120,029</u>	<u>275,733</u>	<u>(155,704)</u>	-56.47%
Total Liabilities	<u>635,973</u>	<u>1,165,996</u>	<u>(530,023)</u>	-45.46%
<b>Net Assets:</b>				
Invested in Capital Assets, Net of Related Debt	13,286,445	13,209,361	77,084	0.58%
Unrestricted	<u>4,004,886</u>	<u>3,325,392</u>	<u>679,494</u>	20.43%
Total Net Assets	<u>\$ 17,291,331</u>	<u>\$ 16,534,753</u>	<u>\$ 756,578</u>	4.58%

### Major Factors Affecting the Statement of Net Assets

- Current assets increased by 6.81% primarily due to an increase in water service charges and few capital assets acquisitions costs.
- Capital assets decreased by 0.39% primarily due to current year capital assets acquisitions costs of \$(52,858), net of current year depreciation of \$1,010,288.

## 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>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
<b>Revenues:</b>				
Operating revenues:				
Water sales and other use charge	\$ 6,874,734	\$ 7,000,291	\$ (125,557)	-1.79%
Non-operating revenues:				
Rent, taxes, interest and other income	464,811	469,027	(4,216)	-0.90%
<b>Total Revenues</b>	<u>7,339,545</u>	<u>7,469,318</u>	<u>(129,773)</u>	-1.74%
<b>Expenses:</b>				
Operating expenses:				
Source of supply	2,339,559	2,183,216	156,343	7.16%
Pumping	309,398	315,037	(5,639)	-1.79%
Transmission and distribution	689,343	687,120	2,223	0.32%
Customer accounts	322,855	314,543	8,312	2.64%
Administrative and general	1,884,029	1,901,039	(17,010)	-0.89%
Depreciation	1,010,288	1,057,234	(46,946)	-4.44%
Non-operating expenses:				
Interest expense	27,495	28,339	(844)	-2.98%
<b>Total Expense</b>	<u>6,582,967</u>	<u>6,486,528</u>	<u>96,439</u>	1.49%
<b>Increase (Decrease) in Net Asset</b>	<u>\$ 756,578</u>	<u>\$ 982,790</u>	<u>\$ (226,212)</u>	-23.02%

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

- Operating revenues decreased by 1.79% primarily due to a decrease in water consumption by customers.
- Source of supply expenses increased by 7.16%, pumping decreased by 1.79%, transmission and distribution increased by 0.32% and customer accounts increased by 2.64% primarily due to increased water sales.

## 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, 2009 budget reflected total revenues of \$6,910,643, and total expenditures of \$6,587,593. Actual revenues and expenditures for the fiscal year ended June 30, 2009 were within 5% of the budgeted amounts.

## CAPITAL ASSETS

As of June 30, 2009, the District had \$11,036,186 invested in capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation) of \$376,313 or 3% decrease from June 30, 2008.

**TABLE 3**  
**CAPITAL ASSETS (NET OF DEPRECIATION)**  
**JUNE 30, 2009**

The following reconciliation summarizes the changes in Capital Assets.

	2009	2008	Increase (Decrease)	Percent Increase (Decrease)
Water plant	\$ 30,763,592	\$ 30,129,617	\$ 633,975	2.10%
Accumulated depreciation	(19,727,406)	(18,717,118)	(1,010,288)	5.40%
Net capital assets	<u>\$ 11,036,186</u>	<u>\$ 11,412,499</u>	<u>\$ (376,313)</u>	-3.30%

## DEBT ADMINISTRATION

As of June 30, 2009, the District had \$256,610 in debt outstanding:

**TABLE 4**  
**OUTSTANDING DEBT**  
**JUNE 30, 2009**

	2009	2008
Note payable, current portion	<u>\$ 138,298</u>	<u>\$ 129,942</u>
Note payable, net of current portion	<u>118,312</u>	<u>256,610</u>
Total Outstanding Debt	<u>\$ 256,610</u>	<u>\$ 386,552</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, 2009 AND 2008

ASSETS	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash and cash equivalents (Note 2)	\$3,574,222	\$3,275,346
Accounts receivable	592,174	718,639
Materials and supplies (Note 1E)	169,494	95,160
Deferred construction charges (Note 1I)	48,359	12,922
Prepaid expenses	<u>2,769</u>	<u>2,769</u>
Total Current Assets	<u>4,384,249</u>	<u>4,104,836</u>
Property, Plant, and Equipment (Note 3):		
Land	1,045,264	1,045,264
Water plant	30,763,592	30,129,617
Construction in progress	<u>1,461,605</u>	<u>1,138,150</u>
	33,270,461	32,313,031
Less accumulated depreciation	<u>19,727,406</u>	<u>18,717,118</u>
Total Property, Plant, and Equipment	<u>13,543,055</u>	<u>13,595,913</u>
Total Assets	<u>17,927,304</u>	<u>17,700,749</u>

