CARMICHAEL WATER DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

Leaf & Cole, LLP
Certified Public Accountants

CARMICHAEL WATER DISRICT
FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Steven W. Northcote, C.P.A.
Michael S. Schreibman, C.P.A.
Michael J. Zizzi, C.P.A.
Julie A. Firl, C.P.A.
Nicholas M. Gines, C.P.A.

Members
American Institute of Certified Public Accountants
California Society of Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Carmichael Water District
7837 Fair Oaks Boulevard
Carmichael, California 95608

We have audited the accompanying statements of net assets of Carmichael Water District (the "District") as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 2 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.

Leaf & Cole LLP

San Diego, California
September 13, 2012

2810 Camino Del Rio South, Suite 200, San Diego, California 92108-3820
619.294.7200, 619.294.7077 fax, www.leaf-cole.com, leafcole@leaf-cole.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Carmichael Water District's financial performance provides an overview of the District's financial activities for the years ended June 30, 2012 and 2011. Please read it in conjunction with the District's financial statements which follow this section.

Financial Statements

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The District's financial statements include four components:

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

The statements of net assets include all of the District's assets and liabilities, with the difference between the two reported as net assets. Net assets are displayed in three categories:

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

The statements of net assets provide the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

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

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

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

This statement differs from the statement of revenues, expenses and changes in net assets by only accounting for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

Financial Highlights

- The District's net assets decreased by $26,312 or 0.14 percent.
- During the year ended June 30, 2012, the District's total revenues increased to $9,144,720 or 5.52 percent, and total expenses decreased to $9,171,032 or 7.93 percent.

Financial Analysis of the District

Net Assets

The following is a summary of the District's statements of net assets at June 30, 2012 and 2011, respectively:

	2012	2011	Dollar Change	Percentage Change
Current assets	$ 3,616,224	$ 2,866,753	$ 749,471	26.14
Capital assets	41,414,389	43,493,247	(2,078,858)	(4.78)
Other noncurrent assets	2,978,814	2,981,613	(2,799)	(0.09)
Total Assets	$ 48,009,427	$ 49,341,613	$ (1,332,186)	(2.70)
Current liabilities	2,021,250	2,056,993	(35,743)	(1.74)
Noncurrent liabilities	27,619,422	28,889,553	(1,270,131)	(4.40)
Total Liabilities	$ 29,640,672	$ 30,946,546	$ (1,305,874)	(4.22)
Net Assets:				
Invested in capital assets, net of related debt	$ 13,212,659	$ 13,904,074	$ (691,415)	(4.97)
Restricted	2,482,788	2,452,846	29,942	1.22
Unrestricted	2,673,308	2,038,147	635,161	31.16
Total Net Assets	$ 18,368,755	$ 18,395,067	$ (26,312)	(0.14)

As you can see from the table above, net assets decreased by $26,312 from fiscal year 2011 to 2012. Looking more carefully you will note that net assets invested in capital assets, net of related debt decreased $691,415 in fiscal year 2012. This decrease is the result of depreciation expense exceeding the principal paid on the District's noncurrent liabilities, and the amount of capital investment in the current year.

Restricted net assets increased by $29,942 from fiscal year 2011 to 2012.

Unrestricted net assets (those that can be used to finance day-to-day operations) increased $635,161 due to the change in net assets adjusted for the current year's depreciation expense.

Change in Net Assets

The following is a summary of the District's change in net assets for the years ended June 30, 2012 and 2011, respectively:

	2012	2011	Dollar Change	Percentage Change
Revenues:				
Operating revenue	$ 8,939,530	$ 8,160,204	$ 779,326	9.55
Nonoperating revenue	205,190	506,202	(301,012)	(59.46)
Total Revenues	9,144,720	8,666,406	478,314	5.52
Expenses:				
Depreciation and amortization expense	3,216,546	3,530,755	(314,209)	(8.90)
Other operating expense	4,765,375	5,140,518	(375,143)	(7.30)
Nonoperating expense	1,189,111	1,290,117	(101,006)	(7.83)
Total Expenses	9,171,032	9,961,390	(790,358)	(7.93)
Change in Net Assets	$ (26,312)	$ (1,294,984)	$ 1,268,672	97.97

A closer examination of the changes in net assets reveals that the District's operating revenues increased by $779,326 in fiscal year 2012 as a result of the customer billing rate restructuring effective January 1, 2012 and increased water output for the last four (4) months of the fiscal year. Nonoperating revenues decreased by $301,012 in fiscal year 2012 due to decreased capital contributions. Operating expenses exclusive of depreciation and amortization decreased $375,143 in fiscal year 2012 due to a reduced staff headcount used in carrying out operations, in combination with management reducing the operating budget for discretionary and non-discretionary purchases and services wherever possible.

Capital Assets

Capital assets consist of the following at June 30, 2012 and June 30, 2011, respectively:

	2012	2011	Dollar Change	Percentage Change
Capital Assets Not Being Depreciated:				
Land, franchises and water rights	$ 545,701	$ 545,701	$ -	-
Construction-in-progress	297,087	300,200	(3,113)	(1.04)
Total Capital Assets Not Being Depreciated	842,788	845,901	(3,113)	(0.37)
Capital Assets Being Depreciated:				
Pumping plant	35,785,790	35,690,692	95,098	0.27
Transmission and distributions	23,326,183	22,854,086	472,097	2.07
Buildings and improvements	9,840,985	9,826,449	14,536	0.15
Vehicles and equipment	6,782,738	6,391,057	391,681	6.13
Furniture and fixtures	1,659,671	1,630,791	28,880	1.77
Total Capital Assets Being Depreciated	77,395,367	76,393,075	1,002,292	1.31
Less: Accumulated depreciation	(36,823,766)	(33,745,729)	(3,078,037)	9.12
Net Capital Assets Being Depreciated	40,571,601	42,647,346	(2,075,745)	(4.87)
Net Capital Assets	$ 41,414,389	$ 43,493,247	$ (2,078,858)	(4.78)

The net additions of capital assets being depreciated for fiscal year 2012 totaled $1,002,292. Capital asset additions consisted of water meters, service line replacements, pumping plant upgrades and miscellaneous capital improvements.

