SOUTH SAN JOAQUIN
IRRIGATION DISTRICT

Annual Financial Report 2010

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South San Joaquin Irrigation District

Annual Financial Report

December 31, 2010 and 2009

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Auditor’s Report

CPAs with Personality

marcia fritz & company

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
South San Joaquin Irrigation District
Manteca, California

We have audited the accompanying financial statements of the business-type activities of the South San Joaquin Irrigation District as of and for the years ended December 31, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the South San Joaquin Irrigation District, as of December 31, 2010 and 2009, and the respective changes in financial position and, cash flows thereof for the years 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 9 through 27 and 65 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.

Marcia Fritz & Company

Marcia Fritz & Company
July 5, 2011

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Management's Discussion and Analysis

Introduction

In this discussion and analysis, management provides an overview of the South San Joaquin Irrigation District's ("the District") financial position at December 31, 2010 and 2009 and its financial performance for the years then ended. Condensed financial information from 2008 is also presented for comparison only. Limited information is presented about conditions and events that may affect the District's future financial position and performance. The intent is to provide context for understanding the financial statements and the District's prospects, and assistance interpreting the financial statements. This discussion and analysis presents management's perspective and should be read in conjunction with the District's financial statements and accompanying notes which follow this discussion and analysis.

History of the District

The District was formed in May 1909 to provide reliable and affordable irrigation water to the areas surrounding Escalon, Manteca, and Ripon. The District owns valuable water rights, most of which are co-owned with Oakdale Irrigation District. The water rights include rights acquired prior to the enactment of the California Water Commission Act in 1914. This is important because the District can change the place and purpose of use of pre-1914 rights without regulatory approval. The pre-1914 rights have origins as early as 1853. The age of the water rights is significant because it gives the District a very high priority to available water relative to holders of newer rights. In 1929, the two Districts' pre-1914 rights were confirmed by a judgment entered in San Joaquin County Superior Court. The judgment establishes a summary response against future challenges to the existence of the District's rights. The pre-1914 rights are used in part to supply drinking water to cities within the District and to the cities of Lathrop and Tracy (see description of water treatment plant project below). The District also owns a water rights license to store water in Woodward Reservoir. Together with Oakdale Irrigation District, the District also owns water rights licenses to store water in Melones (Old), Donnells, Beardsley, and Tulloch Reservoirs. Melones was submerged by completion of New Melones Dam in 1978. The District has an operations agreement with the United States Bureau of Reclamation (USBR) that recognizes and confirms Oakdale Irrigation District's and the District's water rights and requires the USBR to make available to the two districts at Goodwin Dam the first 600,000 acre-feet of inflow to New Melones each year.

The ingenuity of the original design and the topography of the District afford the advantage of a transmission and distribution system that is entirely gravity fed. Without the need for pumping, the effects are lower operating costs and greater reliability. In 1913 Goodwin Dam was completed on the Stanislaus River to divert water to the District's transmission and distribution system, and the first irrigation water was delivered to 14,000 acres in 1914. In 1917 the District completed Woodward Reservoir which allows the District more control over the amount of water entering the distribution system at any time. This reduces waste and conserves water for beneficial use. Today the District encompasses 72,000 acres and supplies water to 3,500 parcels comprising about 50,000 acres using 350 miles of canals and pipelines, 870 miles of drains, supplemented by 28 deep wells on pumps. The two districts completed Melones Reservoir in 1926. Melones was inundated by the construction and filling of New Melones in 1978.

During the first 40 years of the District's existence, water flow was not always sufficient to supply irrigation in the latter part of the season. In 1948 the District and the Oakdale Irrigation District formed a joint venture known as the Tri-Dam Project. The Tri-Dam project built, and continues to operate, Donnells, Beardsley dams on the Middle Fork of the Stanislaus River, and Tulloch Dam on the main stem of the Stanislaus River. Storage in Tulloch Dam is now regulated by the USBR under agreement with the two irrigation districts. These facilities store water which provides a more reliable supply of irrigation water throughout the irrigation season. Not incidentally, the Tri-Dam Project also operates hydroelectric generators at all three dams which paid for the dams and now provides a significant source of revenue to the District. The two Districts own licenses to store water for irrigation and power in Donnells, Beardsley and Tulloch Reservoirs.

In 1982 the District and Oakdale Irrigation District formed another joint venture known as the Tri-Dam Power Authority. Tri-Dam Power Authority built and operates the Sandbar hydroelectric generating plant on the Middle Fork of the Stanislaus River in Tuolumne County. Whereas the Tri-Dam Project is not a formal entity, the Tri-Dam Power Authority is a statutory joint powers authority formed under provisions of the California Government Code.

In 1995 the District entered into agreements with the cities of Escalon, Lathrop, Manteca, and Tracy to build and operate a water treatment plant to provide an additional source of potable water to these cities. The water treatment plant began operation in July, 2005. Besides the treatment plant, the project includes a raw water pipeline from Woodward Reservoir, 40 miles of transmission pipes and pump stations that deliver water to the cities.

The history of South San Joaquin Irrigation District is characterized by a tradition of building on natural advantages and opportunities by undertaking major projects to expand beneficial use of the District's water resources and diversify its services to the communities of the District. These major projects have provided substantial improvements to the quality of life in the communities of the District, and also account for the strength of the District's financial position and operating results.

A Diversity of Services

The District is involved in 3 distinct lines of service besides supply of irrigation water:

- Hydroelectric generation
- Domestic water treatment plant
- Solar electric generating plant

In keeping with its history, the District is now endeavoring to exercise its authority under the California Water Code to provide retail electric services to its constituents in the future, at a significant discount from rates charged by PG&E.

Hydroelectric generation

The District owns jointly, with Oakdale Irrigation District, hydroelectric generating plants operated by the Tri-Dam Project and the Tri-Dam Power Authority. The District also owns a 2.8 MW hydroelectric generating plant located on the main supply canal downstream from Woodward Reservoir and the 5.2 MW Frankenheimer facility on the main supply canal upstream from Woodward Reservoir. These two plants utilize water flow in the irrigation transmission canals and only operate during the irrigation season.

Tri-Dam Project

The Tri-Dam Project is not a formal entity distinct from the two Districts that own it. The District's investment in the Tri-Dam Project is reported in the statement of net assets as the District's share of the net assets of the Project. The five elected directors from each of the two districts meet jointly as the "Joint Boards of Directors" of Tri-Dam Project. Action by the Joint Boards requires the affirmative vote of 3 directors from each Board. Executive management of the Tri-Dam Project is vested in the Tri-Dam Project's general manager by the Joint Board. The Tri-Dam Project is operated by employees hired by the general manager.

Tri-Dam Project is engaged in water diversion, storage, and hydroelectric generation from several locations on the Middle Fork and main stem of the Stanislaus River in Tuolumne and Calaveras Counties, California. It operates Donnells dam, reservoir and power plant; Beardsley dam, reservoir, and power plant; Tulloch dam, reservoir, and power plant; and Goodwin dam and reservoir, along with several ancillary facilities. Water is delivered by Tri-Dam Project to each District's irrigation system.

Electric output of Tri-Dam Project previously was sold to Pacific Gas & Electric Company (PG&E) under an agreement which was terminated on December 31, 2008 by agreement with PG&E. Tri-Dam Project simultaneously entered into a five year power purchase and marketing agreement with Shell Energy North America for the marketing of the Project's energy production beginning January 1, 2009.

Construction began on a third generator with 7 MW capacity at Tulloch Dam in 2009. The most recent estimate of the total cost is $27 million which is being funded from Tri-Dam Project's cash reserves and operating cash flows. Accumulated costs through the date of this report are $20 million, and the project is scheduled for completion in the spring of 2012.

The Donnells generator unexpectedly went out of service on September 2, 2009 due to electrical and mechanical failure and remained out of service through the remainder of the year. Restoration of the unit to service occurred in the spring of 2010. Tri-Dam Project suffered insured repair costs and insured lost revenue from the generator outage. During the latter part of 2010 Tri-Dam Project received insurance proceeds of $5.4 million for repair costs, and $6.6 million for business interruption.

Tri-Dam Power Authority

Whereas the Tri-Dam Project is not a formal entity, the Tri-Dam Power Authority is a joint powers authority formed under provisions of the California Government Code.

The five elected directors from each of the two districts comprise the ten commissioners of the Tri-Dam Power Authority. Executive management of Tri-Dam Power Authority is vested in its general manager. The Tri-Dam Power Authority and the Tri-Dam Project share the same management, administrative facilities, and operations and maintenance staff. Tri-Dam Power Authority reimburses the Project for the Authority's share of expenses.

Tri-Dam Power Authority is engaged in hydroelectric generation and transmission from a single power plant, known as Sandbar, on the Middle Fork of the Stanislaus River located in the Stanislaus National Forest, Tuolumne County, California. Electric output from the plant is sold to Pacific Gas & Electric Company under agreements which extend through 2016. The Sandbar plant is licensed by the Federal Energy Regulatory Commission for 50 years through 2033.

The Sandbar plant was constructed with $62,000,000 of proceeds of 1984 bonds issued by Tri-Dam Power Authority with an original interest rate of 11.375%. That debt was refunded in 1994 for $52,055,000 at a rate of 7.25%. The remaining 1994 bonds were refunded on May 1, 2005 with $28,855,000 of bonds payable over 12 years at 5.15% per annum interest. On October 1, 2010 the 2005 bonds were refunded by the Series 2010 Revenue Refunding Bonds issued in the amount of $16,400,000 with a net interest cost of 3.3% per annum and a present value savings of $810,000.

Domestic water treatment plant

The District's Nick C. DeGroot Water Treatment Plant has been producing potable water under contract with the cities of Manteca, Lathrop, Escalon, and Tracy since July 2005. These four cities provided the funds for the construction and equipping of the water treatment plant and transmission pipelines, and they continue to provide funds for additional purchases and replacement of capital equipment. Funds received from the cities for these purposes are reported under non-operating revenues as capital contributions.

By purchasing the treated water output of the treatment plant from the District at cost, the three cities also provide for the District's expenses of operating the plant. Escalon does not currently take water from the Treatment Plant. The District bills the cities monthly for the actual operating expenses of the water treatment plant (excluding depreciation expense). The cost of the plant's water supply, which comes from the District's Woodward Reservoir, is part of the operating expenses billed to the cities.

