

**MID-PENINSULA WATER
DISTRICT**

AUDIT REPORT

YEARS ENDED JUNE 30, 2012 AND 2011



Vargas and Company
certified public accountants

MID-PENINSULA WATER DISTRICT
June 30, 2012 and 2011

Table of Contents

	<u>Page(s)</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	2 – 6
Basic Financial Statements	
Statements of Net Assets	7
Statements of Revenues, Expenses, and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to the Basic Financial Statements	10 – 20



Vargas and Company

certified public accountants

INDEPENDENT AUDITORS' REPORT


To the Board of Directors of
Mid-Peninsula Water District
Belmont, California

We have audited the accompanying financial statements of Mid-Peninsula Water District (the "District") as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Mid-Peninsula Water District as of June 30, 2011, were audited by other auditors whose report dated August 29, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, except for any potential residual of the matter discussed in Note 10 to the financial statements, the financial statements referred to above present fairly, in all material respects, the financial position of Mid-Peninsula Water District as of June 30, 2012, and changes in the financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


San Jose, California
December 14, 2012

601 North First Street / San Jose, California 95112 / (408) 298-1700 / Fax (408) 293-9598

Management's Discussion and Analysis
(Required Supplementary Information)

MID-PENINSULA WATER DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2012

This section of the Mid-Peninsula Water District's (the "District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2012. Please read it in conjunction with the District's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The District's Net Assets increased by \$13,868 during the fiscal year ended June 30, 2012. This increase is mainly due to revenue exceeding expenses.
- The District's operating revenues increased by \$883,071 or 12%. The increase is primarily due to an increase in the Customer usage.
- Non-operating revenues increased by \$351,312 or 97% mainly due to the Insurance claim reimbursement and Miscellaneous completed projects. The Insurance claim reimbursement of \$250,000 was due to the defalcation. The Miscellaneous completed projects of \$57,280 was due to projects completed in that year.
- Operating expenses increased \$1.5 million as follows: Source of supply of \$1 million; Administrative and general of \$178,992; and depreciation of \$104,859.

USING THIS ANNUAL REPORT

This annual report consists of two parts: Management's Discussion and Analysis and Financial Statements. The Financial Statements also include notes that explain in more detail some of the information contained in those statements.

Required Financial Statements

District financial statements report financial information about the District using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all District assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

MID-PENINSULA WATER DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2012

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the District operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District cash receipts, cash disbursements and net changes in cash resulting from operating, investing, and capital and noncapital financing activities. It provides answers to questions such as, "Where did the cash come from?" "Cash was used for what purpose?" and "What was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District finances is whether or not the District's overall financial position has improved or deteriorated. The Statement of Net Assets and the Statement of Revenues and Expenses and Changes in Net Assets report information about the District activities in a way that will help answer this question. These two statements report the net assets of the District and changes in them. You can think of District net assets – the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in District net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider include changes in economic conditions, population growth, and new or changed legislation.

Net Assets

Statements of Net Assets

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Current and other assets	\$ 4,195,791	\$ 3,830,461	\$365,330	10%
Capital assets, net	<u>14,236,522</u>	<u>14,707,063</u>	<u>(470,541)</u>	<u>(3%)</u>
Total assets	<u>18,432,313</u>	<u>18,537,524</u>	<u>(105,211)</u>	<u>(0.57%)</u>
Current and other liabilities	352,010	457,923	(105,913)	(23%)
Long-term liabilities	<u>385,077</u>	<u>398,243</u>	<u>(13,166)</u>	<u>(3%)</u>
Total liabilities	<u>737,087</u>	<u>856,166</u>	<u>(119,079)</u>	<u>(14%)</u>
Invested in capital assets, net	14,236,522	14,707,063	(470,541)	(3%)
Unrestricted net assets	<u>3,458,704</u>	<u>2,974,295</u>	<u>484,409</u>	<u>16%</u>
Total net assets	<u>\$17,695,226</u>	<u>\$17,681,358</u>	<u>\$13,868</u>	<u>0.08%</u>

MID-PENINSULA WATER DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2012

The District's net assets increased \$13,868 or .08%. Factors contributing to this increase are mainly from:

- Current and other assets increased 10% due to an increase in Accounts Receivable.
- Current and other liabilities decreased 23% due to Vacation and Sick Accrual accounting.