Long-Term Debt

The following is a summary of long-term debt at June 30, 2012 and 2011, respectively:

	2012	2011	Dollar Change	Percentage Change
2010 Certificates of participation	$ 26,730,000	$ 27,750,000	$ (1,020,000)	(3.68)
Unamortized premium	1,568,783	1,656,958	(88,175)	(5.38)
Deferred amount on refunding	(1,102,303)	(1,167,949)	65,646	(5.62)
Net, 2010 Certificates of participation	27,196,480	28,239,009	(1,042,529)	(3.69)
2010 Subordinate installment sale agreement	1,005,250	1,399,599	(394,349)	(28.18)
Total Long-Term Debt	$ 28,201,730	$ 29,638,608	$ (1,436,878)	(4.85)

The District reduced its debt outstanding by $1,436,878 during the year ended June 30, 2012. No new debt has been issued.

Economic Factors

The District's Board of Directors and management consider many factors when setting the fiscal year budget. In a comparison of 2012 and 2011 budgets, while the expenses remained relatively similar, water revenues were down. Several economic factors contributed to this revenue shortfall; weather, installation of water meters; economy; and customers conserving water. The District reviewed the current water usage and rate structure and determined that there was a significant revenue shortfall. The District's reserves have been depleted. The District did not anticipate receiving enough revenue to cover operating expenses or to meet the legal required debt service obligations for FY 2011-12. The fiscal year budget was cut an additional $972,245 to help with this shortfall. Even with severe budget cut and layoffs, on January 1, 2012 the Board of Directors approved an 18% revenue increase.

Long-Term Infrastructure Liability and Planning

From 1963 to 1993 the District followed a strategy of minimizing rate increases which led to a significant deterioration of infrastructure and a high level of deferred maintenance. Following that period the extensive maintenance required to keep the infrastructure from failing added to the requirement for significant rate increases for all but the last couple of years.

Recognizing that aging infrastructure creates known and predictable maintenance requirements, the District completed a 100 year master plan in September 2003. That analysis showed that deferred maintenance results in significantly higher total project costs and that financing requirements can easily double the cost of piping and other maintenance projects.

Recognizing that Carmichael is a relatively built-out community a concept of planned system maintenance (PSM) rather that capital improvement was also adopted by the District.

Three strategies exist to meet these known requirements. First, the District could defer the financial planning. Second, the District could defer financial planning and use bonds to spread the increases over a thirty year period which would double the total payments for the projects. Or, third, the District could recognize the liability caused by the known aging of the infrastructure and build sinking funds to permit the work to be done with interest earned rather than interest paid. Over the long-term, the third option will provide the lowest total life-cycle cost for water service to our community.

Long-Term Infrastructure Liability and Planning (Continued)

The Board of Directors has adopted the third strategy along with the 100 year master plan and the PSM concept. However, the Board has not yet taken specific action to establish the annual amounts to be set aside for the sinking fund. The District will be updating its Master Plan and Financial Business Plan during the next rate study period, scheduled to start in 2013. To that end, the District is currently working to integrate its financial and facility management systems to get the maximum service life from out facilities and make the soundest financial decisions.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the District at 7837 Fair Oaks Blvd., Carmichael, California 95609, or call (916) 483-2452.

CARMICHAEL WATER DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011

ASSETS

	2012	2011
Current Assets: (Notes 1 and 2)		
Cash and cash equivalents	$ 1,522,509	$ 1,107,836
Accounts receivable	1,670,433	1,288,539
Accounts receivable - other	18,866	12,221
Accrued interest receivable	1,629	3,841
Inventory	343,599	324,334
Prepaid expense	59,188	129,982
Total Current Assets	3,616,224	2,866,753
Noncurrent Assets:		
Restricted Assets: (Notes 1, 2 and 3)		
Restricted cash and cash equivalents	2,482,788	2,452,846
Total Restricted Assets	2,482,788	2,452,846
Capital Assets, net (Notes 1 and 4)	41,414,389	43,493,247
Other Noncurrent Assets: (Notes 1 and 5)		
Investment in electrical power	181,451	187,448
Deferred bond issue costs	314,575	341,319
Total Other Noncurrent Assets	496,026	528,767
Total Noncurrent Assets	44,393,203	46,474,860
TOTAL ASSETS	$ 48,009,427	$ 49,341,613

(Continued)

The accompanying notes are an integral part of the financial statements.