Solar electric generating plant

In 2008 the district completed construction of the Robert O. Shulz Solar Farm. This is a utility scale solar photovoltaic project on a 40 acre site adjacent to the Nick C. DeGroot Water Treatment Plant. Phase I of the project consists of a 997 kW crystalline PV array and was completed in June 2008. Phase II is a 378 kW thin-film array. Construction began in 2008 and the project was completed in March 2009. Electricity generated at the solar farm is delivered to the adjacent water treatment plant with daily surplus net-metered by PG&E. An annual economic "true-up" is calculated for the surplus energy sold back to the grid with the goal to be a zero energy cost for the water treatment plant. The project will receive approximately $6 million over a five year period in state renewable energy incentives.

Governance

The District operates under Division 11 of the California Water Code and is governed by a board of five directors elected to staggered terms from five geographic divisions of the District. The board appoints the general manager who is responsible for the operations of the District.

Financial Statements

The District's financial statements include a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These financial statements are known as the "basic financial statements" and comply with generally accepted accounting principles, which for all state and local governments including the District, are set forth in Governmental Accounting Standards Board (GASB) Statements. In many, but not all cases, GASB Statements incorporate the provisions of Financial Accounting Standards Board Statements which establish generally accepted accounting principles for nongovernmental entities. The District's activities are business type activities and are accounted for as an enterprise fund. The accounting principles for an enterprise fund more closely resemble those of a commercial entity than a government.

Balance Sheet

The balance sheet provides information about assets, obligations (liabilities), and net assets of the District at a specific point in time. All amounts (except for investments in marketable debt securities) are shown at cost. Therefore, the liabilities and net assets sections of this statement reveal the sources of the District's capital, and the assets section shows how the capital has been used. The net assets section reveals the life-to-date results of operations. Current assets and current liabilities are shown separately from other assets and liabilities to enable the reader to evaluate the adequacy of the District's working capital. Working capital is the excess of current assets over current liabilities, and current assets and current liabilities are those which liquidate within one year.

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses and changes in net assets provides information regarding the District's financial performance during the year. The difference between revenues and expenses is the change in net assets for the period. The total net assets in the statement of net assets represents the life-to-date accumulation of changes in net assets.

Revenues earned and expenses incurred during the year are presented in two categories: operating and nonoperating. This allows the reader to evaluate the financial results of operating activities separately from other sources of income and expense.

Earnings of the Tri-Dam entities are shown as nonoperating revenues because the District delegates operation of those activities to the joint venture organization. The statement ends by showing how net income for the year, including capital contributions, accounts for the change in net assets that occurred during the year.

Statement of Cash Flows

Because revenues and expenses are not cash flows, generally accepted accounting principles require we provide the statement of cash flows. The statement of cash flows reports sources and uses of cash in four categories: operating activities, noncapital financing activities, capital financing activities, and investing activities. The statement also presents a reconciliation of the differences between net income from operations and net cash flows from operations.

Financial Highlights

Condensed Balance Sheets

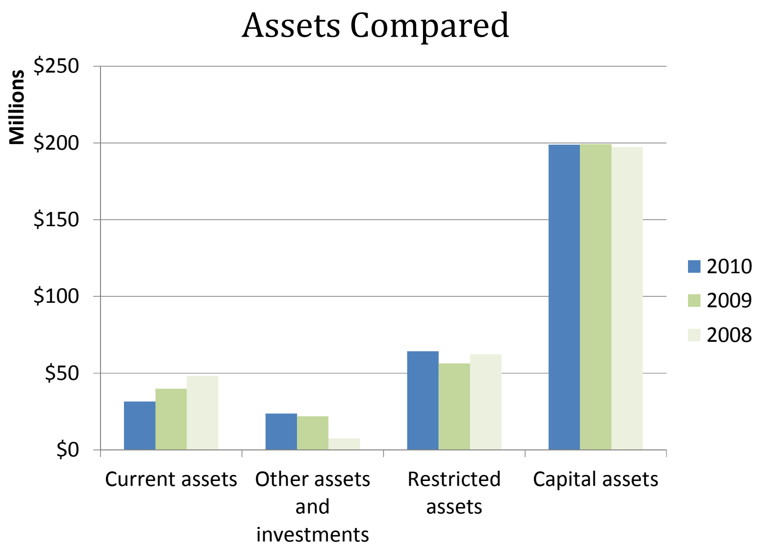
For the Years Ended December 31

	2010	2009	2008
Current assets	$31,509,019	$39,879,075	$48,168,192
Other assets and investments	23,686,741	21,900,878	7,500,953
Restricted assets	64,345,911	56,276,926	62,363,572
Capital assets	198,782,430	199,223,126	197,316,430
Total assets	$318,324,101	$317,280,005	$315,349,147
Current liabilities	$5,218,389	$5,156,857	$6,088,579
Liabilities payable from restricted assets	0	1,509,806	1,509,806
Long-term liabilities	20,561,301	22,729,580	24,316,817
Total Liabilities	25,779,690	29,396,243	31,915,202
Net assets invested in capital assets, net of related debt	193,160,163	192,390,099	190,792,790
Restricted net assets	66,780,707	58,141,325	62,840,231
Unrestricted net assets	32,603,541	37,352,338	29,800,925
Total net assets	292,544,411	287,883,762	283,433,946
Total liabilities and net assets	$318,324,101	$317,280,005	$315,349,148

2010 and 2009 Balance Sheets Compared

Current assets decreased by almost $8.7 million, or 22%, during 2010. This decrease was nearly all concentrated in the cash accounts. This is primarily caused by reduced cash distributions from Tri-Dam Project. Cash distributions from Tri-Dam Power Authority and Project were only

$1.9 million in 2010 whereas the District had received $8.3 million of cash distributions from the two entities in 2009. Tri-Dam distributions were limited because, throughout 2010 Tri-Dam was paying for construction of the new, third generating unit on Tulloch Dam from operating cash flow and reserves. In addition, the generator at Donnell's Dam was out of service for the first four months of the year, as described above, which significantly reduced operating revenues for Tri-Dam Project.

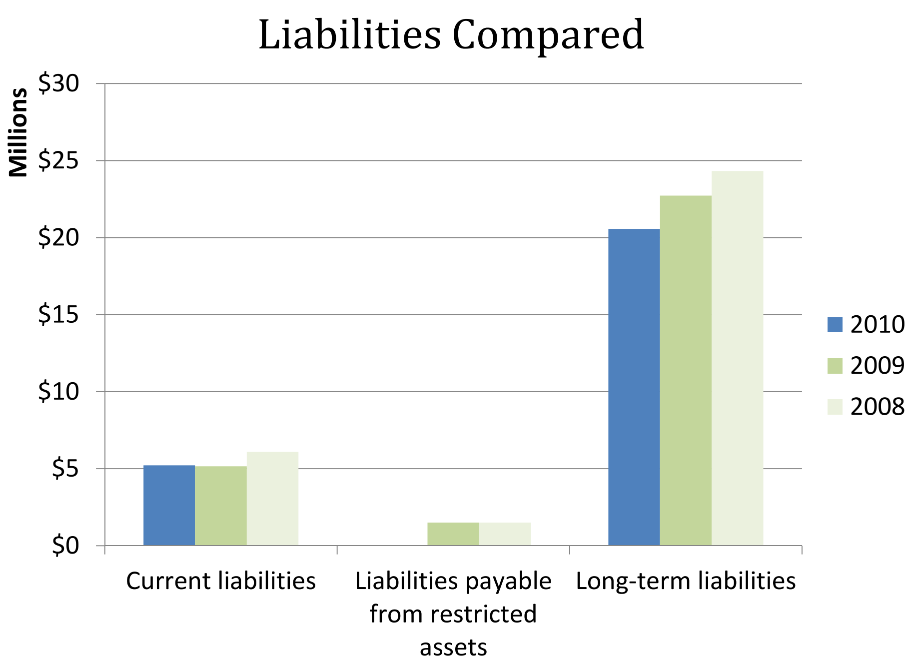


Restricted assets consist mostly of the District's investment in the Tri-Dam Project. Restricted assets also include some cash and some investments in marketable securities. Components of restricted assets are shown in the table below.

Restricted Assets	2010	2009	2008
Construction fund - irrigation	$13,008,977	$13,717,732	15,812,938.00
Construction and capital replacement funds - water treatment	5,155,191	4,685,640	$4,468,222
Debt service reserve fund	2,503,755	2,503,365	2,504,738
Investment in Tri-Dam Project	46,074,299	38,723,744	39,822,102
Total restricted assets	**$66,742,222**	**$59,630,481**	**$62,608,000**
Less: restricted cash reported in current assets	(2,396,311)	(3,353,555)	(290,520)
Noncurrent restricted assets	**$64,345,911**	**$56,276,926**	**$62,317,480**

Restricted assets increased almost $7.1 million in 2010, mostly because Tri-Dam operations resulted in an increase in net assets after accounting for distributions to the two irrigation districts.

Depreciable assets increased almost $8.5 million during 2010 due to completion of several water system improvements which were transferred out of construction work in progress during 2010. Non-depreciable assets consist mostly of construction in progress which declined in 2010 as construction projects which were completed and transferred to depreciable assets exceeded new construction in progress.



Liabilities payable from restricted assets dropped to zero by during 2010 from over $1.5 million. This amount was for funds paid by the municipal customers of the water treatment plant toward a particular set of capital improvement projects. These funds were potentially refundable to the extent not used for these particular improvements. When the work was completed, it was agreed by the cities that the District should continue to hold these funds and add them to the restricted capital replacement fund of the water treatment plant. Following this agreement, the amount of this liability became a capital contribution increasing restricted net assets.

2009 and 2008 Balance Sheets Compared

Although current assets did not change materially over the course of 2009, there were some significant changes within this category. Accounts receivable increased by $1.6 million or 57%. Cash and investments were down by a similar amount. The change in accounts receivable is mostly due to a difference in the timing of collections for a few large receivables: billings for domestic water to the three participating cities, an electric utility had fallen three months behind in paying for electricity from the solar farm, and Tri-Dam Power Authority had declared but not paid a cash distribution to the District of $650,000.

"Notes and loans receivable" is a new item for 2009, in the amount of $811,778. This consists, in part, of a $306,838 receivable from the State of California, commonly known as the Proposition 1A receivable. Under the provisions of Proposition 1A, which amended the state constitution in 2004, the State of California borrowed 8% of the District's Proposition 13 subvention revenues for the 2009-2010 property tax year.

On July 1, 2009, the Governor proclaimed an emergency pursuant to Proposition 1A, and on July 28, 2009 the state assembly passed budget acts to authorize, and establish the terms of, the Proposition 1A borrowing. The state is required to repay this borrowing plus interest at 2% by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten year period.

The District's investment in the Tri-Dam Project decreased in 2009 from 2008 by about $1.1 million because Tri-Dam Project distributions to the two Districts exceeded its net income for the year.