Changes in Net Assets

Changes in the District's net assets can be determined by reviewing the following condensed Statements of Revenue, Expenses, and Changes in Net Assets.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30, 2012	Year Ended June 30, 2011	Amount Increase (Decrease)	Percent Increase (Decrease)
Operating revenue	\$ 8,315,434	\$ 7,432,363	\$ 883,071	12%
Non-operating revenue	<u>712,701</u>	<u>361,389</u>	<u>351,312</u>	97%
Total revenues	<u>9,028,135</u>	<u>7,793,752</u>	<u>1,234,383</u>	16%
Operating expenses	9,014,267	7,487,667	1,526,600	20%
Non-operating expenses	<u>-</u>	<u>2,688</u>	<u>(2,688)</u>	100%
Total expenses	<u>9,014,267</u>	<u>7,490,355</u>	<u>1,523,912</u>	20%
Change in net assets	13,868	303,397	(289,529)	(95%)
Net assets, beginning	<u>17,681,358</u>	<u>17,377,961</u>	<u>303,397</u>	2%
Net assets, ending	<u>\$17,695,226</u>	<u>\$17,681,358</u>	<u>\$13,868</u>	0.08%

The District's operating revenues increased from the previous year by \$1,234,383 or 16% due primarily to additional usage fees to governmental units. Non-operating revenue increased by \$351,312 or 97% over the previous year due primarily to an insurance payment made to the District of \$250,000 based on a defalcation by the previous accounting manager (the total amount is unknown, but it would be considered an expense in any event), higher rent income and higher State funds.

The District's operating expenses increased from the previous year by \$1,526,600 or 20% due to higher water service charges.

MID-PENINSULA WATER DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2012

BUDGETARY HIGHLIGHTS

In its commitment to fiscal responsibility, the District adopts an annual budget each year that outlines the major elements of forthcoming operations and capital improvements.

CAPITAL ASSETS

At the end of fiscal year 2012 the District had \$14,236,522 (net of accumulated depreciation) invested in capital assets. The following table is presented below to illustrate changes from the prior year:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Land	\$ 1,045,264	\$ 1,045,264	\$ -	0%
Construction in progress	181,715	34,046	147,669	434%
Utility plant in service	35,631,785	35,132,870	498,915	1%
Vehicles	167,294	167,294	-	0%
Machinery & equipment	6,219	6,219	-	0%
Computer system	<u>125,270</u>	<u>125,270</u>	<u>-</u>	0%
Capital asset at cost	37,157,547	36,510,963	646,584	2%
Less accumulated depreciation	<u>(22,921,025)</u>	<u>(21,803,900)</u>	<u>1,117,125</u>	5%
Capital assets, net	<u>\$14,236,522</u>	<u>\$14,707,063</u>	<u>(\$470,541)</u>	(3%)

RATES AND OTHER ECONOMIC FACTORS

The District is governed in part by provisions of the State Water Resources Control Board that require rate-based revenues must cover the costs of operations, maintenance and repairs (OM&R) and capital improvement projects. The District is not subject to general economic conditions such as increases or reductions in property tax values or other types of revenues, such as sales taxes, that vary with economic conditions. Accordingly, the District sets its rates to its users to cover the costs of OM&R, capital improvement projects, plus any increments for known or anticipated changes in program costs.

MID-PENINSULA WATER DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2012

REQUESTS FOR FINANCIAL INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of District finances, and demonstrate District fiscal accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the General Manager, Tammy Rudock, 3 Dairy Lane, Belmont, CA 94002. (650) 591-8941.

