



SOUTH SAN JOAQUIN
IRRIGATION DISTRICT

Annual Financial Report 2011

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South San Joaquin Irrigation District
Annual Financial Report

December 31, 2011 and 2010

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Auditor's Report

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 South San Joaquin Irrigation District (the District) as of and for the year ended December 31, 2011, 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 an opinion on these financial statements based on our audit. The financial statements of the District as of and for the year ended December 31, 2010 were audited by other auditors, whose report dated July 5, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2011 and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued under a separate cover our report dated April 30, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis are required supplementary information on pages 11 through 26 and page 63 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

To the Board of Directors
South San Joaquin Irrigation District

an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain 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.

Richardson & Company

April 30, 2012

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Management's Discussion and Analysis

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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, 2011 and 2010 and its financial performance for the years then ended. Condensed financial information from 2009 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 of 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), Donnell's, 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 1916 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 72,200 acres and supplies water to 3,140 irrigation customers comprising about 47,500 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 and related drainage:

- 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 5.035 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 Donnell's 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 \$26.7 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 \$25.8 million, and the project is scheduled for completion in the spring of 2012.

The Donnell's 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. In 2011 another \$3.11 million was received 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, together with the related footnotes, 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

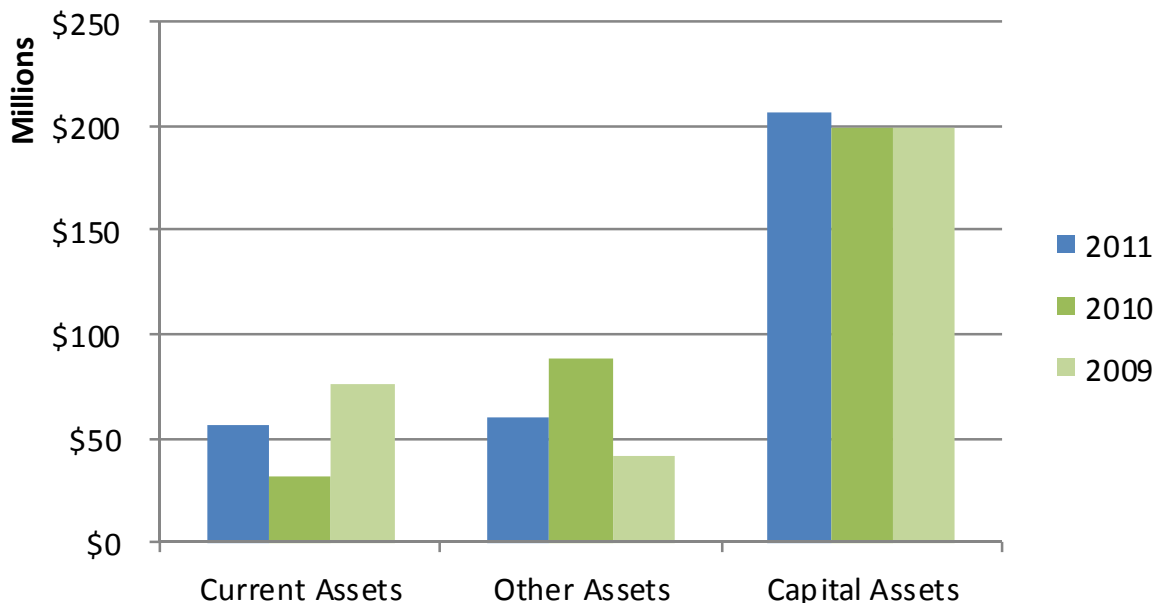
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 56,420,957	\$ 31,509,019	\$ 39,879,075
Other assets and investments	59,838,850	88,032,652	78,177,805
Capital assets	<u>206,869,492</u>	<u>198,782,430</u>	<u>199,223,126</u>
Total assets	<u>\$ 323,129,299</u>	<u>\$ 318,324,101</u>	<u>\$ 317,280,006</u>
Current liabilities	\$ 10,396,199	\$ 5,218,389	\$ 5,156,857
Liabilities payable from restricted assets			1,509,806
Long-term liabilities	<u>18,672,905</u>	<u>20,561,301</u>	<u>22,729,580</u>
Total Liabilities	<u>29,069,104</u>	<u>25,779,690</u>	<u>29,396,243</u>
Net assets invested in capital assets, net of related debt	196,540,240	193,160,163	192,390,099
Restricted net assets	13,976,741	20,706,409	19,417,581
Unrestricted net assets	<u>83,543,214</u>	<u>78,677,839</u>	<u>76,076,083</u>
Total net assets	<u>294,060,195</u>	<u>292,544,411</u>	<u>287,883,763</u>
Total liabilities and net assets	<u>\$ 323,129,299</u>	<u>\$ 318,324,101</u>	<u>\$ 317,280,006</u>