Construction costs have dropped in recent years, so the District engaged in an accelerated effort to replace and upgrade portions of the irrigation infrastructure during 2008 and 2009 which added about $7.8 million to the cost of capital assets in 2009 before depreciation, or about $1.9 million net of the year's depreciation expense. Non-depreciable assets consisted mostly of construction in progress which declined in 2009 as construction projects were completed and transferred to depreciable assets.

Current liabilities fell by 47% or $4.5 million dollars during 2009. A major component of this decrease was the balance of accounts payable which dropped by about $2.2 million due to the timing of when construction invoices were paid near the year end. The other major change in current liabilities relates to a prior period adjustment recorded in 2009.

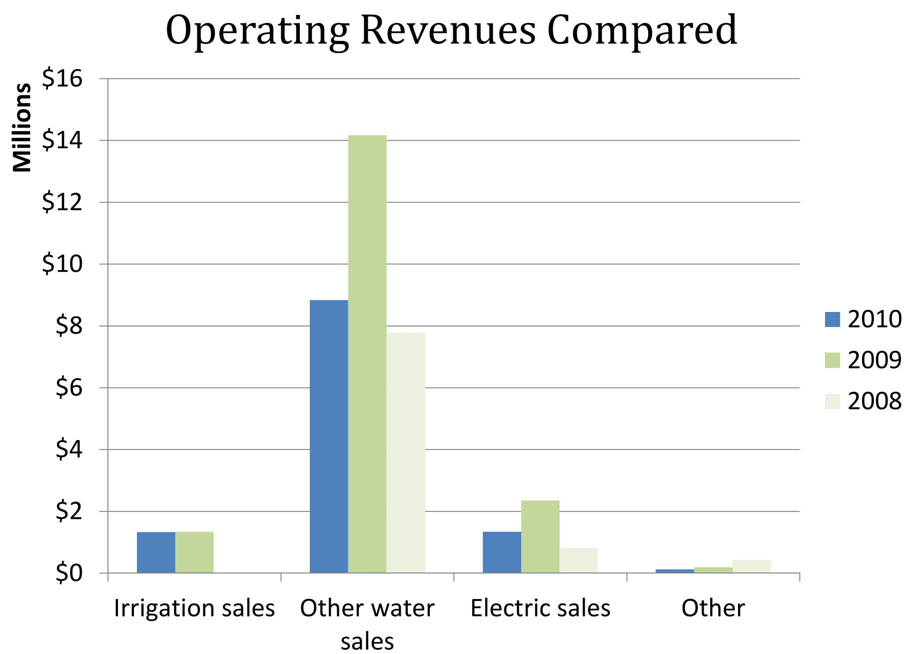
Comparative Statement of Revenues

For the Years Ended December 31

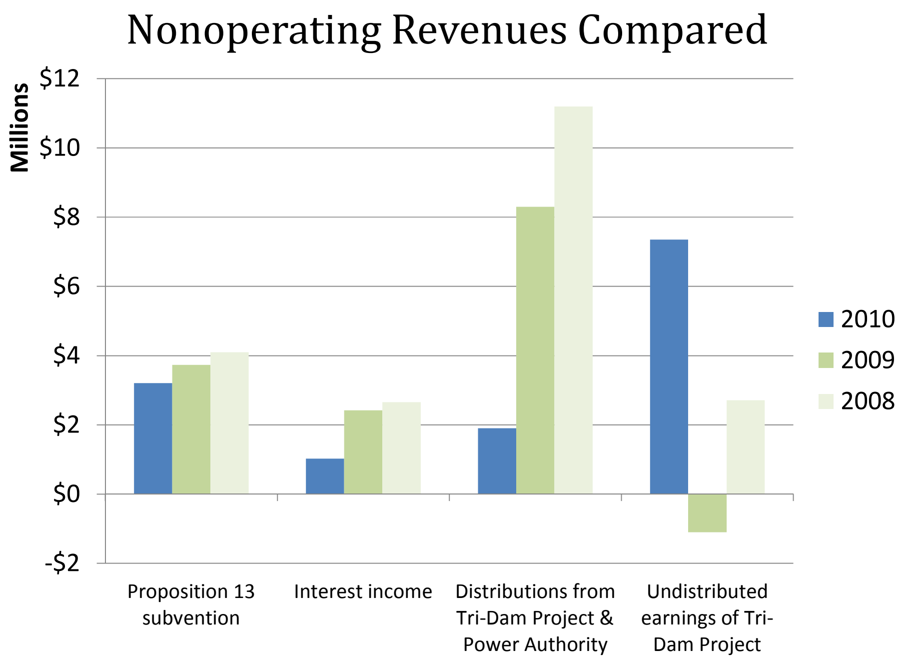
	2010	2009	2008
Operating Revenues			
Irrigation sales	$1,332,958	$1,338,412	$13,799
Other water sales	8,836,568	14,167,370	7,788,119
Electric sales	1,335,568	2,346,169	817,898
Other	123,894	187,715	424,862
Total Operating Revenues	11,628,988	18,039,666	9,044,678
Nonoperating Revenues			
Proposition 13 subvention	3,210,297	3,734,550	4,098,199
Interest income	1,025,033	2,419,831	2,653,773
Distributions from Tri-Dam Project & Power Authority	1,900,000	8,300,000	11,200,000
Undistributed earnings of Tri-Dam Project	7,350,555	(1,098,358)	2,711,473
Gain (loss) on property and equipment	12,301	(77,932)	38,840
Total Nonoperating Revenues	13,498,186	13,278,091	20,702,285
Total Revenues	$25,127,174	$31,317,757	$29,746,963

2010 and 2009 Revenues Compared

The comparative statement of revenues shows changes from 2009 to 2010 in the District's revenues, classified into operating and nonoperating categories. Total revenues dropped about $6.2 million and this is mostly attributable to a decline in "other water sales". Sales of water to other districts and agencies is the largest component of other water sales. This revenue source can fluctuate widely from year to year. The amount of income realized depends on the supply of water available to the District, the amounts needed by other districts and agencies, the market price, and the availability of capacity in delivery facilities.



Income from electric sales fell by just over $1 million. This is almost entirely due to a decrease in revenues of the solar electric generating plant, because of the terms of a one-time state incentive program. Under the Self-Generation Incentive Program the District received the full available incentive in 2009, after the District had demonstrated the solar plant was operational. In 2010 the District did not have this incentive income. The District also qualifies for financial incentive under the California Solar Initiative which pays over the course of five years of demonstrated performance. Interest income declined as a result of falling yields within the District's investment portfolio. This is partly due to market conditions, and partly caused by a move to shorter term investments in anticipation of the Division 9 construction project and an expectation that interest rates will enter a rising trend.



From 2009 to 2010, Tri-Dam distributions fell from $8.3 million to $1.9 million, a decrease of $6.4 million or 77%. The Donnells generator breakdown occurred two months after the last planned distribution of 2009 to the District, and played no role in the reduced distributions of 2009. However, the breakdown was a factor in the reduced distributions of 2010. Other factors were the costs of construction for the third generator at Tulloch Dam, and the continuation of low prices in the wholesale electric market.

Tri-Dam has insurance coverage for the repair costs of the damaged Donnells generator and for the revenues lost when the generator was not operating. Late in 2010, a partial settlement was agreed upon with the insurer which, in large part, made possible a cash distribution in January, 2011 of $8,455,000 to the District.

Equity in undistributed earnings of Tri-Dam Project is the difference between the amounts distributed to the District, and the District's share of the change in net assets of the Project. In 2009 the District's share of Tri-Dam Project's change in net assets was $1.1 million short of the amount of cash distributed, and this shortfall is reported in the statement of revenues and expenses as a loss. In 2010, the growth in net assets exceeded amounts distributed, and the District's share of this undistributed increase in its Tri-Dam investment was $7,350,555.

2009 and 2008 Revenues Compared

The District typically makes some quantity of water available to other districts and agencies. In 2009, income from such water sales increased by $6 million or 177%. This revenue source can fluctuate widely from year to year. The amount of income realized depends on the supply of water available to the District, the amounts needed by other districts and agencies, the market price, and the availability of transmission capacity.

Income from the solar electric generating plant rose in 2009 by 221% or $1.7 million for two reasons: first, because 2009 was the first full year of operation, and, second, because of the terms of two different state incentive programs. Under the Self-Generation Incentive Program the District received the full available incentive in 2009, after the District had demonstrated the solar plant was operational. The District also qualified for financial incentive under the California Solar Initiative which pays over the course of five years of demonstrated performance. The change in water treatment plant revenue from 2008 to 2009 is primarily the result of a couple of factors including the end of special support by the District after 2008, and the prior period adjustment described above.

Cash distributions from Tri-Dam Project fell significantly in 2009 from the 2008 level. The decrease was 31% or $2.9 million. The cause of this was a reduction in the price of electricity from a weighted average of 8.28¢ per kWh in 2008 to 4.33¢ in 2009. The generator breakdown occurred two months after the last planned distribution of 2009 to the District and played no role in the reduced distribution. Equity in undistributed earnings of Tri-Dam Project is the difference between the amounts distributed to the District, and the Districts share of the change in net assets of the Project. In 2008 the District's equity in the Tri-Dam Project increased by $2.7 million because the District's share of what the Project earned was $2.7 million in excess of the amounts distributed to the District. In 2009 the District's share of Tri-Dam Project's change in net assets was $1.1 million short of the amount of cash distributed, and this shortfall is reported in the statement of revenues and expenses as a loss.

Comparative Statement of Operating Expenses

For the Years Ended December 31

	2010	2009	2008
Wages, benefits, & payroll taxes	$9,701,429	$10,716,052	$8,848,063
Materials & supplies	1,711,529	1,829,990	1,628,751
Maintenance, repairs, and improvements	556,158	948,042	998,540
Utilities	747,437	922,181	684,687
General and administrative	3,716,859	3,027,729	1,835,191
Depreciation	5,957,370	5,981,417	5,620,984
Total operating expenses	$22,390,782	$23,425,411	$19,616,216

2010 and 2009 Operating Expenses Compared

The condensed statement of operating expenses shows little change in total operating expenses. Overall, operating expenses dropped about 4.5%, or just over $1 million from 2009 to 2010. Wages, benefits and payroll taxes fell over 9%, or $1 million. This decrease is entirely attributable to the District's decision to fully fund its actuarial accrued liability for other postemployment benefits ("OPEB") 2009. Government Accounting Standards Board ("GASB") Statement 45 required the District to recognize, for the first time, the unfunded actuarial accrued liability for medical benefits the District is obligated to provide to certain qualifying retirees in the future. Once this unfunded liability of $1,167,476 had been identified, the board of directors chose to fully fund it with a payment to a trust administered by CalPERS. This drove the OPEB expense to $1.2 million in 2009. It is now the policy of the district to fully fund each year's expense. In 2010 the OPEB expense has dropped to $74,000 which is the amount accrued only for 2010.