CARMICHAEL WATER DISTRICT
STATEMENTS OF NET ASSETS (CONTINUED)
JUNE 30, 2012 AND 2011

LIABILITIES AND NET ASSETS

	2012	2011
Current Liabilities: (Notes 1, 6 and 7)		
Accounts payable	$ 225,994	$ 300,595
Accrued expenses and other liabilities	49,939	41,427
Deferred revenue	95,572	97,646
Accrued interest payable	196,474	201,562
Current portion of noncurrent liabilities	1,453,271	1,415,763
Total Current Liabilities	2,021,250	2,056,993
Noncurrent Liabilities: (Notes 1, 6, 7 and 8)		
Accrued compensated absences	134,606	125,750
Certificates of participation	26,151,480	27,219,009
Deferred lease revenue	131,986	133,401
Subordinate installment sale agreement	598,393	1,005,250
Net OPEB obligation	602,957	406,143
Total Noncurrent Liabilities	27,619,422	28,889,553
Total Liabilities	29,640,672	30,946,546
Commitments and Contingencies (Notes 9 and 10)		
Net Assets:		
Invested in capital assets, net of related debt	13,212,659	13,904,074
Restricted for debt service	2,414,938	2,414,937
Restricted for expansion	67,850	37,909
Unrestricted	2,673,308	2,038,147
Total Net Assets	18,368,755	18,395,067
TOTAL LIABILITIES AND NET ASSETS	$ 48,009,427	$ 49,341,613

The accompanying notes are an integral part of the financial statements.

CARMICHAEL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Operating Revenues:		
Water sales	$ 8,896,233	$ 8,117,277
Tap fees and other revenues	43,297	42,927
Total Operating Revenues	8,939,530	8,160,204
Operating Expenses:		
Depreciation and amortization	3,216,546	3,530,755
Financial services	634,536	1,055,747
General and administrative	1,669,457	1,400,630
Transmission and distribution	736,020	956,844
Pumping	882,809	874,347
Source of supply	712,724	739,954
Water treatment	129,829	112,996
Total Operating Expenses	7,981,921	8,671,273
Operating Income (Loss)	957,609	(511,069)
Nonoperating Revenues (Expenses):		
Investment income	2,884	4,081
Other revenue	56,550	22,342
Income from investment in electrical power	14,491	14,300
Reimbursements	2,720	2,130
Gain on disposal of capital assets	22,610	-
Interest expense	(1,189,111)	(1,290,117)
Total Nonoperating Revenues (Expenses)	(1,089,856)	(1,247,264)
Loss Before Contributions	(132,247)	(1,758,333)
Capital Contributions	105,935	463,349
Change in Net Assets	(26,312)	(1,294,984)
Net Assets at Beginning of Year	18,395,067	19,690,051
NET ASSETS AT END OF YEAR	$ 18,368,755	$ 18,395,067

The accompanying notes are an integral part of the financial statements.

CARMICHAEL WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash Flow From Operating Activities:		
Receipts from customers	$ 8,555,562	$ 7,915,184
Payments to suppliers	(2,697,705)	(3,095,201)
Payment to employees	(1,876,560)	(1,999,913)
Net Cash Provided by Operating Activities	3,981,297	2,820,070
Cash Flow From Noncapital Financing Activities:		
Receipts from other nonoperating revenues	51,210	18,501
Net Cash Provided by Noncapital Financing Activities	51,210	18,501
Cash Flows From Capital and Related Financing Activities:		
Proceeds from grants receivable	-	592,117
Acquisitions and construction of capital assets	(1,103,920)	(2,568,550)
Net proceeds from disposal of capital assets	22,610	-
Membrane replacement deposits	-	(143,940)
Payments on certificates of participation	(1,020,000)	(800,000)
Interest paid on certificates of participation	(1,178,774)	(1,352,089)
Payment on subordinate installment sale agreement	(394,349)	(382,412)
Interest paid on subordinate installment sale agreement	(37,953)	(49,891)
Facility fees collected	98,910	-
Net Cash Used in Capital and Related Financing Activities	(3,613,476)	(4,704,765)
Cash Flows From Investing Activities:		
Investment income	5,096	3,708
Income from investment in electrical power	20,488	21,024
Net Cash Provided by Investing Activities	25,584	24,732
Net Increase (Decrease) in Cash and Cash Equivalents	444,615	(1,841,462)
Cash and Cash Equivalents at Beginning of Year	3,560,682	5,402,144
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,005,297	$ 3,560,682

(Continued)

The accompanying notes are an integral part of the financial statements.

CARMICHAEL WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	$ 957,609	$ (511,069)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,216,546	3,530,755
Change in current assets and liabilities:		
Accounts receivable	(381,894)	(258,867)
Inventory	(19,265)	57,124
Prepaid expense	70,794	7,669
Accounts payable	(74,601)	(230,360)
Accrued expenses and other liabilities	8,512	9,576
Deferred revenue	(2,074)	13,847
Accrued compensated absences	8,856	(4,914)
Net OPEB obligation	196,814	206,309
Net Cash Provided by Operating Activities	$ 3,981,297	$ 2,820,070
Supplemental Disclosures of Cash Flow Information:		
Receipt of contributed assets	$ 7,025	$ 13,334
Cash and Cash Equivalents - Financial Statement Classification:		
Cash and cash equivalents	$ 1,522,509	$ 1,107,836
Restricted cash and cash equivalents	2,482,788	2,452,846
	$ 4,005,297	$ 3,560,682

The accompanying notes are an integral part of the financial statements.

Note 1 - Organization and Significant Accounting Policies:

Organization

The Carmichael Water District (the "District") was established in 1916 as an irrigation district located in the central portion of Sacramento County northeast of the City of Sacramento and north of the lower American River. The area served by the District encompasses approximately eight square miles and serves a population of approximately 39,000. The District is predominately residential in character, with interspersed commercial areas. The District includes a general fund and a financing corporation. These funds have been combined in the accompanying financial statements. All material interfund transactions have been eliminated. The District is governed by a Board of Directors consisting of five directors elected by residents of the District.