2011 and 2010 Balance Sheets Compared

Current assets increased by almost \$25 million, or 79%, during 2011. This increase was concentrated in the cash and investment accounts. While the total amount of cash and

investments was almost unchanged during 2011, the current portion of investments in marketable securities increased as maturities within the portfolio shortened and redeemed securities were replaced with fewer noncurrent investments. This was done partly to assure adequate liquidity for an unusually heavy construction season underway at the end of 2011. The other side of this change is that other assets and investments, which includes the noncurrent portion of investments in marketable securities, decreased by more than \$28 million due to the shortening of the maturities in the portfolio of investment securities.

Assets Compared



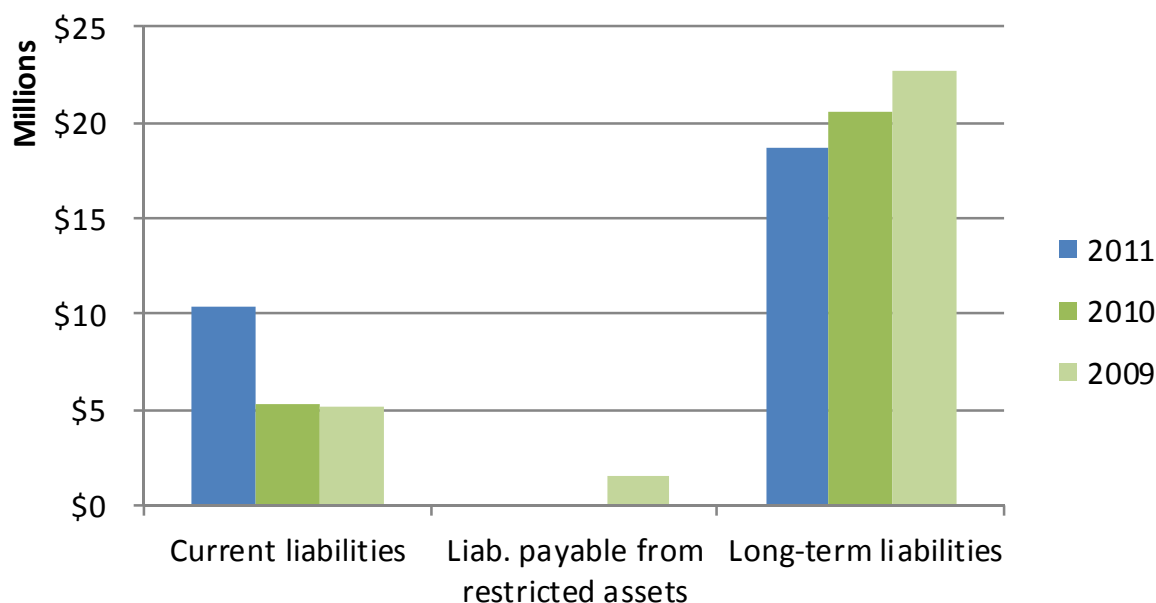
Capital assets grew by \$8 million as the District invested heavily in improvements to the irrigation distribution system, particularly a project known as the Division 9 Project, which is a technologically advanced means of delivering piped, pressurized water to individual irrigators. This allows farmers more flexibility with the timing of their watering, allows them to apply water through sprinkler and drip systems, and reduces the amount of water they need to apply to their fields. The farmers get more control over their irrigation schedule and the District conserves water.