The other significant change within operating expenses was an increase of almost $700,000, or 23%, in general and administrative expense. This is caused by an increase in legal fees which are largely attributable to the District's intervention in PG&E's general rate case at the California Public Utilities Commission, and to the District's preparations to begin providing retail electric service.

2009 and 2008 Operating Expenses Compared

Overall, operating expenses increased almost 18% from 2008 to 2009. There were several contributors to this increase: recognition of a liability for future retirement medical benefits, increased water volume demanded of the water treatment plant, 12 months operation of the solar generation plant for the first time, and a number of upgrades to irrigation system controls that did not meet the threshold to be capitalized rather than expensed.

Labor costs rose about $1.9 million during 2009. This was mostly in the area of benefit costs. The largest component of the increase in benefit costs was related to the implementation of GASB Statement 45 as described above.

Output of the water treatment plant increased 16% and this drove an increase in the variable costs of the plant.

Condensed Statement of Cash Flows

For the Years Ended December 31

	2010	2009	2008
Cash used by operating activities	($4,136,038)	($5,099,752)	($543,363)
Cash provided by noncapital financing activities	3,256,878	5,227,712	5,898,199
Cash used by capital and related financing activities	(6,857,736)	(9,529,228)	13,860,832
Cash provided by investing activities	232,896	24,056,884	(16,654,900)
Net Increase (Decrease) in Cash and Cash Equivalents	**($7,504,000)**	**$14,655,616**	**$2,560,768**

2010 and 2009 Cash Flows Compared

The condensed statement of cash flows shows that cash increased almost $14.7 million during 2009, but decreased $7.5 million in 2010. The reasons are found within the four categories of cash flows presented. Operating activities used $3.8 million of cash in 2010 compared to $5.4

million in 2009. This decrease in cash used occurred in cash outlays for operating expenses and was caused partly by lower employee benefit costs described above, and partly by the timing of payments.

Cash provided by noncapital financing activities includes distributions from Tri-Dam Power Authority which were $1.6 million less in 2010 than in 2009 for reasons of timing. Net cash flow of Tri-Dam Power Authority in 2010 was about the same as in 2009. The 2009 distribution was largely a reflection of cash flows in prior periods. This category of cash flows also includes Proposition 13 subvention (property tax) receipts from San Joaquin County, which were reduced in 2010 because assessable property values have declined, and because the state borrowed from the District's property tax receipts. Under the provisions of Proposition 1A, which amended the state constitution in 2004, the State of California borrowed 8% of the District's Proposition 13 subvention revenues for the 2009-2010 property tax year. The lower Tri-Dam Power Authority distributions and the state's Proposition 1A borrowing caused a $2.3 million decline in cash provided by noncapital financing activities.

In 2010, cash flows from capital and related financing activities used about $1.7 million more than in 2009. The causes of the increase include a land purchase of about $700,000. This property was acquired as a possible future site for the District headquarters and a yard for equipment and inventory. Almost $700,000 was spent on equipment, vehicles, and excavators in 2010 as compared to $173,000 in 2009. $872,000 was spent on additions and improvements to the water treatment system in 2010 while only about $50,000 was spent in 2009.

Cash provided by investing activities was much higher in 2009 than in 2010. The two primary reasons are that cash distributions from Tri-Dam Project and Tri-Dam Power Authority were much higher in 2009, and during 2009 funds were shifted from securities investments to interest bearing cash accounts.

2009 and 2008 Cash Flows Compared

The statement of cash flows shows that operating activities used $5.1 million of cash in 2009 compared to only $543,363 in 2008. This is because accounts receivable grew by $1.6 million, accounts payable fell by almost $2.2 million, and deferred revenue fell by just over $2.0 million. The 2009 change in accounts receivable is mostly due to a difference in the timing of collections for a few large receivables: billings for domestic water to the three participating cities, an electric utility had fallen three months behind in paying for electricity from the solar farm, and Tri-Dam Power Authority had declared but not paid a cash distribution to the District of $650,000. Accounts payable dropped by about $2.2 million in 2009 due to the timing of when construction invoices were paid near the end of 2009. Deferred revenue fell because, during 2009, the District discontinued the practice of collecting in advance a full year's payment from the municipal customers of the water treatment plant, for fixed expenses. During 2009, the District began billing for this amount monthly in arrears.

In 2008, cash flows from capital and related financing activities provided $13.9 million between what was spent on capital improvements and $25 million received as proceeds of new long term debt. In 2009 this category of activities used $9 million. The most important cause of this reversal in 2009 was the absence of long term borrowing in 2009. During both years the

District was engaged in an unusually high level of capital spending to replace and improve infrastructure.

Due in part to the issuance of long term debt in 2008, cash flows from investing activities changed from a negative $16.7 million in 2008 to a positive $23 million in 2009. The biggest difference between the two years in this category of cash flows was that the District disbursed $28 million to purchase investments in 2008 to temporarily hold cash reserves from the proceeds of the 2008 long term debt sale and other sources.

Expectations for 2011

Due to continuing economic problems in the region, Proposition 13 subvention property tax revenue is expected to fall a few percentage points as compared to 2010. For the 2009-2010 property tax year, the state borrowed 8% of the District's property tax revenue under the provisions of Proposition 1A. That had an impact on cash flow in 2010, which will not affect 2011. No increases are planned for irrigation rates. Revenue from outside water sales is expected to be about the same as in 2010.

The generator that failed at Donnells dam was out of service for parts of 2009 and 2010. In 2011, that generator is expected to be in service for a full calendar year for the first time since 2008. This factor, with expected high river flows, contributes to an expectation of much higher cash distributions from Tri-Dam. The District expects a 600% increase in 2011 yielding about $14,000,000 of cash flow.

Capital Improvements

In 2011 the District will begin construction of a major capital improvement project that the District expects to complete in 2012 at a cost of about $14 million. This project, known as the Division 9 Project will build a pressurized distribution system parallel to the existing system in one of the District's nine geographical divisions. A pressurized system has several advantages:

- Irrigators can use drip or sprinkler delivery instead of flooding without investing in, and operating, their own groundwater pumps.
- Less water is used to irrigate a given area.
- Water is available to irrigators more frequently which allows growers to maintain optimal soil moisture levels, instead of on a 10 or 20 day rotation which causes wide fluctuations in soil moisture.
- Enables accurate metering of water use.
- Positions the District to comply with known future requirements to bill irrigators on the basis of water volume usage.

Partly to accommodate the diversion of personnel to this project, spending on other capital improvements will be scaled back from the above average levels of recent years to levels that are closer to long term averages.

Requests for Information

This discussion is intended to provide management's perspective on the District's financial position and results of operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Supervisor, PO Box 747, Ripon, CA 95366.

Basic Financial Statements

South San Joaquin Irrigation District
Balance Sheets
December 31, 2010 and 2009

	2010	2009 Restated
ASSETS		
Current Assets		
Cash - unrestricted	$8,819,764	$15,366,520
Cash - restricted	2,396,311	3,353,555
Investments in marketable securities	16,190,106	16,176,648
Accounts receivable	3,062,203	4,266,966
Accrued interest receivable - unrestricted	124,072	181,286
Accrued interest receivable - restricted	38,485	20,650
Inventories	200,194	226,189
Prepayments	677,884	287,261
Total Current Assets	31,509,019	39,879,075
Other Assets and Investments		
Investments in marketable securities (net of current and restricted investments)	22,846,532	21,089,100
Notes and loans receivable	840,209	811,778
Total Other Assets and Investments	23,686,741	21,900,878
Restricted Assets		
Investments (Reserves for debt service, construction, water treatment plant)	18,271,612	17,553,182
Investment in Tri Dam Project	46,074,299	38,723,744
Total Restricted Assets	64,345,911	56,276,926
Capital Assets		
Non-depreciable	9,400,916	12,415,865
Depreciable	232,189,006	223,712,081
Less accumulated depreciation	(42,807,492)	(36,904,820)
Total Capital Assets	198,782,430	199,223,126
TOTAL ASSETS	$318,324,101	$317,280,005

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

South San Joaquin Irrigation District
Balance Sheets
December 31, 2010 and 2009

	2010	2009 Restated
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$773,027	$882,976
Accrued expenses	574,621	548,389
Deferred revenue	1,334,798	1,336,307
Accrued employee time-off payable	525,943	454,185
Current portion of long-term debt	2,010,000	1,935,000
Total Current Liabilities	5,218,389	5,156,857
Liabilities Payable from Restricted Assets		
Refundable deposits for water treat. plant improve.	0	1,509,806
Total Liabilities Payable from Restricted Assets	0	1,509,806
Long-Term Liabilities		
Accrued employee time-off payable	1,436,301	1,594,580
LT Debt - 2008 Certificates of Participation	19,125,000	21,135,000
Total Long-Term Liabilities	20,561,301	22,729,580
TOTAL LIABILIITES	25,779,690	29,396,243
Net Assets		
Invested in capital assets, net of related debt	193,160,163	192,390,099
Restricted	66,780,707	58,141,325
Unrestricted	32,603,541	37,352,338
TOTAL NET ASSETS	292,544,411	287,883,762
TOTAL LIABILITIES AND NET ASSETS	$318,324,101	$317,280,005

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

South San Joaquin Irrigation District
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended December 31, 2010 and 2009

	2010	2009 Restated
OPERATING REVENUES		
Irrigation sales	$1,332,958	$1,338,412
Other water sales	8,836,568	14,167,370
Electric sales	1,335,568	2,346,169
Other	123,894	187,715
Total Operating Revenues	11,628,988	18,039,666
OPERATING EXPENSES		
Wages	5,505,963	5,359,487
Payroll taxes and benefits	4,195,466	5,356,565
Materials and supplies	1,711,529	1,829,990
Maintenance, repairs, and improvements	556,158	948,042
Utilities	747,437	922,181
Conservation	0	0
General and administrative	3,716,859	3,027,729
Depreciation	5,957,370	5,981,417
Total Operating Expenses	22,390,782	23,425,411
Net Loss From Operations	(10,761,794)	(5,385,745)
NONOPERATING REVENUES (EXPENSES)		
Proposition 13 subvention	3,210,297	3,734,550
Interest income	1,025,033	2,419,831
Changes in market value of investments	(167,185)	(728,478)
Interest expense	(799,203)	(931,420)
Gain (loss) on property and equipment	12,301	(77,932)
Tri-Dam Power Authority distributions	200,000	1,800,000
Tri-Dam Project distributions	1,700,000	6,500,000
Undistributed earnings of Tri-Dam Project	7,350,555	(1,098,358)
Total Nonoperating Revenues (Expenses)	12,531,798	11,618,193
Net Income (Loss) before Contributions	**1,770,004**	**6,232,448**
Capital contributions	2,890,645	1,793,649
Change in Net Assets	**4,660,649**	**8,026,097**
Net Assets, Beginning of Year	287,883,762	279,857,664
NET ASSETS, END OF YEAR	**$292,544,411**	**$287,883,761**