The Carmichael Water District Financing Corporation (the Corporation) provides assistance to the District in the issuance of debt.

The criteria used in determining the scope of the reporting entity is based on the provisions of GASB Statement 14, as amended by GASB Statement 39. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has accounted for the Corporation as a blended component unit. Despite being legally separate, the Corporation and the District are so intertwined that the Corporation is in substance part of the District's operations. Accordingly, the Corporation is included within the financial statements of the District.

Significant Accounting Policies

A summary of the District's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Method of Accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, the statements of net assets and the statements of revenues, expenses and changes in net assets have been prepared using the economic resources measurement focus and the accrual basis of accounting.

The District has not elected to apply the option allowed in Paragraph 7 of the GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Activities" and as a consequence will continue to apply GASB statements and interpretations.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Revenue Recognition

The District recognizes revenues from water sales, tap fees and other revenues when they are earned. Operating activities generally result from providing services and producing and delivering goods. As such, the District considers fees received from water sales and tap fees and other revenues to be operating revenues.

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Investments

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

Allowance for Doubtful Accounts

Management believes that all accounts receivable were fully collectible; therefore no allowance for doubtful accounts was recorded as of June 30, 2012 and 2011.

Inventory

Inventory consists primarily of materials used in the construction and maintenance of capital assets and is valued at weighted average cost.

Capital Assets

Capital assets purchased or acquired with an initial, individual cost exceeding $1,000 and an estimated useful life of more than one year are reported at historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repair and maintenance are expensed as incurred. Depreciation is calculated on the straight-line method over the following estimated useful lives:

Pumping plant	5 - 50 years
Transmission and distribution	33 - 75 years
Buildings and improvements	15 - 40 years
Vehicles and equipment	3 - 10 years
Furniture and fixtures	3 - 7 years

Depreciation aggregated $3,189,803 and $3,504,012 for the years ended June 30, 2012 and 2011, respectively.

Interest

The District incurred interest charges on long-term debt. No interest was capitalized as a cost of construction for the years ended June 30, 2012 and 2011.

Amortization

Bond issue costs are being amortized on the straight-line method over periods not to exceed debt maturities. Amortization expense aggregated $26,743 and $26,743 for the years ended June 30, 2012 and 2011, respectively. Bond premiums and discounts and the deferred amount on refunding are being amortized on the straight-line method over the remaining life of the related debt. Amortization of the bond premium and the deferred amount on refunding totaled $(22,529) and $(22,530) for the years ended June 30, 2012 and 2011, respectively, and is included in interest expense.

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Compensated Absences

Accumulated unpaid vacation totaling $134,606 and $125,750 is accrued when incurred and included in noncurrent liabilities at June 30, 2012 and 2011, respectively.

Risk Management

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2012, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - The Insurance Authority has pooled self-insurance up to $50,000 per occurrence and has purchased excess insurance coverage up to $100,000,000 (total insurable value $42,752,594). The District has a $2,500 deductible for buildings, personal property and fixed equipment, a $1,000 deductible for mobile equipment, and a $500 deductible for licensed vehicles.

General and Auto Liability - The Insurance Authority has pooled self-insurance up to $2,000,000 per occurrence and has purchased excess insurance coverage up to $60,000,000.

Public Officials' Liability - The Insurance Authority has pooled self-insurance up to $2,000,000 per occurrence and has purchased excess insurance coverage up to $60,000,000.

Fidelity Bond - The Insurance Authority has pooled self-insurance up to $100,000. The District has a $1,000 deductible.

Workers' Compensation - Insured up to the statutory limits; the Insurance Authority has pooled self-insurance up to $2,000,000 and has purchased excess insurance coverage up to the statutory limits for workers' compensation and $2,000,000 for employer's liability.

The District pays annual premiums for this coverage. They are subject to retrospective adjustments based on claims experienced. The nature and amounts of these adjustments cannot be estimated and are charged to expense as invoiced. The District's insurance expense was $112,971 and $122,377 for the years ended June 30, 2012 and 2011, respectively. There were no instances in the past three years where a settlement exceeded the District's Coverage.

Economic Dependence

The District extracts approximately 70% of its water supply from the American River and 30% from groundwater wells. Interruption of this source would impact the District negatively.

Cash and Cash Equivalents

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

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or exposure through September 13, 2012, the date the financial statements were available to be issued.

Reclassification

The District has classified certain prior year information to conform with the current year presentation.

Note 2 - Cash and Investments:

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code that address interest rate risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provision of the California Government Code or the District's investment policy:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations	5 years	None	None
California Local Agency	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	180 days	40%	None
Commercial Paper	270 days	25%	A1
Negotiable Certificates of Deposits	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium Term Notes (Corporation Medium-Term Notes Grade)	5 years	30%	A Rating
Mutual Funds	N/A	20%	Multiple
Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	AA Rating
Time Deposits	5 years	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

Note 2 - Cash and Investments:

Investments Authorized by the California Government Code and the District's Investment Policy (Continued)