Basic Financial Statements

MID-PENINSULA WATER DISTRICT
Statements of Net Assets
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 2,879,560	\$ 3,007,864
Accounts receivables	1,067,662	644,623
Materials and supplies	172,768	177,974
Prepaid expenses and other assets	<u>7,567</u>	<u>-</u>
Total Current Assets	4,127,557	3,830,461
Net OPEB asset	68,234	-
Capital assets, net	<u>14,236,522</u>	<u>14,707,063</u>
TOTAL ASSETS	<u>\$ 18,432,313</u>	<u>\$ 18,537,524</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 53,153	\$ 428,644
Accrued benefits	<u>-</u>	<u>29,279</u>
Total Current Liabilities	<u>53,153</u>	<u>457,923</u>
Other Liabilities		
Deferred revenue	<u>298,857</u>	<u>-</u>
Total Other Liabilities	<u>298,857</u>	<u>-</u>
Long-Term Liabilities		
Customer deposits	-	9,824
Deferred construction charges	-	69,457
Accrued benefits	385,077	199,142
Net OPEB obligation	<u>-</u>	<u>119,820</u>
Total Long-Term Liabilities	<u>385,077</u>	<u>398,243</u>
Total Liabilities	<u>737,087</u>	<u>856,166</u>
Net Assets		
Invested in capital assets, net of related debt	14,236,522	14,707,063
Unrestricted	<u>3,458,704</u>	<u>2,974,295</u>
Total Net Assets	<u>17,695,226</u>	<u>17,681,358</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,432,313</u>	<u>\$ 18,537,524</u>

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

MID-PENINSULA WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Water service charges	\$ 8,275,584	\$ 7,417,787
Capital expense charges	7	324
Other revenue	<u>39,843</u>	<u>14,252</u>
Total Operating Revenues	<u>8,315,434</u>	<u>7,432,363</u>
OPERATING EXPENSES		
Source of supply	3,841,333	2,803,638
Pumping	406,123	334,123
Transmission and distribution	725,563	660,202
Customer accounts	449,208	381,515
Administrative and general	2,474,915	2,295,923
Depreciation	<u>1,117,125</u>	<u>1,012,266</u>
Total Operating Expenses	<u>9,014,267</u>	<u>7,487,667</u>
OPERATING INCOME (LOSS)	<u>(698,833)</u>	<u>(55,304)</u>
NON-OPERATING REVENUES (EXPENSES)		
Rent	189,067	157,126
State augmented fund	205,109	194,101
Insurance Claim Reimbursement	250,000	-
Interest income	11,245	10,162
Misc. - Completed Projects	57,280	-
Interest expense	<u>-</u>	<u>(2,688)</u>
Total Non-Operating Revenues (Expenses)	<u>712,701</u>	<u>358,701</u>
CHANGE IN NET ASSETS	13,868	303,397
NET ASSETS, BEGINNING OF YEAR	<u>17,681,358</u>	<u>17,377,961</u>
NET ASSETS, END OF YEAR	<u>\$ 17,695,226</u>	<u>\$ 17,681,358</u>

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

MID-PENINSULA WATER DISTRICT
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 7,252,819	\$ 7,330,898
Other operating revenue	39,843	14,252
Payments to suppliers	(4,742,701)	(4,036,419)
Payments to employees	<u>(2,744,382)</u>	<u>(2,209,270)</u>
Net cash provided by operating activities	<u>(194,421)</u>	<u>1,099,461</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Rent	189,067	157,126
State augmented fund	205,109	194,101
Insurance Claim Reimbursement	<u>250,000</u>	<u>-</u>
Net Cash provided by Noncapital Financing Activities	<u>644,176</u>	<u>351,227</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(646,584)	(973,123)
Misc. - Completed Projects	57,280	-
Principal paid on notes payable	-	(118,312)
Interest paid on notes payable	<u>-</u>	<u>(2,688)</u>
Net Cash used by Capital and Related Financing Activities	<u>(589,304)</u>	<u>(1,094,123)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>11,245</u>	<u>10,162</u>
Net Cash provided by Investing Activities	<u>11,245</u>	<u>10,162</u>
Net Increase in Cash and Cash Equivalents	(128,304)	366,727
Cash and cash equivalents at beginning of year	<u>3,007,864</u>	<u>2,641,137</u>
Cash and cash equivalents at end of year	<u>\$ 2,879,560</u>	<u>\$ 3,007,864</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (698,833)	\$ (55,304)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	1,117,125	1,012,266
Decrease (increase) in assets		
Accounts receivable	(423,039)	(87,213)
Materials and supplies	5,206	(15,257)
Prepaid expenses and other assets	(7,567)	-
Due from contractors	-	29,109
Net OPEB asset	(68,234)	-
Increase (decrease) in liabilities		
Accounts payable	(375,491)	59,750
Accrued benefits	156,656	26,533
Deferred revenue	298,857	-
Customer deposits	(9,824)	-
Deferred construction charges	(69,457)	69,457
Net OPEB obligation	<u>(119,820)</u>	<u>60,120</u>
Net cash provided by operating activities	<u>\$ (194,421)</u>	<u>\$ 1,099,461</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Contributions of capital assets	<u>\$ -</u>	<u>\$ 194,101</u>