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

South San Joaquin Irrigation District
Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009

	2010	2009 Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$12,708,347	$14,151,216
Other receipts	123,894	187,715
Payments for goods and services	(7,180,329)	(9,098,579)
Payments to employees for services	(9,787,950)	(10,340,104)
Cash Used by Operating Activities	(4,136,038)	(5,099,752)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax receipts	3,056,878	3,427,712
Tri Dam Power Authority cash distributions	200,000	1,800,000
Cash Provided by Noncapital Financing Activities	3,256,878	5,227,712
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	1,380,839	980,951
Proceeds from the sale of property, plant, and equipment	12,301	(77,932)
Purchase of property, plant, and equipment	(5,516,674)	(7,570,827)
Payments on long-term debt	(1,935,000)	(1,930,000)
Interest payments on long-term debt	(799,203)	(931,420)
Cash Used by Capital and related Financing Activities	(6,857,736)	(9,529,228)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,064,412	2,898,860
Purchases of investment securities	(117,465,557)	(104,152,402)
Proceeds from sales and maturities of investment securities	114,809,052	118,819,954
Purchases of notes and loans receivable	124,988	(9,528)
Tri Dam Project cash distributions	1,700,000	6,500,000
Cash Provided by Investing Activities	232,896	24,056,884
Net Increase (Decrease) in Cash and Cash Equivalents	(7,504,000)	14,655,616
Cash and Cash Equivalents at Beginning of Year	18,720,075	4,064,458
Cash and Cash Equivalents at End of Year	**$11,216,075**	**$18,720,074**

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

South San Joaquin Irrigation District
Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009

	2010	2009 Restated
RECONCILIATION OF NET LOSS FROM OPERATIONS TO CASH USED FOR OPERATING ACTIVITIES		
Net Loss From Operations	($10,761,795)	($5,385,745)
Depreciation	5,957,370	5,981,417
(Increase) Decrease in operating assets		
Accounts receivable	1,204,763	(1,460,761)
Inventories	25,995	(21,017)
Prepayments	(390,623)	(48,406)
Increase (Decrease) in operating liabilities		
Accounts payable	(109,949)	(2,179,674)
Accrued expenses	26,232	(121,540)
Deferred revenue	(1,509)	(2,239,975)
Accrued employee time-off payable	(86,521)	375,948
Inspection deposits	0	0
Cash Used by Operating Activities	**($4,136,038)**	**($5,099,753)**

	2010	2009 Restated
RECONCILIATION OF CASH TO BALANCE SHEET		
Cash - unrestricted	$8,819,764	$15,366,520
Cash - restricted	2,396,311	3,353,555
Cash	**$11,216,075**	**$18,720,075**

	2010	2009 Restated
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Assets received as capital contributions	$1,509,806	$812,698
Prop. 13 subvention withheld and lent to State of Calif.	0	306,838

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

Notes to the Basic Financial Statements

South San Joaquin Irrigation District
Notes to the Basic Financial Statements
December 31, 2010 and 2009

NOTE 1 – Organization and Description of Business

The South San Joaquin Irrigation District (District) was formed in 1909 and operates as a nonregulated special district of the State of California under the California Water Code which authorizes the District to provide water, electricity, and related recreational facilities. The District provides and distributes irrigation water from the Stanislaus River to a region surrounding the cities of Manteca, Escalon and Ripon. The boundaries encompass about 72,200 acres. The district also owns and operates the Nick C. DeGroot Water Treatment Plant which processes potable water for Manteca, Escalon, Tracy, and Lathrop. The district is governed by an elected five member board of directors. The board of directors has the authority to fix rates and charges for the District's commodities and services. The District may also incur indebtedness, including issuing bonds, and is exempt from federal and state income taxes.

NOTE 2 – Summary of Significant Accounting Policies

Significant accounting policies are those where Generally Accepted Accounting Principles require the District to choose from allowable alternative methods.

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the District as well as the District's one half share of the Tri-Dam Project. Tri-Dam Project is a joint venture formed in 1948 under a joint cooperation agreement between the District and Oakdale Irrigation District for the purpose of operating the dams, reservoirs, canals, and hydroelectric generating plants jointly and equally owned by the District and the Oakdale Irrigation District. The financial statements do not include the Tri-Dam Power Authority as it is a separate legal entity, in the form of a joint powers authority, which the District cannot control without the agreement of a majority of the directors of the Oakdale Irrigation District. Tri-Dam Power Authority issues its own audited financial statements.

B. Basis of Accounting

These financial statements are prepared in conformity with accounting principles generally accepted ("GAAP") in the United States of America. The Governmental Accounting Standards Board ("GASB") is the acknowledged standard setting body for accounting and financial reporting standards followed by government entities in the U. S. A. The District is presented as a single enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business where activities are financed in whole or in substantial part by fees charged in exchange for goods and service provided by the District. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place, so revenues are recognized when earned rather than when received, and expenses are recorded when incurred rather than when paid.

Private-sector standards of accounting and financial reporting issued by the Financial Accounting Standard Board ("FASB") prior to December 1, 1989, are followed in the District's financial statements to the extent that those standards do not conflict with or contradict GASB statements. The District also has the option of following subsequent private-sector guidance subject to this same limitation. The District has elected to follow subsequent private-sector guidance.

Internal transactions between operating divisions of the District have been recorded for management purposes. These internal transactions have been eliminated to avoid double counting of revenues and expenses in the consolidated financial statements.

GASB requires a distinction in the financial statements between operating and nonoperating revenues and expenses, but GASB has not established a standard for the distinction. The District classifies as operating revenues those charges for goods and services which constitute the primary business activities of the District. Operating expenses are those required to provide the primary goods and services of the District and to earn the operating revenues. Nonoperating revenues generally result from nonexchange transactions, financing transactions, or ancillary activities.

C. Revenue Recognition

The District receives what is known as Proposition 13 Subvention income from San Joaquin County. This is a share of property taxes collected by the county. The District recognizes this property tax income only when it becomes susceptible to accrual, that is, when it becomes measurable and available to the District. As of the financial statement date, management accrues the amount of property tax income which it estimates will be collected early enough (within 60 days) to pay current liabilities existing as of the financial statement date.

D. Capital Assets

Property, plant, equipment and infrastructure are reported at historical cost. If the individual cost is less than $10,000 or the estimated usefully life is less than one year, then the cost is reported as an expense rather than as a capital asset. The District capitalizes as part of the asset cost, any significant interest incurred during the construction phase of the asset. Donated property and assets constructed by developers are recorded at estimated fair market value at the date of donation. Depreciation is provided using the straight-line method for assets other than land. Estimated useful lives as are follows:

Assets	Years
Dams, canals and distributor laterals	25-100
Pumping equipment and turbines	10-50
Drainage laterals	40-100
Buildings	19-40
Machinery and equipment	5-20
Office equipment	3-15
Vehicles and trucks	4-10

E. Cash

GAAP allows a financial statement issuer to choose the focus of the statement of cash flows as either cash or "cash and cash equivalents". The District uses only cash as the focus of the statement. Cash includes restricted and unrestricted amounts of cash on hand, demand deposits, and positions in a money market mutual fund or a cash and investment pool, if they have the same liquidity characteristics as a demand deposit.

F. Use of Restricted Assets

The use of some assets can be restricted to certain purposes by law, by grantors of the assets, by legislative acts of the board of directors, or by contracts to which the District is a party. When the District has a choice to use either restricted or unrestricted funds the District's policy is normally to use restricted funds first.

G. Accounts Receivable

Trade and property tax receivables are not shown net of an allowance for uncollectible amounts because the amounts estimated by management to be uncollectible are immaterial. Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate is limited generally to one percent of assessed value, and can be levied by only the county, and shared by applicable jurisdictions within the county. The County of San Joaquin collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due to the county on November 1 and March 1, and become delinquent on December 10 and April 10. The District receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the District. The District recognizes property tax revenues in the fiscal year in which they are due to the District and accrues as a receivable such taxes received within 60 days after the year end.

H. Inventory
Inventories are valued at cost based upon physical determinations made at the end of each year.

I. Prepayments
Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments in the financial statements.

J. Investment Basis
All investments are carried at their fair market value. Market values may have changed significantly after year-end.

K. Compensated Absences
The total amount of liability for compensated absences is reflected in the basic financial statements. It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is liability for a portion of unpaid accumulated sick leave since the district does have a collective bargaining agreement with or on behalf of its employees which provides payments up to 100 percent of the accumulated and unused portion of sick leave amounts when employees separate from service with the District either at retirement or other termination of employment.

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

Notes to the Basic Financial Statements

NOTE 3 – Cash and Investments

A. Classification

Cash and investments are classified in the financial statements as shown below at December 31, 2010 and 2009:

	2010	2009
Cash - unrestricted	$8,819,764	$15,366,520
Cash - restricted	2,396,311	3,353,555
Investments in marketable securities - current portion	16,190,106	16,176,648
Investments in marketable securities *(net of current and restricted investments)*	22,846,532	21,089,100
Investments *(Reserves for debt service, construction, water treatment plant)*	18,271,612	17,553,182
Total cash and investments	**$68,524,325**	**$73,539,005**

B. Investment Policy

Under the provisions of the District's investment policy, and in accordance with California Government code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One issuer
Bonds issued by the District	5 years		None	N/A
Obligations issued by United States government or its agencies	5 years		None	None
Obligations issued by any state or any local agency within any state in the United States	5 years		None	None
Bankers acceptances	180 days		40%	30%
Commercial paper	270 days	A1/P1/F1	25%	10%
Negotiable certificates of deposits	5 years		30%	None
Medium term corporate notes	5 years	A	30%	None
California Local Agency Investment Fund	N/A		None	None
Collateralized obligations and mortgage backed bonds	5 years	A	20%	None
Repurchase agreements	5 years		None	None
Money market funds	N/A	Highest from 2 NSROs	20%	None

C. Interest Rate Risk

Interest rate risk is the risk that increases in market interest rates will decrease the market value of an investment. Normally, the longer the remaining maturity of an investment, the greater is the sensitivity of its market value to changes in the market interest rates. The District's investment policy limits exposure to interest rate risk by requiring that maturities be planned to accommodate the District's operating cash flow forecast so that securities can be held to maturity to avoid realizing losses on premature sales. 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 by the following table that shows the distribution of the District's investments by maturity or earliest call date as of December 31, 2010. Amounts in this table include accrued interest.