Restricted assets are included in current assets and in other assets and investments. Restricted assets consist of cash and investments in marketable securities. Components of restricted assets are shown in the table below.

Restricted Assets	2011	2010	2009
Debt service reserve fund	\$ 2,498,474	\$ 2,503,755	\$ 2,503,365
Construction fund - irrigation	6,297,274	13,008,978	13,717,732
Construction and capital replacement funds - water treatment	5,157,241	5,155,191	4,685,640
Accrued interest receivable on restricted investments	23,752	38,485	
Total restricted assets	13,976,741	20,706,409	20,906,737
Less: restricted cash reported in current assets	(4,612,029)	(2,396,311)	(3,353,555)
Less: restricted accrued interest receivable in current assets	(23,752)	(38,485)	
Noncurrent restricted assets	\$ 9,340,960	\$ 18,271,613	\$ 17,553,182

Restricted assets decreased about \$6.7 million in 2011 as the restricted construction fund was spent down for qualifying capital projects. The construction fund was created pursuant to the terms of the 2008A certificates of participation to hold the proceeds of the borrowing. The construction fund was restricted to expenditures for capital improvements.

Liabilities Compared



Current liabilities jumped almost 100% or \$5.2 million. About half of this increase is in accounts payable representing open invoices for construction work in progress at the end of 2011. The remainder of the increase is due to liabilities for construction retainages (\$1.1 million) and \$900,000 of on farm conservation liability. During 2011 the District began another conservation program in addition to the Division 9 project, known as the on-farm conservation program, where the District reimburses irrigators for part of the cost of installing qualifying conservation measures. Under the on-farm program, an irrigator proposes new water conservation measures for a farm under guidelines issued by the District. The District determines whether the proposals qualify, and if they do, then the District records a liability for a portion of the cost of installing the qualifying conservation measures. Once the conservation

measures are installed and satisfactorily inspected, the District pays the cost-share amount to the farmer which relieves the liability.

2010 and 2009 Balance Sheets Compared

Current assets decreased by almost \$8.4 million, or 21%, 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 flows 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.

Other assets and investments increased \$9.9 million or 13% mostly because of growth in the District's investment in the Tri-Dam Project. The District's equity in the Tri-Dam Project increased as most of the Project's earnings were retained and not distributed in 2010.

The amount of capital assets changed less than 1% during 2010 as depreciation offset increases in asset balances. 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 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.