(Continued)

See accompanying notes to basic financial statements

MID-PENINSULA WATER DISTRICT  
 STATEMENTS OF NET ASSETS  
 JUNE 30, 2009 AND 2008

LIABILITIES	<u>2009</u>	<u>2008</u>
<b>Current Liabilities</b>		
Accounts payable	\$187,323	\$579,727
Accrued benefits	190,323	180,594
Note payable, current portion (Note 4)	<u>138,298</u>	<u>129,942</u>
Total Current Liabilities	<u>515,944</u>	<u>890,263</u>
<b>Long-Term Liabilities</b>		
Customer deposits	1,717	19,123
Note payable, net of current portion (Note 4)	<u>118,312</u>	<u>256,610</u>
Total Long-Term Liabilities	<u>120,029</u>	<u>275,733</u>
Total Liabilities	<u>635,973</u>	<u>1,165,996</u>
<b>NET ASSETS (Note 5)</b>		
Invested in capital assets, net of related debt	13,286,445	13,209,361
Unrestricted	<u>4,004,886</u>	<u>3,325,392</u>
Total Net Assets	<u>\$17,291,331</u>	<u>\$16,534,753</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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES:		
Water service charges	\$6,449,246	\$6,550,638
Capital expense charges (Note 11)	420,818	420,376
Other revenue	<u>4,670</u>	<u>29,277</u>
Total Operating Revenues	<u>6,874,734</u>	<u>7,000,291</u>
OPERATING EXPENSES:		
Source of supply	2,339,559	2,183,216
Pumping	309,398	315,037
Transmission and distribution	689,343	687,120
Customer accounts	322,855	314,543
Administrative and general	1,884,029	1,901,039
Depreciation (Note 3)	<u>1,010,288</u>	<u>1,057,234</u>
Total Operating Expenses	<u>6,555,472</u>	<u>6,458,189</u>
NET OPERATING INCOME	<u>319,262</u>	<u>542,102</u>
NONOPERATING REVENUE (EXPENSE)		
Rent	208,029	189,564
State augmented fund	186,494	173,972
Interest income	70,288	105,491
Interest expense	<u>(27,495)</u>	<u>(28,339)</u>
Nonoperating revenue, net	<u>437,316</u>	<u>440,688</u>
CHANGES IN NET ASSETS	756,578	982,790
NET ASSETS AT BEGINNING OF YEAR	<u>16,534,753</u>	<u>15,551,963</u>
NET ASSETS AT END OF YEAR	<u>\$17,291,331</u>	<u>\$16,534,753</u>

See accompanying notes to basic financial statements



MID-PENINSULA WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$6,996,529	\$6,983,373
Other operating revenue	4,670	29,277
Payments to suppliers	(4,177,967)	(3,150,662)
Payments to employees	(1,874,300)	(1,899,118)
Cash Flows from Operating Activities	948,932	1,962,870
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Rent	208,029	189,564
Net Cash Flows From Noncapital Financing Activities	208,029	189,564
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(770,936)	(964,178)
Principal paid on notes payable	(129,942)	(122,087)
Interest paid on notes payable	(27,495)	(28,339)
Cash Flows (used for) Capital and Related Financing Activities	(928,373)	(1,114,604)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest income	70,288	105,491
Cash Flows from Investing Activities	70,288	105,491
<b>NET CASH FLOWS</b>	298,876	1,143,321
Cash and cash equivalents at beginning of year	3,275,346	2,132,025
Cash and cash equivalents at end of year	\$3,574,222	\$3,275,346
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED ) BY OPERATING ACTIVITIES</b>		
Operating income	\$319,262	\$542,102
Adjustment to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	1,010,288	1,057,234
Decrease in accounts receivable	126,465	12,359
(Increase) in other current assets	(107,002)	(15,691)
Increase (decrease) in accounts payable and unearned rental incom	(392,404)	393,572
Increase in accrued benefits	9,729	1,921
(Decrease) in deposits payable		(8,597)
(Decrease) in customer deposits	(17,406)	(20,030)
Net cash provided by operating activities	\$948,932	\$1,962,870
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>		
Contributions of capital assets	\$186,494	\$173,972

See accompanying notes to basic financial statements

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**MID-PENINSULA WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**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, 2009**

**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, 2009**

**NOTE 2 – CASH AND INVESTMENTS**

**A. *Composition***

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

	2009	2008
Petty Cash	\$400	\$400
Cash in Bank	233,890	470,173
Certificate of Deposit	160,000	
Local Agency Investment Fund	3,179,932	2,804,773
Total Cash and Investments	\$3,574,222	\$3,275,346

**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, 2009, these investments matured in an average of 235 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, 2009.