2010 INVESTMENTS BY MATURITY

		Maturity			
Investments	**Credit Rating Moodys/S&P**	**12 months or less**	**13-24 months**	**25 months+**	**Totals**
Federal Agency Securities:					
Federal Home Loan Banks	Aaa/AAA	$12,558,954	$5,061,800	$2,503,750	$20,124,504
Federal Home Loan Mortgage Corp.	Aaa/AAA	1,006,950	5,099,650	9,916,950	16,023,550
Federal National Mortgage Association	Aaa/AAA	518,045	5,021,700	2,001,180	7,540,925
Corporate Medium Term Notes	Aa3	270,833			270,833
	A1/A	275,763			275,763
	A1/AA		1,043,460		1,043,460
	A3/A	918,514			918,514
Money Market Mutual Funds					
Fidelity Money Funds	Not Rated	6,350,812			6,350,812
Blackrock Liquidity Fund	Not Rated	5			5
Local Agency Investment Fund		4,588,161			4,588,161
Certificates of Deposit	FDIC Insured	2,701,302	1,465,132		4,166,434
Asset Backed Securities					
Federal Home Loan Mortgage Corp	Not Rated	248,062	274,009		522,070
Fidelity National Mortgage Association	Not Rated	1,078,477			1,078,477
Municipal Bonds					
New Jersey Economic Development	Aa3/AA	119,657			119,657
California St Rans Ser	MIG1/SP-1	4,719,950			4,719,950
Los Angeles Calif St Bldg Auth	A2/BBB	504,110			504,110
Cash on Hand and in Bank		434,242			434,242
Total		$36,293,835	$17,965,751	$14,421,880	$68,681,466

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 by the following table that shows the distribution of the District's investments by maturity or earliest call date as of December 31, 2009. Amounts in this table include accrued interest.

2009 INVESTMENTS BY MATURITY

		Maturity			
Investments	**Credit Rating**	**12 months or less**	**13-24 months**	**25 months+**	**Totals**
Federal Agency Securities:					
Federal Home Loan Banks	AAA	$4,028,120	$8,750,178	$15,811,435	$28,589,733
Federal Home Loan Mortgage Corp.	AAA	2,004,820	996,880		3,001,700
Federal National Mortgage Assoc.	AAA		995,000		995,000
Federal National Mortgage Assoc.	AAA			2,478,125	2,478,125
Corporate Medium Term Notes	AA3		276,925		276,925
	A1		295,416		295,416
	A3	1,469,984	931,281		2,401,265
	BAA1		55,037		55,037
	B2		457,947	402,055	860,002
	Not Rated			952,496	952,496
Money Market Mutual Funds					
Fidelity Money Funds	AAAm	13,795,458			13,795,458
Blackrock Liquidity Fund	AAAm	25,240			25,240
Local Agency Investment Fund		4,375,133			4,375,133
Certificates of Deposit	FDIC Insured	7,265,000			7,265,000
Asset Backed Securities					
Federal Home Loan Mortgage Corp	Not Rated	1,721,594	437,722	430,397	2,589,713
Fidelity National Mortgage Assoc.	Not Rated	2,472,418	2,186,787		4,659,205
Municipal Bonds					
New Jersey Economic Development	A1		115,724		115,724
EQUITY - CIT GROUP (CIT)	Not Rated	254,205			254,205
Cash on Hand and in Bank		750,894			750,894
Total		$38,162,866	$15,498,897	$20,074,508	$73,736,271

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429.1 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

Money market funds and mutual funds are available for withdrawal on demand and at December 31, 2010, matured in an average of 55 days.

D. Concentration of Credit Risk

Investments in the securities of any individual issuer, other than U.S. Treasury securities, mutual funds, and external investment funds, that represent 5% or more of total District-wide investments are as follows at December 31, 2010.

Issuer	Investment Type	Amount
Federal Home Loan Bank	Federal Agency Securities	$20,124,504
Federal National Mortgage Assoc.	Federal Agency Securities	7,540,925
Federal Home Loan Mortgage Corp	Federal Agency Securities	16,545,620
California St Rans Ser	Municipal Bonds	4,719,950

Investments in the securities of any individual issuer, other than U.S. Treasury securities, mutual funds, and external investment funds, that represent 5% or more of total District-wide investments are as follows at December 31, 2009.

Issuer Investment Type Amount		
Federal Home Loan Bank	Federal Agency Securities	$ 28,589,733
Federal National Mortgage Assoc.	Federal Agency Securities	4,659,205

At December 31, 2010, cash included $433,442 held in commercial banks of which 100% was insured by the Federal Deposit Insurance Corporation. On November 9, 2010 the FDIC implemented section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance for noninterest-bearing demand accounts for the period of December 31, 2010 through December 31, 2012. At December 31, 2009, cash included $450,194 held in commercial banks of which 100% was either insured by the Federal Deposit Insurance Corporation or collateralized, as shown in the following table:

	2010	2009
FDIC insured	$433,442	$250,000
Uninsured and collateralized		500,194
Total	$433,442	$750,194

E. Restricted Cash and Investments

Cash and short-term investments restricted for use only in capital projects is reported as noncurrent assets. The District follows the practice of reporting in this category the funds contributed by the cities of Escalon, Lathrop, Manteca and Tracy for the purpose of financing capital improvements and replacements to the Nick C. DeGroot Water Treatment Plant and related facilities.

NOTE 4 –Accounts and Notes Receivable

Accounts receivable are composed of the following elements:

	2010	2009
Proposition 13 subvention	1,887,485	2,071,005
Water treatment plant sales	767,679	1,117,148
Irrigation charges	389,715	405,279
Miscellaneous	17,324	19,341
PG&E	-	311,030
Tri Dam Authority	-	650,000
Total	3,062,203	4,573,804

Notes and loans receivable consist of two significant amounts. Effective July 28, 2009, per the amended Developer's Agreement dated October 1, 2008, between South San Joaquin Irrigation District and a real estate developer, the District recognizes a note receivable of $495,412 for the developer's financial responsibility to reimburse the District for the cost of installing certain improvements to District facilities which benefit the developer's project, as outlined in the agreement. This amount becomes payable to the District, plus interest at the rate of 4.5% per annum when any permits are issued by the City of Manteca for said developer's project or July 28, 2017, whichever occurs first.

The second item in notes and loans receivable is a loan to the State of California. Under the provisions of Proposition 1A and as part of the 2009/10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten year period. The amount of this borrowing pertaining to the District at December 31, 2010 and at December 31, 2009 was $306,838.

Notes to the Basic Financial Statements

NOTE 5 – Investment in the Tri-Dam Project

The District has a fifty percent investment in the Tri-Dam Project. The Tri-Dam Project's condensed audited financial data is presented below.

Tri Dam Project

Condensed Balance Sheets

For the Years Ended December 31, 2010 and 2009

	2010	2009
Current assets	$38,858,913	$34,017,019
Noncurrent assets	2,908,489	3,126,124
Capital assets	52,473,923	42,420,349
Total assets	$94,241,325	$79,563,492
Current liabilities	$2,056,714	$2,095,960
Long-term liabilities	36,013	20,045
Total liabilities	2,092,727	2,116,005
Net assets invested in capital assets	52,473,923	42,420,349
Unrestricted net assets	39,674,675	35,027,138
Total net assets	92,148,598	77,447,487
Total liabilities and net assets	$94,241,325	$79,563,492

Tri Dam Project

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

For the Years Ended December 31, 2010 and 2009

	2010	2009
Operating revenues	$19,322,875	$17,580,837
Operating expenses	8,477,120	7,637,794
Net Income from Operations	10,845,755	9,943,043
Nonoperating Revenues		
Investment earnings	106,168	408,615
Water sales	109,804	103,481
Rental of equipment and facilities	61,037	45,041
Reimbursements	77,860	40,451
Other	261,092	262,652
Total Nonoperating Revenues	615,961	860,240
Extraordinary income item - business interruption insur.	6,639,395	
Change in Net Assets	18,101,111	10,803,283
Net assets, beginning of year	77,447,487	79,644,204
Less: Distributions to OID and SSJID	(3,400,000)	(13,000,000)
Net Assets, End of Year	$92,148,598	$77,447,487

NOTE 6 – Property, Plant & Equipment

Changes in property, plant and equipment accounts for the year ended December 31, 2010 are summarized below:

	December 31, 2009	Additions	Disposals	Transfers and Adjustments	December 31, 2010
Capital assets not being depreciated:					
Land	$ 280,323	$ 694,537	$ -	$ -	$ 974,860
Water Treatment Plant Land	5,834,926				5,834,926
Solar Land	512,400				512,400
Construction in progress - Irrigation	4,855,909	3,381,047		(6,157,691)	2,079,265
Construction in progress - WTP	783,081	434,752		(1,218,367)	(535)
Construction in progress - Solar	149,225	26,549		(175,774)	(0)
Total	12,415,864	4,536,884	-	(7,551,833)	9,400,915
Capital assets being depreciated:					
Improvements	243,014				243,014
Dams, canals, and laterals	84,401,243			6,080,573	90,481,816
Buildings	1,380,655				1,380,655
Vehicle and excavators	2,810,724	462,325	(83,329)		3,189,721
Machinerey and equipment	1,806,256	50,148		77,118	1,933,522
WTP Vehicles	254,509	171,277			425,786
Improvements		10,300		373,067	383,367
Water treatment plant - building and equipment	49,597,462	12,222	(135,132)	270,890	49,745,442
Water treatment plant - orig. construction	61,770,051	437,281		574,410	62,781,742
WTP Pump stations - Orig. construction	9,732,439				9,732,439
Solar plant	11,715,729			175,774	11,891,503
Total	223,712,082	1,143,553	(218,461)	7,551,833	232,189,007
Less accumulated depreciation:					
Improvements	(130,429)	(13,994)			(144,423)
Dams, canals, and laterals	(23,319,230)	(1,822,836)			(25,142,066)
Buildings	(441,574)	(32,384)			(473,958)
Vehicle and excavators	(1,599,003)	(295,740)	54,697		(1,840,046)
Machinerey and equipment	(1,057,398)	(130,716)			(1,188,114)
WTP Vehicles	(201,395)	(24,670)			(226,065)
Improvements		(12,863)			(12,863)
Water treatment plant - building and equipment	(3,722,026)	(1,246,984)			(4,969,010)
Water treatment plant - orig. construction	(4,634,555)	(1,572,654)			(6,207,208)
WTP Pump stations - Orig. construction	(973,245)	(324,415)			(1,297,659)
Solar plant	(825,965)	(480,114)			(1,306,079)
Total	(36,904,820)	(5,957,370)	54,697	-	(42,807,492)
Net Depreciable Capital Assets	186,807,262	(4,813,817)	(163,763)	7,551,833	189,381,515
Net Capital Assets	$ 199,223,126	$ (276,933)	$ (163,763)	$ -	$ 198,782,430