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

Notes to the Basic Financial Statements

MID-PENINSULA WATER DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2012

NOTE 1 REPORTING ENTITY

Mid-Peninsula Water District (the District) is a separate political subdivision of the State of California. The District was established in July 2, 1929 as the Belmont County Water District and changed its name in July 1, 2000. 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The District operates as an enterprise fund. Enterprise funds are accounted for using economic resources measurement focus and the accrual basis of accounting. Assets and revenues are recognized or recorded when they are earned, and liabilities and expenses are recognized or recorded when the related obligations are incurred. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The District also applies Financial Accounting Standards Board (FASB) statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described below.

Fund Accounting Classification

The financial statements of the District are presented as those of an enterprise fund under the broad category of funds called proprietary funds, which would also include internal service funds. Enterprise fund account for operations that are financed and operated in a manner similar to private business enterprise, where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition and capital improvement of the physical plant facilities required for providing these goods and services are financed from existing cash resources, cash flow from operations, the issuances of bonds, and contributed capital.

MID-PENINSULA WATER DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Cash and Cash Equivalents

The District's 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. These investments, which, among other provisions, stipulates the type, mix, quality, and duration of investments and requires financial dealers and institutions to be selected based on stringent criteria designed to minimize the risk of loss.

Materials and supplies

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

Compensated Absences

Vested or accumulated vacation, sick leave and compensated time off are recorded as expenses and liabilities as the benefit accrue to employees of the District. The liability account is reduced as employees take the time off and are paid for the accrued liability.

Capital Assets

Capital assets 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 useful lives are:

Utility plant	50 years
Vehicles	5 years
Machinery and equipment	7 years
Computer system	5 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 the Basic Financial Statements
Year Ended June 30, 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 requires water districts to report capacity charges collected and spent separately from operating revenue and expense and any fees unspent at year-end are shown in a separate equity fund.

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.

Equity Classifications

Equity is classified as net assets and divided into three components:

- *Invested In Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation. The District has no restricted net assets as of June 30, 2012.
- *Unrestricted Net Assets* – This category represents net assets of the District, not restricted for any project or other purpose.

MID-PENINSULA WATER DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Use of Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The District has evaluated subsequent events through December 14, 2012.

NOTE 3 CASH AND INVESTMENTS

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

	<u>2012</u>	<u>2011</u>
LAIF general account	\$2,509,152	\$2,499,123
Cash in bank	370,008	428,150
Certificate of Deposit	-	80,191
Petty cash	<u>400</u>	<u>400</u>
Total	<u>\$2,879,560</u>	<u>\$3,007,864</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation.

The District is a participant in the Local Agency Investment Fund (LAIF) which 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 market 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. The LAIF portfolio include collateralized mortgage obligations, mortgage 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.

MID-PENINSULA WATER DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2012

NOTE 3 CASH AND INVESTMENTS – Continued

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 investment in the California Local Agency Investment Fund is not rated.