**MID-PENINSULA WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**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, 2009**

**NOTE 3 – PROPERTY, PLANT AND EQUIPMENT (Continued)**

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

	Balance at June 30, 2008	Additions	Transfers & Adjustments	Balance at June 30, 2009
Capital assets not being depreciated:				
Land	\$1,045,264			\$1,045,264
Construction in progress	1,138,150	\$821,046	(\$497,591)	1,461,605
Total capital assets not being depreciated	<u>2,183,414</u>	<u>821,046</u>	<u>(497,591)</u>	<u>2,506,869</u>
Capital assets being depreciated:				
Transmission and distribution	23,651,678	111,563	62,713	23,825,954
Pumping plant	5,709,834	24,821	434,878	6,169,533
Source of supply	649,601			649,601
Intangible asset	118,504			118,504
Total capital assets being depreciated:	<u>30,129,617</u>	<u>136,384</u>	<u>497,591</u>	<u>30,763,592</u>
Less accumulated depreciation for:				
Transmission and distribution	15,292,667	807,732	15,678	16,116,077
Pumping plant	2,754,320	174,818		2,929,138
Source of supply	608,278	8,876		617,154
Intangible asset	61,853	3,184		65,037
Total accumulated depreciation	<u>18,717,118</u>	<u>\$994,610</u>	<u>\$15,678</u>	<u>19,727,406</u>
Net capital assets being depreciated	<u>11,412,499</u>			<u>11,036,186</u>
Total capital assets, net	<u>\$13,595,913</u>			<u>\$13,543,055</u>

**MID-PENINSULA WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 4 – NOTE PAYABLE**

**A. Current Year Transactions and Balances**

	Balance	Retirements	Balance	Due within
	June 30, 2008		June 30, 2009	one year
Note payable	\$386,552	(\$129,942)	\$256,610	\$138,298

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
2010	\$138,298	\$12,122
2011	118,312	15,452
Total payments due	\$256,610	\$27,574

**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.



**MID-PENINSULA WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**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, 2009, are summarized as follows:

	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	55
Monthly benefits, as a % of annual salary	1.426%-2.418%
Required employee contribution rates	7%
Required employer contribution rates	11.198%

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.

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.

**MID-PENINSULA WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 6 – DEFINED BENEFIT PENSION PLAN (Continued)**

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 \$438,383 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 12 years. The required actuarial contributions and related rates for the year ended June 30 were as follows:

	Contribution Amount	Contribution Rate
2007	\$105,649	10.815%
2008	123,187	10.665%
2009	137,178	11.198%

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
2005	\$2,891,460,651	\$2,588,713,000	\$302,747,651	89.5%	\$755,046,679	40.1%
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%

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

**NOTE 7 – OTHER POST EMPLOYMENT BENEFITS**

As of June 30, 2009, the Board has designated \$160,000 for Other Post Employment Benefits for future use. The money is deposited in a certificate of deposits account.

**MID-PENINSULA WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**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, 2009 the District paid \$131,692 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, 2009:

<u>Type of Coverage</u>	<u>Limits</u>	<u>Deductibles</u>
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	15,250,600	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, 2009.

**MID-PENINSULA WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 10 – CONTRIBUTED CAPACITY CHARGES**

The District has set up a fund internally called “Contributed Capacity Charge Fund” into which all cash capacity charges collected are recorded. These funds are used each year for facilities improvements or additions. It is expected that all the money will be spent each year. As projects are completed, the amount spent is transferred from the Contributed Capacity Charge Fund to Contributions in Aid of Construction. Capacity in kind (e.g. facilities paid directly by developers or customers and given to the District) is recorded directly in Contributions in Aid of Construction. For the years ended June 30, 2009 and 2008, capacity charges received were \$0 and \$66,069, respectively, and were spent before each year-end.

**NOTE 11 – 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, 2009 and 2008 was \$420,818 and \$420,376 respectively.

**NOTE 12 – 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.