Notes to the Basic Financial Statements

Changes in property, plant and equipment accounts for the year ended December 31, 2009 are summarized below:

	December 31, 2008	Additions	Disposals	Transfers and Adjustments	December 31, 2009
Capital assets not being depreciated:					
Land	$ 280,323	$ -	$ -	$ -	$ 280,323
Water Treatment Plant Land	6,347,326			(512,400)	5,834,926
Solar Land	-			512,400	512,400
Construction in progress - Irrigation	6,475,395	6,051,826	(117,702)	(7,553,610)	4,855,909
Construction in progress - WTP	192,148	590,933			783,081
Construction in progress - Solar	2,602,692	926,522	(3,466)	(3,376,523)	149,225
Total	15,897,884	7,569,281	(121,168)	(10,930,134)	12,415,864
Capital assets being depreciated:					
Improvements	262,759		(19,745)		243,014
Dams, canals, and laterals	77,203,830	4,539	(100,981)	7,293,856	84,401,243
Buildings	1,409,507		(28,852)		1,380,655
Vehicle and excavators	3,052,486	172,848	(160,101)	(254,509)	2,810,724
Machinerey and equipment	1,762,356		(215,854)	259,754	1,806,256
WTP Vehicles	-			254,509	254,509
Improvements					-
Water treatment plant - building and equipment	49,549,132	48,330			49,597,462
Water treatment plant - orig. construction	61,434,600	335,451			61,770,051
WTP Pump stations - Orig. construction	9,732,439				9,732,439
Solar plant	8,339,175		31	3,376,523	11,715,729
Total	212,746,284	561,167	(525,503)	10,930,134	223,712,082
Less accumulated depreciation:					
Improvements	(137,207)	(14,729)	21,507		(130,429)
Dams, canals, and laterals	(21,513,284)	(1,831,296)	25,350		(23,319,230)
Buildings	(429,653)	(32,383)	20,462		(441,574)
Vehicle and excavators	(1,576,960)	(303,550)	122,384	159,124	(1,599,003)
Machinerey and equipment	(1,118,994)	(138,137)	199,733		(1,057,398)
WTP Vehicles		(42,271)		(159,124)	(201,395)
Improvements					-
Water treatment plant - building and equipment	(2,483,496)	(1,244,569)		6,039	(3,722,026)
Water treatment plant - orig. construction	(3,066,090)	(1,572,978)	14,899	(10,385)	(4,634,555)
WTP Pump stations - Orig. construction	(653,176)	(324,415)		4,346	(973,245)
Solar plant	(348,878)	(477,087)			(825,965)
Total	(31,327,738)	(5,981,417)	404,335	-	(36,904,820)
Net Depreciable Capital Assets	181,418,546	(5,420,250)	(121,168)	10,930,134	186,807,262
Net Capital Assets	$ 197,316,430	$ 2,149,031	$ (242,335)	$ 0	$ 199,223,126

Donated property and assets constructed by developers are recorded at estimated fair market value at the date of donation. The District recognized capital contributions from various sources as follows:

	2010	2009
Developers	$ 263,282	$ 1,331,772
City of Tracy	889,833	156,534
City of Manteca	1,023,285	180,012
City of Lathrop	714,245	125,331
Total capital contributions	**$ 2,890,645**	**$ 1,793,649**

NOTE 7 – Operating Leases

The District utilizes various pieces of equipment that are leased under a number of non-cancelable operating leases. These leases contains renewal options for additional future periods. Minimum rental payments due under the leases for future calendar years are as follows:

2011	$10,429
2012	6744
2013	3934
Total	$21,107

NOTE 8 – Long Term Liabilities

Long term debt consists of Series 2008A Revenue Certificates of Participation issued on July 1, 2008 in the original amount of $25,000,000. Debt service requires principal payments, ranging from $1,930,000 to $2,715,000 due on July 27 annually through 2019, and semi-annual interest payments, ranging from $55,568 to $412,259, due on January 27 and July 27 through July 27, 2019. Interest rates range from 3.4% to 4.1%. Long term debt is classified in the balance sheets of December 31, 2010 and 2009 as follows:

	2010	2009
Current portion	$2,010,000	1,935,000
Long term portion	19,125,000	21,135,000
Total	$21,135,000	$23,070,000

Debt service requirements to maturity, for years ending December 31, are as follows:

	Principal	Interest	Total
2011	$2,010,000	$815,420	$2,825,420
2012	2,090,000	735,020	2,825,020
2013	2,175,000	651,420	2,826,420
2014	2,260,000	564,420	2,824,420
2015	2,340,000	487,580	2,827,580
2016 – 2019	10,260,000	943,990	11,203,990
Total	$21,135,000	$4,298,030	$25,433,030

Activity during the years ending December 31, 2010 and 2009, in the long term debt accounts, was as shown in the following table:

	December 31, 2009	Additions	Reductions	December 31, 2010	Due Within One Year
2008A Revenue Certificates of Participation	$ 23,070,000	$ -	$ (1,935,000)	$ 21,135,000	$ 2,010,000
Accrued employee time-off payable	$ 2,048,765	$ 515,632	$ (602,153)	$ 1,962,244	$ 525,943

	December 31, 2008	Additions	Reductions	December 31, 2009	Due Within One Year
2008A Revenue Certificates of Participation	$ 25,000,000	$ -	$ (1,930,000)	$ 23,070,000	$ 1,935,000
Accrued employee time-off payable	$ 1,672,816	$ 642,556	$ (266,607)	$ 2,048,765	$ 454,185

NOTE 9 – Net Assets

Net assets are the excess of all the District’s assets over all its liabilities. Net assets are divided into three components under GASB Statement 34.

“Net assets invested in capital assets, net of related debt” describes the portion of net assets which is represented by the current net book value of the District’s capital assets, less the outstanding balance of any debt issued to finance these assets. If a material amount of such debt remains unspent, that amount of the debt is excluded from the calculation of net assets invested in capital assets, net of related debt. Net assets invested in capital assets, net of related debt is made up of the following components as of December 31, 2010 and 2009:

	2010	2009
Total capital assets, net of accumulated depreciation	$ 198,782,430	$ 199,223,126
Less current portion LT debt	(2,010,000)	(1,935,000)
Less noncurrent portion LT debt	(19,125,000)	(21,135,000)
Add Unspent Proceeds of Debt:		
Debt service reserve fund	2,503,755	2,503,365
Construction fund cash and investments	13,008,978	13,733,608
	$ 193,160,163	**$ 192,390,099**

The second component of net assets is restricted net assets which are restricted assets less related liabilities. Restricted assets are assets whose use has been restricted to certain purposes by law, by grantors of the assets, by enforceable legislative acts of the District's board of directors, or by contracts to which the District is a party. The following table shows the composition of restricted net assets for December 31, 2010 and 2009.

	2010	2009
Debt service reserve	$ 2,503,755	$ 2,503,365
Construction fund	13,039,206	13,733,608
Water treatment plant funds	5,163,447	4,690,414
Investment in Tri Dam	46,074,299	38,723,744
Less: liabilities payable from restricted assets	0	(1,509,806)
Total	$ 66,780,707	$ 58,141,325

The third component of net assets is unrestricted net assets which is simply the amount of net assets that does not qualify as either restricted net assets, or as net assets invested in capital assets net of related debt.

NOTE 10 – Retirement Plan

The District contributes to a defined benefit retirement plan for its employees. The following disclosures are required by GASB Statement 27:

Plan Description

Name of plan:	The Miscellaneous Plan of the South San Joaquin Irrigation District
Administrator:	California Public Employees Retirement System (CALPERS)
Type of plan:	Agent multiple-employer defined benefit pension
Type of benefits:	Retirement, disability, annual cost-of-living adjustments and death benefits to plan members and beneficiaries
Authority for benefits:	Benefit provisions are established by state statute and the District's board of directors.
CalPERS report:	Copies of the PERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Funding policy authority:	Required plan contribution amounts are determined annually on an actuarial basis as of June 30 by CALPERS.
Required contribution:	Employer, for year ending June 30, 2011: 14.133% Employer, for year ending June 30, 2012: 17.041% Employee, 8%

Actuarial Methods and Assumptions

Valuation date:	June 30, 2009
Actuarial cost method:	Entry age normal cost
Amortization method:	Level percentage of payroll
Average remaining period:	19 years as of the valuation date

Asset valuation method:	15 year smoothed market
Investment rate of return:	7.75% net of administrative expenses
Projected salary increases:	3.55% to 14.45% per annum depending on age, service, and type of employment
Inflation:	3.00% per annum
Payroll growth:	3.25% per annum
Individual salary growth:	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual productivity growth of 0.25%

Annual Pension Cost and Net Pension Obligation

Year Ending	Employer Required Contribution	Actual as % of Required Contribution
June 30, 2010	$778,830	100%
June 30, 2009	$439,736	100%
June 30, 2008	$401,826	100%

As required contribution amounts have been paid fully and timely, there is no net pension obligation.

NOTE 11: Other Postemployment Benefits

The District provides a defined benefit medical plan for its retirees. The following disclosures are required by GASB Statements 43 and 45:

Plan Description

Name of plan:	South San Joaquin OPEB Medical Benefits Plan
Administrator:	The District
Type of plan:	Single employer defined benefit plan

Type of benefits:	Payment of post-employment medical insurance premiums, ranging from nothing to 100% for retiree and spouse, for up to 180 months. Amount of benefit depends on employee's number of unused sick days at retirement date, length of employment, and bargaining unit membership. Upon retirement, if qualified, employee elects whether to participate.
Authority for benefits:	District's Board of Directors

Funding Policy

Funding policy authority:	District's Board of Directors
Required contribution:	Employee: $0 and at least 10 sick days upon retirement Employer: see table below following Actuarial Methods and Assumptions.