NOTE 4 CAPITAL ASSETS

The capital asset activity for the year ended June 30, 2012 is as follows:

	<u>Balance at</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2012</u>
Capital assets not being depreciated				
Land	\$ 1,045,264	\$ -	\$ -	\$ 1,045,264
Construction in progress	<u>34,046</u>	<u>347,805</u>	<u>200,136</u>	<u>181,715</u>
Total capital assets not being depreciated	<u>1,079,310</u>	<u>347,805</u>	<u>200,136</u>	<u>1,226,979</u>
Capital assets being depreciated				
Utility plant in service	35,132,870	498,915	-	35,631,785
Vehicles	167,294	-	-	167,294
Machinery & equipment	6,219	-	-	6,219
Computer system	<u>125,270</u>	<u>-</u>	<u>-</u>	<u>125,270</u>
Total capital assets being depreciated	<u>35,431,653</u>	<u>498,915</u>	<u>-</u>	<u>35,930,568</u>
Less accumulated depreciation for:				
Utility plant in service	21,572,911	1,082,780	-	22,655,691
Vehicles	100,388	33,457	-	133,845
Machinery & equipment	5,331	888	-	6,219
Computer system	<u>125,270</u>	<u>-</u>	<u>-</u>	<u>125,270</u>
Total accumulated depreciation	<u>21,803,900</u>	<u>1,117,125</u>	<u>-</u>	<u>22,921,025</u>
Net capital assets being depreciated	<u>13,627,753</u>			<u>13,009,543</u>
Total capital assets, net	<u>\$14,707,063</u>			<u>\$14,236,522</u>

MID-PENINSULA WATER DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2012

NOTE 5 DEFINED BENEFIT PENSION PLAN

District employees are eligible to participate in pension plans offered by California Public Service Employees Retirement System (CALPERS). The District's employees participate in the Miscellaneous 2% at 55 Risk Pool, a cost-sharing multiple-employer defined benefit pension plan administered by CALPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the state statutes, as legislatively amended, within the Public Employees' Retirement Law. 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. CALPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CALPERS annual financial report may be obtained from the CALPERS Executive Office at 400 P Street, Sacramento, CA 95814.

Active plan members are required to contribute 7% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CALPERS Board of Administration. The contribution requirements of the plan members are established by state statute. The current year's required contribution was determined as part of the June 30, 2009 actuarial valuation. The required employer contribution rate for fiscal year 2011-2012 was 13.604% of payroll. The District's contributions to CALPERS for the fiscal years ending June 30, 2012, 2011, and 2010 were \$137,566, \$162,274, and \$145,410, respectively

A summary of principal assumptions and methods used to determine the contractually required contribution is shown below for the cost-sharing multiple-employer defined benefit plan:

Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	18 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

MID-PENINSULA WATER DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2012

NOTE 5 DEFINED BENEFIT PENSION PLAN – Continued

The Pool's funding progress is as follows:

Valuation Date	Accrued Liabilities (AL)	Actuarial Value of Assets (AVA)	Unfunded Liabilities (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL as a % of Payroll
6/30/09	\$3,104,798,222	\$2,758,511,101	\$346,287,121	88.9%	\$742,981,488	46.6%
6/30/10	3,309,064,934	2,946,408,106	362,656,828	89.0%	748,401,352	48.5%
6/30/11	3,619,835,876	3,203,214,899	416,620,977	88.5%	759,263,518	54.9%

NOTE 6 OTHER POST EMPLOYEMENT BENEFITS

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.

On April 28, 2011, the District entered into an agreement with the Public Agency Retirement Services (PARS) to retain PARS as Trust Administrator to the PARS Public Agencies Post-Retirement Health Care Plan Trust. The District has made a contribution to the plan and as of June 30, 2012, the balance of that account is \$257,032.

Nonetheless, during the year ended June 30, 2012, the District continued to make direct payments for the retirees' health care insurance premium on a pay-as-you-go basis which amounted to \$52,884.

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 reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least triennial 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 level percentage of projected payroll on a closed basis using a 30 year amortization period.