Comparative Statement of Revenues

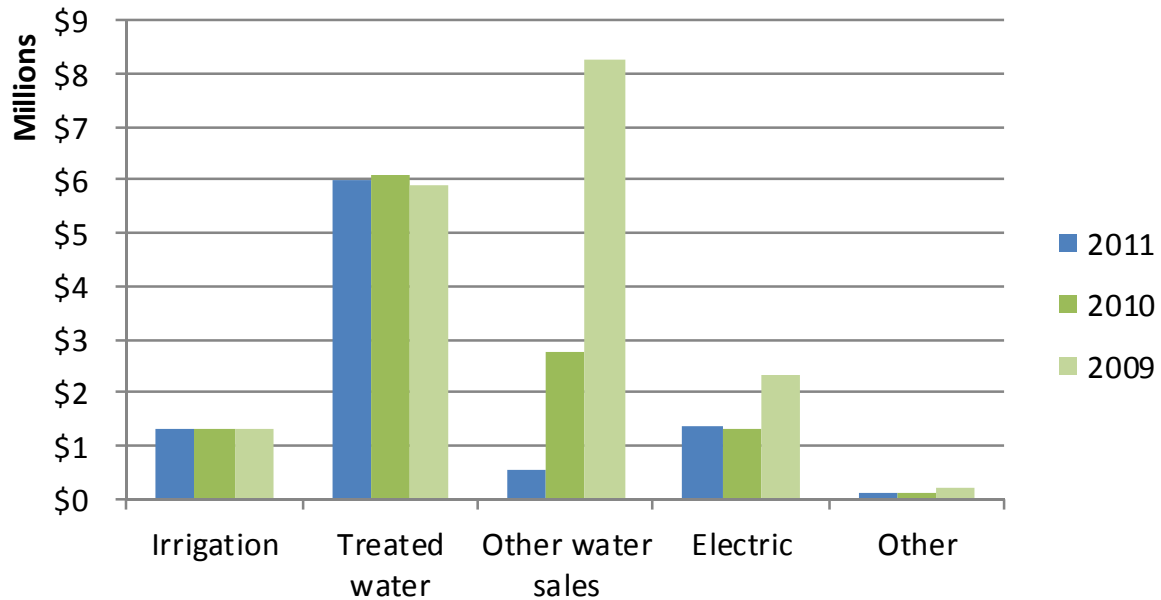
For the Years Ended December 31

	2011	2010	2009
Operating Revenues			
Irrigation sales	\$1,338,919	\$1,332,958	\$1,338,412
Treated water sales	5,993,528	6,073,327	5,903,400
Other water sales	525,423	2,763,240	8,263,970
Electric sales	1,369,576	1,335,568	2,346,169
Other	109,410	123,894	187,715
Total Operating Revenues	9,336,856	11,628,987	18,039,666
Nonoperating Revenues			
Proposition 13 subvention	3,249,823	3,210,297	3,734,550
Interest income	935,824	1,025,033	2,419,831
Gain (loss) on property and equipment	153,231	12,301	(77,932)
Distributions from Tri-Dam Project & Power Authority	13,955,114	1,900,000	8,300,000
Undistributed earnings of Tri-Dam Project	(3,086,497)	7,350,555	(1,098,358)