Actuarial Methods and Assumptions

Valuation date:	July 1, 2010
Actuarial cost method:	Entry age normal cost
Amortization method:	Level percentage of payroll
Average remaining period:	30 years open
Asset valuation method:	Market value
Investment rate of return:	7.75% per annum
Projected salary increases:	3.25% per annum
Healthcare Inflation:	Starting at 9.0% and declining to 4.5% per annum for 2017 and later
Payroll growth:	3.25% per annum

Notes to the Basic Financial Statements

Annual Required Contribution, OPEB Cost, and Net OPEB Obligation

Annual Required Contribution ("ARC")

Year Ending	Normal Cost	Amorization of UAAL*	Interest to Year End	ARC
December 31, 2009	$60,952	$1,268,096	($39,798)	$1,289,250
December 31, 2010	$67,865	$2,309	$2,676	$72,850

*UAAL = Unfunded Actuarial Accrued Liability

Annual OPEB Cost

Year Ending	Interest on NOPEBO	ARC	ARC Adjustment	Annual OPEB Cost
December 31, 2009	$0	$1,289,250	$0	$1,289,250
December 31, 2010	$6,196	$72,850	($4,983)	$74,063

Net OPEB Obligation ("NOPEBO")

Year Ending	Annual OPEB Cost	Less: Employer Contribution	Beginning NOPEBO	Ending NOPEBO
December 31, 2009	$1,289,250	($1,209,303)	$0	$79,947
December 31, 2010	$74,063	($79,805)	$79,947	$74,205

Background Information

- Actuarial valuations involve estimates and assumptions about the distant future that are continually revised.
- The schedule of funding progress, located following the notes, provides multi-year trend data to help determine whether net plan assets are increasing or decreasing over time.
- Benefits are projected based on benefit levels as of the date of the valuation and do not explicitly reflect the potential effects of legal or contractual funding limitations.
- Actuarial valuations take a long-term perspective that involves the use of techniques designed to reduce volatility.

Notes to the Basic Financial Statements

NOTE 12 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disaster, for which the District carries commercial insurance. The following is a summary of the insurance policies in force carried by the District as of December 31, 2010.

Type of Coverage	Limit per Occurrence	Aggregate Limit	Deductible
General liability	$1,000,000	$3,000,000	$5,000
Automobile liability	1,000,000	0	0
Hired & non-owned automobile liability	1,000,000	0	0
Bodily injury and advertising injury	1,000,000	3,000,000	5,000
Personal injury and advertising injury	1,000,000	3,000,000	5,000
Employment related practices injury	1,000,000	3,000,000	5,000
Professional liability	1,000,000	3,000,000	5,000
Wrongful acts	1,000,000	3,000,000	5,000
Employee benefits liability	1,000,000	3,000,000	5,000
Fire damage	1,000,000	0	5,000
Employee dishonesty	250,000	0	250
Forgery or alteration	250,000	0	250
Theft, disappearance, and destruction (inside and outside)	250,000	0	250
Computer fraud	100,000	0	250
Excess insurance	10,000,000	10,000,000	0

The District paid no material uninsured losses during the last three fiscal years. Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The District considers claims incurred and reported, as well as claims incurred but not reported, to be immaterial and has not accrued an estimate of such claims payable.

NOTE 13 – Commitments and Contingencies

Water Rights Litigation

Since 1987, the Water resources Control Board has periodically conducted hearings (the Bay-Delta Hearings) relating to the development and implementation of water quality control plans for the San Francisco, Sacramento, and San Joaquin areas. These plans require, among other measures, that water be released for flow into the Delta by water rights holders such as the District. It is not possible to predict the outcome of these hearings; however, it is possible to state that the future outcome could have a serious impact upon the water rights of the District and its joint venture, the Tri-Dam Project. Increasingly, the regulatory trends threaten the rights of water districts. The District may incur substantial litigation or administration expense in protecting its water rights. It is not possible to estimate the potential cost or to determine the financial impact of the hearings on the District.

Other Litigation

The District is involved in other litigation concerning water quality issues. The ultimate outcome of such litigation is not presently determinable, and the District believes that such matters will not have a material adverse impact upon the District's financial position based upon information available at the present time.

NOTE 14 – Jointly Governed Organizations

Jointly governed organizations are legal entities or other organizations that result from a contractual arrangement and that are owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. The District is a participant in the following organizations.

San Joaquin River Group Authority

The District, along with other districts and water agencies, is a member of the Authority. The Authority members have reached agreements with federal, state, and local agencies receiving water exported to them via Sacramento/San Joaquin River Bay/Delta Estuary in regard to implementing the San Joaquin River portion of the Bay Delta 1995 Water quality Plan. A key factor of the Plan requires implementation of the Vernalis Adaptic Management Plan ("VAMP"). The above agreements require Authority members to provide water under certain conditions to assist in meeting water flow and other provisions of the VAMP. The Authority is obligated to provide a maximum of 110,000 acre feet per year with South San Joaquin Irrigation District obligated to provide 11,000 acre feet. The Authority is to receive payment for all water provided, and the District received $486,260 for its share of water transferred during 2009. The District is also obligated to fund a prorate share of the Authority's annual operating budget each year. In 2009 the District's share of the budget was $343,015.37. Agreements to implement VAMP are in effect through 2011. Negotiations to further extend VAMP are ongoing.

Tri-Dam Power Authority

Under a Joint Powers Agreement dated October 14, 1982 between the District and the Oakdale Irrigation District, the Tri-Dam Power Authority (the Authority) was formed as a separate legal entity. The Authority was formed for the purpose of exercising common powers in constructing, operating, and maintaining facilities for the generation of electrical energy. The Authority has constructed and operates a hydroelectric power facility on the Stanislaus River known as the Sand Bar project. Pacific Gas and Electric Company has contracted to purchase all power produced by this facility. The Authority is governed through a joint Board of Directors. However, operations and net assets of the Authority belong solely to the Authority as a separated legal entity. Should the Authority become insolvent, neither District would be liable for Authority debts. Accordingly, the Authority has been excluded from the District's financial statements. The Authority, although not required to do so, has made the periodic cash distributions to both districts from the Authority's surplus funds. These cash distributions are recorded as other venues by the District when received in cash.

NOTE 15: Correction of Accounting Error

The financial statements for 2009 have been restated to report a long term note receivable in the amount of $495,412 and to increase contributed capital by the same amount. Interest income and "accrued interest receivable – unrestricted" has been increased by $9,528. The underlying transaction is described in Note 4 – Accounts and Notes Receivable.

NOTE 16: Reclassifications

Certain reclassifications have been made to the 2009 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

NOTE 17: Subsequent Events

The District has evaluated events subsequent to the balance sheet dates through June 30, 2011. GASB Statement No. 56 requires consideration of subsequent "events that provide evidence with respect to conditions that did not exist at the date of the statement of net assets [balance sheet] but arose subsequent to that date." These subsequent events must be disclosed if their disclosure is essential to the user's understanding of the financial statements.

During January, 2011 the District received a distribution of $8,455,114 from Tri-Dam Project.

NOTE 18: New Accounting Standards

GASB No. 45

In June 2004, the Government Accounting Standards Board issued Statement No. 45 "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension". This pronouncement is effective for the year ended June 30, 2010. This pronouncement requires significant changes to the accounting and disclosures associated with postemployment benefits (OPEB). The District has implemented this for the year ended December 31, 2009.

GASB No. 49

In November 2006, the Governmental Accounting Standards Board issued Statement No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligations." This pronouncement is effective for periods beginning after December 15, 2007. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This pronouncement did not have any effect on the financial statements of the District for the year ended December 31, 2010.

GASB No. 51

In June 2007, the Governmental Accounting Standards Board issued Statement No. 51 "Accounting and Financial Reporting for Intangible Assets." This pronouncement is effective for periods beginning after June 15, 2009. Retroactive reporting of these intangible assets is encouraged but not required. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The District recognizes this pronouncement may have an effect on the District's financial statements in the year of adoption, but has not yet quantified those effects.

GASB No. 52

In November 2007, the Governmental Accounting Standards Board issued Statement No. 52 "Land and Other Real Estate Held as Investments by Endowments". This pronouncement is effective for periods beginning after June 15, 2008, with earlier application encouraged. The Statement requires endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The District has no endowments at December 31, 2010.

GASB No. 53

In June 2008, the Governmental Accounting Standards Board issued Statement No. 53 "Accounting and Financial Reporting for Derivative Investments". This pronouncement is effective for periods beginning after June 15, 2009 with earlier application encouraged. The Statement requires governments to measure most derivative instruments at fair value in their financial statements that are prepared on the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. The District held no derivative instruments at December 31, 2010 and 2009.

GASB No. 54

In March 2009, the Government Accounting Standards Board issued Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This pronouncement is effective for periods beginning after June 15, 2010 with early implementation encouraged. The provisions of this statement should be applied retroactively by restating fund balance for all periods presented. This pronouncement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting information in reporting fund balance information is identifying amounts that are considered non-spendable, such as fund balance associated with inventories. This statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific accounts can be spent. The District has no governmental funds at December 31, 2010 and 2009.

GASB No. 55

In March 2009, the Government Accounting Standards Board issued Statement No. 55 "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." The requirements of this statement were effective upon its issuance. This pronouncement incorporated the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The "GAAP Hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP and the framework for selecting those principles. This pronouncement had no effect on the financial statements of the District for the year ended December 31, 2010.

GASB No. 56

In March 2009, the Government Accounting Standards Board issued Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards". The requirements of this statement were effective upon its issuance. This standard does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. This pronouncement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. This pronouncement had no effect on the financial statements of the District for the year ended December 31, 2010.

Required Supplementary Information

Required Supplementary Information

Required Supplementary Information

Retirement Plan Required Supplementary Information

The schedule of funding progress for the PERS risk pool in which the District's plan is a member, is presented below as required supplementary information, and reports multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The most recent actuarial valuation was prepared as of June 30, 2009.

Schedule of Funding Progress for Pension Benefits

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
6/30/2007	$1,315,454,361	$1,149,247,298	$166,207,063	87.4%	$289,090,187	57.5%
6/30/2008	$1,537,909,933	$1,337,707,835	$200,202,098	87.0%	$333,307,600	60.1%
6/30/2009	$1,834,424,640	$1,493,430,831	$340,993,809	81.4%	$355,150,151	96.0%

Required Supplementary Information for Other Postemployment Benefits ("OPEB")

The schedule of funding progress for the District's OPEB, is presented below as required supplementary information, and reports multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress for Other Postemployment Benefits

Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	Unfunded Actuarial Liability (UAL)	Funded Ratio
			(AAL - AVA)	(AVA/AAL)
12/31/2008	$1,268,096	$0	$1,268,096	0%
12/31/2009	$1,568,982	$1,529,067	$39,915	97%
12/31/2010	$1,668,141	$1,647,570	$20,571	99%