MID-PENINSULA WATER DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2012

NOTE 6 OTHER POST EMPLOYMENT BENEFITS – Continued

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, 2012, the District has calculated the Net OPEB Obligation, representing the difference between the ARC, contributions, as presented below:

Net OPEB obligation at June 30, 2010	\$ 59,700
Annual OPEB Cost:	
Annual required contribution (ARC)	111,646
Interest on net OPEB obligation	4,179
Adjustment to ARC	(959)
Total Annual OPEB Cost	114,866
Less contributions:	
Benefit payment	(54,746)
Increase in net OPEB obligation	<u>60,120</u>
Net OPEB obligation at June 30, 2011	119,820
Annual OPEB Cost:	
Annual required contribution (ARC)	115,400
Interest on net OPEB obligation	3,983
Adjustment to ARC	(914)
Total Annual OPEB Cost	118,469
Less contributions:	
Contribution to PARS trust	(257,032)
Benefit payment	(52,884)
Total Contributions	<u>(309,916)</u>
Decrease in net OPEB obligation/(asset)	<u>(188,054)</u>
Net OPEB obligation/(asset) at June 30, 2012	<u>(\$68,234)</u>

As of June 30, 2012, four retirees were receiving benefits.

MID-PENINSULA WATER DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2012

NOTE 6 OTHER POST EMPLOYMENT BENEFITS – Continued

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

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation/ (Asset)</u>
June 30, 2010	\$108,700	\$ 49,000	45%	\$ 59,700
June 30, 2011	114,866	54,746	48%	119,820
June 30, 2012	118,469	309,916	254%	(68,234)

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:

<u>Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Accrued Liability (B)</u>	<u>Unfunded Liability (A - B)</u>	<u>Funded Ratio (A / B)</u>	<u>Covered Payroll (C)</u>	<u>Unfunded Liability as a % of Covered Payroll [(A - B) / C]</u>
7/1/09	\$ -	\$1,046,600	\$1,046,600	0.00%	\$1,190,000	46.6%

NOTE 7 DEFERRED COMPENSATION PLAN

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

In 1998, the District complied with the 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.

MID-PENINSULA WATER DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2012

NOTE 8 RISK MANAGEMENT

The District has purchased commercial insurance for property, liability and workers' compensation through an insurance broker/consultant. During the fiscal year which ended June 30, 2012 the District paid \$116,467 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, 2012:

<u>Type of Coverage</u>	<u>Limits</u>	<u>Deductible</u>
General Liability	\$3,000,000	\$10,000
Workers' Compensation	1,000,000	None
	per occurrence	
Commercial Umbrella	10,000,000	None
Equipment	362,016	1,000
Business Automotive	1,000,000	500
Crime	250,000	10,000
Real Property	18,335,600	1,000

NOTE 9 COMMITMENTS AND CONTINGENT LIABILITIES

The District is exposed to various risks of loss related to damage and destruction of property, errors and omissions, and natural disasters. The District is also a party to various legal proceedings which occur in governmental operations. Management believes these legal proceedings are not likely to have a material adverse effect on the funds of the District.

MID-PENINSULA WATER DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2012

NOTE 10 LOSS OF FUNDS

A former District employee responsible for the general ledger and bank account was able to divert funds to a personal bank account for personal uses. This appears to have occurred over a period of a few years. The District discovered the fraud in late 2011 when the employee went out on medical leave.

The District immediately obtained a financial audit from an external certified public accounting firm, other than the one that prepared the District's annual financial statements from FY 2006-07 through that time. The conclusion after the extensive review and accounting was that the funds diverted may have exceeded by a small margin the \$250,000 limit of insurance coverage, but the District has been reimbursed the full \$250,000 by its insurance carrier. This amount is included as other income in the financial statements.

In addition, in 2012 the District retained Peter Hughes, a Certified Public Accountant, who specializes on the subject of financial management and best practices for financial controls for public agencies, to examine its system of financial management and to issue recommendations. Mr. Hughes set forth eleven (11) recommendations for the District to consider to strengthen its internal financial controls in his report dated December 20, 2012, and these recommendations have or are in the process of being implemented. Moreover, the District has extended its contract with Mr. Hughes to conduct a follow up review of its system of financial internal controls in 2013.