Total Nonoperating Revenues	15,207,495	13,498,186	13,278,091
Total Revenues	\$24,544,351	\$25,127,173	\$31,317,757

2011 and 2010 Revenues Compared

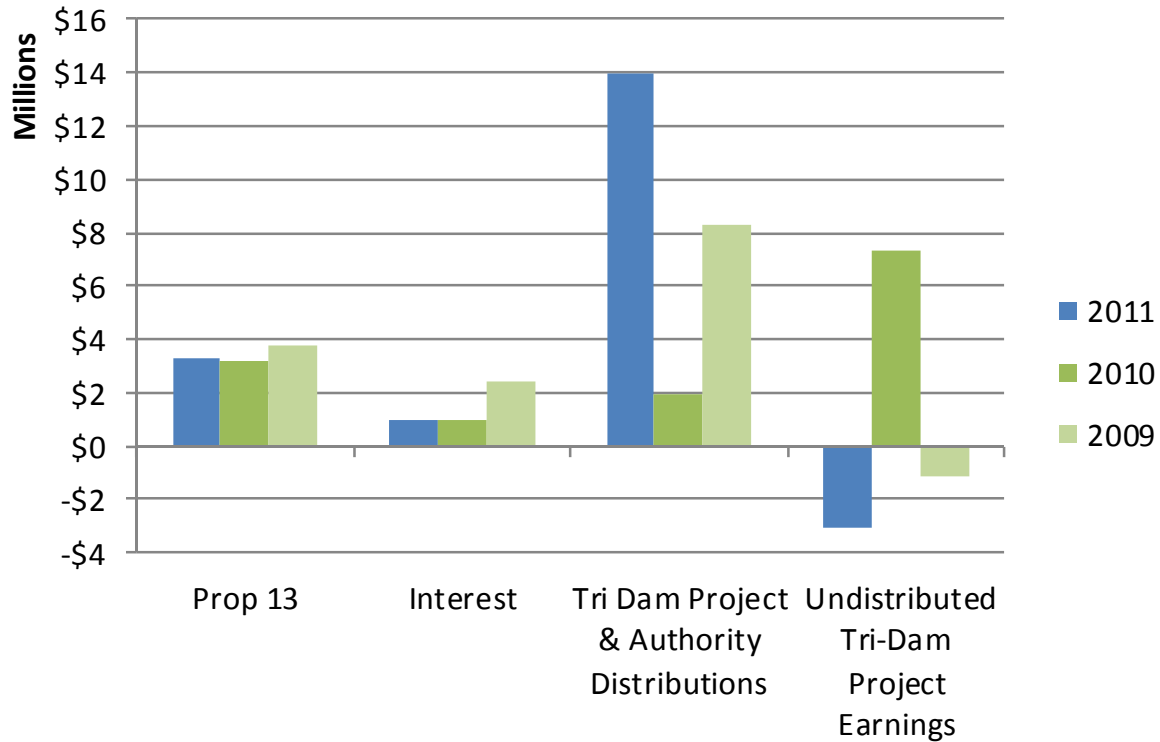
The comparative statement of revenues shows changes from 2010 to 2011 in the District’s revenues, classified into operating and nonoperating categories. Total revenues dropped about \$600,000, or 2%. The operating category dropped 20% or \$2.3 million. Most of the operating income accounts were stable in 2011, but “other water sales” decreased 81% or \$2.2 million. Sale 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 showed a slight increase of 3%. This revenue is from sales of power generated at the District’s solar farm and from two small hydroelectric generating plants on the District’s main supply canal.