The District's investment policy is more restrictive than the Government Code. The policy restricts the District from investing more than $4,000,000 in LAIF. In addition, staff is directed to maintain an average annual balance not to exceed $3,500,000.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by the bond trustee is governed by provisions of the debt agreements; rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Bankers Acceptances	1 year	None	None
Commercial Paper	None	None	None
Certificates of Deposits	None	None	None
Investment Agreements	None	None	None
Repurchase Agreements	None	None	None
Money Market Mutual Funds	N/A	None	None
LAIF	N/A	None	None

Cash and investments held by the District were comprised of the following at June 30:

	Maturity in Years: 1 Year or Less	2012 Total	2011 Total
Cash on hand	$ 2,050	$ 2,050	$ 2,050
Deposits with financial institutions	1,586,969	1,586,969	703,393
California Local Agency Investment Fund (LAIF)	1,378	1,378	440,339
Certificates of deposit	200,000	200,000	200,000
Money market mutual funds	2,214,900	2,214,900	2,214,900
Total Cash and Investments	$ 4,005,297	$ 4,005,297	$ 3,560,682
Financial Statement Classification:			
Current:			
Cash and cash equivalents		$ 1,522,509	$ 1,107,836
Restricted:			
Cash and cash equivalents		2,482,788	2,452,846
Total Cash and Investments		$ 4,005,297	$ 3,560,682

Note 2 - Cash and Investments: (Continued)

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided in the previous table that shows the distribution of the District's investments by maturity as of June 30, 2012.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year end for each investment type.

Investment	Rating as of Year End Standard & Poor's
Certificates of Deposit	Not Rated
California Local Agency Investment Fund	Not Rated
Money Market Mutual Funds	AAAm

Concentration of Credit Risk

Concentration of credit is the risk of loss attributed to the magnitude of the District's investment in a single issue.

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The District holds no investments in any one issuer (other than U.S. Treasury obligations, mutual funds, and external investment pools) that represent 5% or more of total District investments.

Note 2 - Cash and Investments: (Continued)

Custodial Credit Risk

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

At June 30, 2012, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. At June 30, 2012, the following investments were held by the same broker-dealer (counterparty) that was used by the District to buy the securities:

Investment	2012	2011
Money Market Mutual Funds	$ 2,214,900	$ 2,214,900

Investment in State Investment Pool

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

The statements of cash flows have been prepared by considering all investment instruments purchased with a maturity of three months or less to be cash equivalents. Following is a detail:

	2012	2011
Money market mutual funds	$ 2,414,900	$ 2,414,900
Deposits with financial institutions	1,586,969	703,393
Cash on hand	2,050	2,050
California Local Agency Investment Fund	1,378	440,339
Total	$ 4,005,297	$ 3,560,682

Note 3 - Restricted Assets:

Restricted assets were provided by, and are to be used for, the following at June 30:

Funding Source	Use	2012	2011
Bond proceeds and interest earnings	Reserve fund	$ 2,414,937	$ 2,414,936
Facility fees	Expansion of facilities	67,850	37,909
Bond proceeds and interest earnings	Debt service	1	1
		$ 2,482,788	$ 2,452,846

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as necessary.

Note 4 - Capital Assets:

Capital assets activity consists of the following at June 30:

	2012			
	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Capital assets not being depreciated:				
Land, franchises and water rights	$ 545,701	$ -	$ -	$ 545,701
Construction in progress	300,200	223,666	(226,779)	297,087
Total Capital Assets Not Being Depreciated	845,901	223,666	(226,779)	842,788
Capital assets being depreciated:				
Pumping plant	35,690,692	95,098	-	35,785,790
Transmission and distribution	22,854,086	472,097	-	23,326,183
Buildings and improvements	9,826,449	14,536	-	9,840,985
Vehicles and equipment	6,391,057	503,447	(111,766)	6,782,738
Furniture and fixtures	1,630,791	28,880	-	1,659,671
Total Capital Assets Being Depreciated	76,393,075	1,114,058	(111,766)	77,395,367
Less: Accumulated depreciation:				
Pumping plant	(13,183,971)	(1,185,898)	-	(14,369,869)
Transmission and distribution	(12,566,005)	(1,207,474)	-	(13,773,479)
Buildings and improvements	(3,301,563)	(279,742)	-	(3,581,305)
Vehicles and equipment	(3,182,840)	(449,011)	111,766	(3,520,085)
Furniture and fixtures	(1,511,350)	(67,678)	-	(1,579,028)
Total Accumulated Depreciation	(33,745,729)	(3,189,803)	111,766	(36,823,766)
Net capital assets being depreciated	42,647,346	(2,075,745)	-	40,571,601
Net Capital Assets	$ 43,493,247	$ (1,852,079)	$ (226,779)	$ 41,414,389

Note 4 - Capital Assets: (Continued)

	2011			
	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
Capital assets not being depreciated:				
Land, franchises and water rights	$ 545,701	$ -	$ -	$ 545,701
Construction in progress	1,912,305	1,928,535	(3,540,640)	300,200
Total Capital Assets Not Being Depreciated	894,036	1,928,535	(3,540,640)	845,901
Capital assets being depreciated:				
Pumping plant	34,193,277	1,497,415	-	35,690,692
Transmission and distribution	21,328,774	1,525,312	-	22,854,086
Buildings and improvements	9,621,299	205,150	-	9,826,449
Vehicles and equipment	5,502,633	888,424	-	6,391,057
Furniture and fixtures	1,566,437	64,354	-	1,630,791
Total Capital Assets Being Depreciated	72,212,420	4,180,655	-	76,393,075
Less: Accumulated depreciation:				
Pumping plant	(11,905,623)	(1,278,348)	-	(13,183,971)
Transmission and distribution	(11,305,603)	(1,260,402)	-	(12,566,005)
Buildings and improvements	(3,026,285)	(275,278)	-	(3,301,563)
Vehicles and equipment	(2,816,347)	(366,493)	-	(3,182,840)
Furniture and fixtures	(1,187,859)	(323,491)	-	(1,511,350)
Total Accumulated Depreciation	(30,241,717)	(3,504,012)	-	(33,745,729)
Net capital assets being depreciated	41,970,703	676,643	-	42,647,346
Net Capital Assets	$ 44,428,709	$ 2,605,178	$ (3,540,640)	$ 43,493,247

Note 5 - Investment in Electrical Power:

The District participates in the California-Oregon Transmission Project (Project), a Joint Powers Authority (JPA), which is a project of the Department of Energy, Western Area Power Administration. The Project is governed by a management committee, which is chaired by a representative of the Transmission Agency of Northern California with each participant in the Project having representation on the Management Committee. The District applied as a Community Services District and Central Valley Project Contractor, and received allocation of 1 MW (megawatt) of power (capacity and associated energy) in exchange for an investment as a participant in the construction of the transmission line.

The District has a 0.067% equity interest in the net assets of the Project as defined in the Long-Term Participation Agreement. The District also has an obligation to finance 0.067% of the net losses of the Project, it also has the right to receive 0.067% of the operating results of the project income. The District is billed monthly for its share of the operations and maintenance costs of the Project. The District's net investment and its share of the operating results of the Project are reported as Investment in Electrical Power.

On January 1, 2006, the District entered into an agreement to lease its share of transmission capacity to the Sacramento Municipal Utility District. The amount of revenue generated from the transmission lease was $20,488 and $21,024, respectively, and is included in income from investment in electrical power for the years ended June 30, 2012 and 2011. The agreement is effective through December 31, 2024.

Note 5 - Investment in Electrical Power: (Continued)

The Project's unaudited financial statements as of and for the year ended June 30, 2012, are available from the California-Oregon Transmission Project at Post Office Box 15140, Sacramento, California 95851-5140. The following is the summarized unaudited financial information for the Project as of and for the year ended June 30:

	2012	2011
Balance Sheets		
Assets	$ 287,101,971	$ 294,959,303
Liabilities	$ 15,726,789	$ 14,593,997
Net assets	271,375,182	280,365,306
Liabilities and Net Assets	$ 287,101,971	$ 294,959,303
Statements of Revenues, Expenses, and Changes in Net Assets		
Operating revenues	$ 10,902,553	$ 11,002,428
Operating expenses	(21,504,036)	(21,593,240)
Operating loss	(10,601,483)	(10,590,812)
Nonoperating revenues	491	2,014
Decrease in Net Assets Before Adjustments	(10,600,992)	(10,588,798)
Adjustments for Capital Improvements	1,610,868	508,149
Net Decrease in Net Assets	$ 8,990,124	$ 10,080,649
District's Share of Net Assets	$ 181,451	$ 187,448

Note 6 - Noncurrent Liabilities:

Noncurrent liabilities consists of the following at June 30:

	2012				
	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
2010 Certificates of participation	$ 27,750,000	$ -	$ (1,020,000)	$ 26,730,000	$ 1,045,000
Unamortized premium	1,656,958	-	(88,175)	1,568,783	-
Deferred amount on refunding	(1,167,949)	-	65,646	(1,102,303)	-
Net, 2010 Certificates of participation	28,239,009	-	(1,042,529)	27,196,480	1,045,000
2010 Subordinate installment sale agreement	1,399,599	-	(394,349)	1,005,250	406,857
Deferred lease revenue	134,815	-	(1,415)	133,400	1,414
Accrued compensated absences	125,750	8,856	-	134,606	-
Net OPEB obligation	406,143	250,668	(53,854)	602,957	-
Total noncurrent liabilities	$ 30,305,316	$ 259,524	$ (1,492,147)	$ 29,076,693	$ 1,453,271

Note 6 - Noncurrent Liabilities: (Continued)

	2011				
	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011	Due Within One Year
2010 Certificates of participation	$ 28,550,000	$ -	$ (800,000)	$ 27,750,000	$ 1,020,000
Unamortized premium	1,745,133	-	(88,175)	1,656,958	-
Deferred amount on refunding	(1,233,594)	-	65,645	(1,167,949)	-
Net, 2010 Certificates of participation	29,061,539	-	(822,530)	28,239,009	1,020,000
2010 Subordinate installment sale agreement	1,782,011	-	(382,412)	1,399,599	394,349
Deferred lease revenue	136,229	-	(1,414)	134,815	1,414
Accrued compensated absences	130,664	-	(4,914)	125,750	-
Net OPEB obligation	199,834	250,668	(44,359)	406,143	-
Total noncurrent liabilities	$ 31,310,277	$ 250,668	$ (1,255,629)	$ 30,305,316	$ 1,415,763

2010 Water Revenue Refunding Certificates of Participation

In March 2010, the Corporation issued the 2010 Water Revenue Refunding Certificates of Participation to refund the previously outstanding 1999 Water Revenue Certificates of Participation, fund a reserve fund and pay the cost of issuance.

Although the refunding resulted in deferred amount on refunding of $1,247,270, the Corporation in effect reduced the aggregate debt service payments by approximately $3,253,000 over the next nineteen years and obtained an economic gain (difference between the present values of the old debt and the new debt service payments) of $2,334,692. The deferred amount on refunding is being amortized over the remaining life of the refunded debt. Amortization expense totaled $65,646 and $65,645 for the years ended June 30, 2012 and 2011, respectively, and is included in interest expense. The deferred amount on refunding was $1,102,303 and $1,167,949 at June 30, 2012 and 2011, respectively.

The 2010 Water Revenue Refunding Certificates of Participation are obligations of the Corporation payable solely from payments received from the District pursuant to an Installment Purchase Agreement (Senior Installment Sale Agreement) between the Corporation and the District. The obligation of the District to make installment payments is payable solely from net revenues of the District's water system and certain funds and accounts created under the Installment Purchase Agreement. The Installment Purchase Agreement will require the District to agree to fix, prescribe, and collect rates and charges for its water service which will be at least sufficient to yield each fiscal year net revenues equal to 120% of the annual debt service in such fiscal year. At June 30, 2012 and 2011, the District's net revenues were 198% and 195% of debt service payments, respectively.

The 2010 Water Revenue Refunding Certificates of Participation have interest rates ranging from 2.5% to 5.0% with maturities through the fiscal year ending June 30, 2027. The 2010 Water Revenue Refunding Certificates of Participation outstanding totaled $26,730,000 and $27,750,000 at June 30, 2012 and 2011, respectively. Accrued interest payable totaled $194,338 and $198,588 at June 30, 2012 and 2011, respectively.

Note 6 - Noncurrent Liabilities: (Continued)

Subordinate Installment Sale Agreement

In November 2009, the District entered into a $2,000,000 Subordinate Installment Sale Agreement with the Corporation as Seller and the District as purchaser pursuant to which the District pledged and granted a lien on gross revenues that is subordinate in all respects to that of the Senior Installment Sale Agreement in order to provide financing for a portion of the cost of certain capital projects. The District's obligation to pay the subordinate installment payments is a special obligation limited solely to net revenues as defined in the Subordinate Installment Sale Agreement. The District has covenanted to establish, maintain, and collect rates and charges for the water system sufficient to yield net revenues in each fiscal year, in an amount equal to 120% of annual debt service. The rights and interest of the Corporation in the Subordinate Installment Sale Agreement and the Subordinate Installment Payments have been assigned to Union Bank pursuant to an Assignment Agreement. Payments in the amount of $36,025 are due monthly including interest at 3.06% beginning December 2009 and ending November 2014. The Subordinate Installment Payments outstanding totaled $1,005,250 and $1,399,599 at June 30, 2012 and 2011, respectively. Accrued interest totaled $2,136 and $2,974 at June 30, 2012 and 2011, respectively.

Debt service requirements on the certificates of participation and the subordinate installment sale agreements are as follows:

Years Ended June 30	Principal	Interest
2013	1,451,857	1,178,408
2014	1,494,662	1,136,417
2015	1,283,731	1,086,944
2016	1,150,000	1,046,200
2017	1,185,000	999,325
2018 - 2022	6,785,000	4,128,825
2023 - 2027	8,365,000	2,511,725
2028 - 2031	6,020,000	461,250
Total	$ 27,735,250	$ 12,549,094

Note 7 - Deferred Lease Revenue:

In November 2007, the District entered into a long-term lease agreement with a private company for certain District facilities, to construct a groundwater extraction treatment system, water conveyance facilities and groundwater extraction wells that benefit the District's operations. The District received $140,000 when the lease was executed, which will be earned evenly through October 2106. The deferred lease revenue totaled $131,986 and $133,401 at June 30, 2012 and 2011, respectively.

Note 8 - Post-Employment Benefits

Plan Description

The District provides post-employment health benefits established by District resolution to all qualifying employees. Eligibility for retiree health benefits requires retirement from the District and PERS after age 50 with at least 5 years of District eligible service. In addition to 5 years of District eligible service, a retiree must have an additional 5 years of service with any contracting PERS agency for a total of 10 years of eligible service. CalPERS's vesting is as follows:

- Must be retired from Carmichael Water District (CWD) with at least 5 years of service at CWD.

- Must have at least 10 years of CalPERS service (combined with other CalPERS agency service):
  * 10 years = 50% of weighted average toward premium.
  * Each additional year = +5% of weighted average premium.
  * Includes all CWD eligible retirees and family ranging from 50% at 10 years of CalPERS service up to 100% at 20 years of CalPERS service of the weighted average premium.

Funding Policy and Annual OPEB Costs

The contribution requirements of the District are established and may be amended annually by the Board of Directors. The District's annual other post employment benefit (OPEB) cost (expense) for the plan is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's Board of Directors has established a policy of funding the ARC on a pay as you go basis. The current ARC rate is 12.55% of annual covered payroll. The following table shows the components of the District's annual OPEB cost, the amount actually contributed to the plan including benefits paid to retirees, and changes in the District's net OPEB obligation for the year ended June 30:

	2012	2011
Annual required contribution	$ 250,668	$ 250,668
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost (expense)	250,668	250,668
Contributions (including benefits paid)	(53,854)	(44,359)
Increase in net OPEB obligation	196,814	206,309
Net OPEB obligation - Beginning of year	406,143	199,834
Net OPEB obligation - End of year	$ 602,957	$ 406,143

Note 8 - Post Employment Benefits (Continued)

Funding Policy and Annual OPEB Costs (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	$ 255,598	21.8%	$ 199,834
June 30, 2011	250,668	17.7%	406,143
June 30, 2012	250,668	21.5%	602,957

Funding Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was not yet funded. The District's actuarial accrued liability for benefits at July 1, 2011 was $2,338,710 and the covered payroll (annual payroll of active employees covered by plan) was $1,521,836, with a ratio of the UAAL to the covered payroll of 151.90%. The normal cost payments made during the year of $53,854 funded 21.5% of the Annual Required Contribution (ARC) leaving an unfunded actuarial liability (UAAL) of $2,240,479 and a funded ratio of 2.4%.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
June 30, 2011	$ -	$ 2,338,710	$ 2,238,710	0%	$ 1,998,116	117%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the formal plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

Note 8 - Post Employment Benefits (Continued)

Actuarial Methods and Assumptions (Continued)

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. The actuarial assumptions included a 5% investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 4%. Both rates included a 3.0% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll over 30 years. It is assumed the District's payroll will increase 3.0% per year.

Note 9 - Defined Benefit Pension Plan:

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer defined benefit pension plan. The District participates in the miscellaneous 2% at 55 pool. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS requires agencies with less than 100 active members in the plan to participate in a risk pool. All full and part-time District employees working at least 1,000 hours per year are eligible to participate in CalPERS. Under CalPERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit payable for life, in an amount equal to a benefit factor times the monthly average salary of the highest consecutive months full-time equivalent monthly pay. A menu of benefits provisions as well as other requirements is established by State Statutes within the Public Employees Retirement Law. The plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS executive office - 400 P Street - Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7% of their annual covered salary, which the District pays on behalf of the employee. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2012 and 2011 were 4.519% and 3.568%, respectively. The contribution requirements of the plan members and the District are established and may be amended by CalPERS. The District's contributions for the years ended June 30, 2012, 2011 and 2010 were $122,572, $77,606, and $49,438 respectively, which were equal to the required contributions each year.

Note 10 - Commitments and Contingencies:

Litigation

Certain claims, suits and complaints arising in the ordinary course of operations have been filed or are pending against the District. The District's management and legal counsel estimate that the potential claims against the District not covered by insurance resulting from such litigation would not materially affect the operations or financial condition of the District.

Meter Implementation Program

The District implemented a meter implementation program that will entail installing meters for all District customers by 2013. Costs related to this program are budgeted annually.

Grant Funding

The District has received grant funding in the current and prior year for various purposes that may be subjected to review and audit by the funding agencies. Such potential audits could result in a request for reimbursement for expense disallowed under the terms and conditions of the funding source. Management is of the opinion that no material liabilities will result from such potential audits.

Note 11 - New Governmental Accounting Standards:

GASB No. 60

In November 2010, the Governmental Accounting Standards Board issued Statement No. 60, "Accounting and Financial Reporting for Service concession Arrangements". This pronouncement is effective for periods beginning after December 15, 2011 and its provisions are generally required to be applied retroactively. The objective of this statement is to address issues related to service concession arrangements (SCA's) which are a type of public-private or public-public partnership. An SCA is an arrangement between the transferor (a government) and an operator in which (1) the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or other public assets in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The District does not have any SCA's as of June 30, 2012.

GASB No. 61

In November 2010, the Governmental Accounting Standards Board issued Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34". This pronouncement is effective for periods beginning after June 15, 2012. Earlier application is encouraged. The objective of this statement is to address reporting entity issues that have arisen since the issuance of Statements No.14 and No. 34. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.

Note 11 - New Governmental Accounting Standards: (Continued)

GASB No. 62

In December 2010, the Governmental Accounting Standards Board issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". This pronouncement is effective for periods beginning after December 15, 2011. Earlier application is encouraged. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements of the FASB and the AICPA that was issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.

GASB No. 63

In June 2011, the Governmental Accounting Standards Board issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position". This pronouncement is effective for periods beginning after December 15, 2011. Concepts Statement No. 4 "Elements of Financial Statements" introduced and defined deferred outflows and deferred inflows as an acquisition or consumption of net assets by the government that is applicable to a future reporting period, which is distinct from assets and liabilities. Concepts Statement No. 4 also defines net position as the residual of all other elements presented in a statement of financial position and renames that measure net position rather than net assets. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.

GASB No. 64

In June 2011, the Governmental Accounting Standards Board issued Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment to GASB 53". This pronouncement is effective for periods beginning after June 15, 2011. This statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The District does not have any hedge transactions at June 30, 2012.

GASB No. 65

In March 2012, the Governmental Accounting Standards Board issued Statement No. 65, "Items Previously Reported as Assets and Liabilities". This pronouncement is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement amends the financial statement classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.

Note 11 - New Governmental Accounting Standards: (Continued)

GASB No. 66

In March 2012, the Governmental Accounting Standards Board issued Statement No. 66, "Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62". This pronouncement is effective for periods beginning after December 15, 2012. This statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". This Statement amends Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) service fee rate. These changes clarify how to apply Statement No. 13, "Accounting for Operating Leases with Scheduled Rent Increases", and result in guidance that is consistent with the requirements in Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", respectively. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.

GASB No. 67

In June 2012, the Governmental Accounting Standards Board issued Statement No. 67, "Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25". This pronouncement is effective for periods beginning after June 15, 2013. This Statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans", and No. 50, "Pension Disclosures", as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.

GASB No. 68

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68, "Accounting and Financial Reporting for Pensions". This pronouncement is effective for periods beginning after June 15, 2013. This pronouncement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This pronouncement is not anticipated to have a material effect on the financial statements of the District in the year of implementation.