Operating Revenues Compared



Total nonoperating income increased \$1.7 million or 13% in 2011. This is due to a net increase in income from Tri-Dam Project and Tri-Dam Power Authority. The earnings of Tri-Dam Project increased by \$1.6 million in 2011 over 2010. This amount is shown as two components in the District’s financial statements: distributions from Tri-Dam Project, and undistributed earnings of Tri-Dam Project. These two components showed large changes from 2010 to 2011, but the changes were in opposite directions and therefore mostly offsetting each other, leaving the net amount of \$1.6 million of change. One component, distributions from Tri-Dam increased 634% or \$12 million from 2010 to 2011, while undistributed earnings, the other component, fell by \$10.4 million. Interest income was almost unchanged.

Nonoperating Revenues Compared



2010 and 2009 Revenues Compared

Total revenues dropped in 2010 by 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 from 2009 to 2010. 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 this incentive income was not available to the District. 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 was 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 Donnell's generator breakdown occurred two months after the last planned distribution of 2009 to the District, and had no effect on the amount of 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 Donnell's 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.

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.

Comparative Statement of Operating Expenses

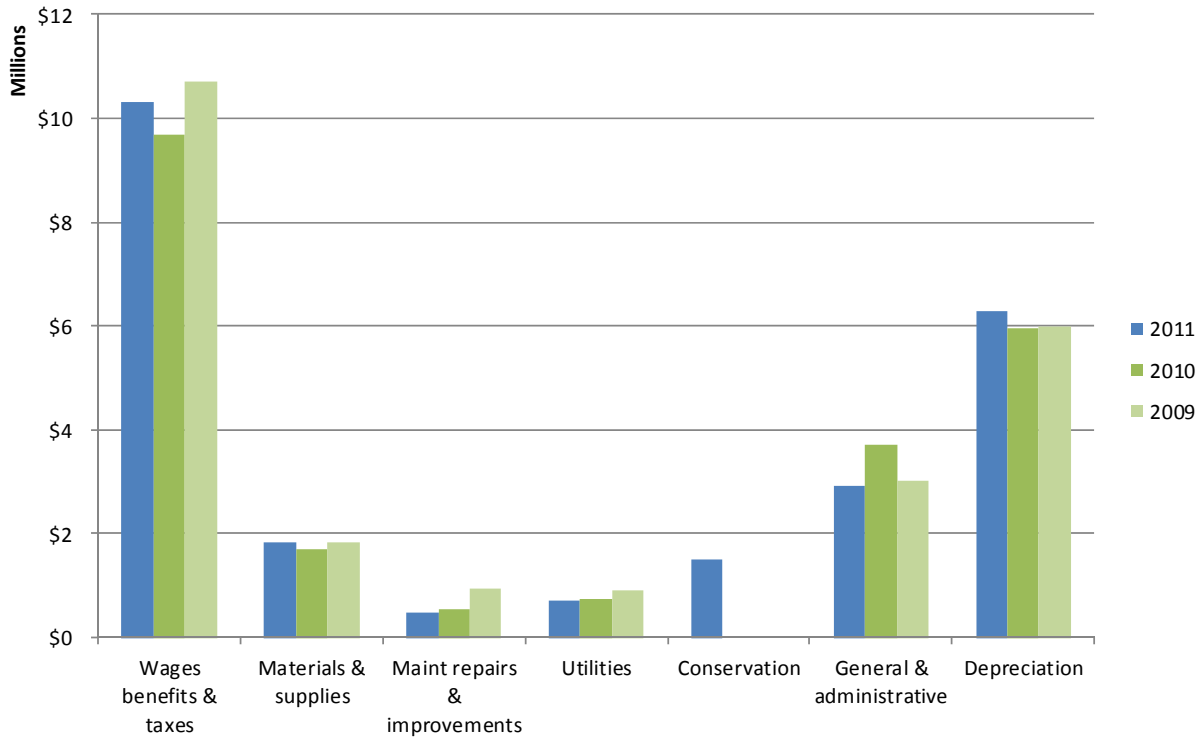
For the Years Ended December 31

	2011	2010	2009
Wages, benefits, & payroll taxes	\$10,316,088	\$9,701,429	\$10,716,052
Materials & supplies	1,845,261	1,711,530	1,829,990
Maintenance, repairs, and improvements	466,541	556,157	948,042
Utilities	725,380	747,437	922,181
Conservation	1,496,802		
General and administrative	2,906,541	3,716,858	3,027,729
Depreciation	6,289,996	5,957,370	5,981,417
Total operating expenses	\$24,046,609	\$22,390,781	\$23,425,411

2011 and 2010 Operating Expenses Compared

The condensed statement of operating expenses, above, shows a 7% increase of \$1.7 million in 2011 for total operating expenses. The main cause is that conservation expense went from nothing in 2010 to \$1.5 million in 2011. This is the cost of a new on-farm program to help farmers pay for various changes to their irrigation systems and methods that result in more efficient use of water. This program is planned to run for three years, ending with 2013. Other significant changes included a 22% decrease of \$800,000 in general and administrative expense due to reduced legal and consulting, and a 6% increase of \$600,000 in wages, benefits, and payroll taxes.

Operating Expenses Compared



2010 and 2009 Operating Expenses Compared

The condensed statement of operating expenses shows little change in total operating expenses from 2009 to 2010. 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 post-employment benefits (“OPEB”) in 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 dropped to \$74,000 which was 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.

Expectations for 2012

The Proposition 13 subvention property tax revenue increased slightly during 2011 which reversed trend of annual decreases caused by macroeconomic difficulties. The outlook for 2012 is that property tax revenue will remain level. No increases are planned for irrigation rates with the exception of the customers of the new Division 9 pressurized system. These customers face a surcharge designed to recover the operating expenses of the new system which are primarily costs of electricity to operate pumps. Revenue from outside water sales is unpredictable, but when it occurs, it tends to be substantial.

Capital Improvements

In 2011 the District began construction of the Division 9 project which is a major capital improvement project to build a pressurized distribution system parallel to the existing gravity system in one of the District's eight geographical divisions. A construction contract for \$14,000,000 was let, and a \$1 million dollar grant was obtained from the United States Bureau of Reclamation. The project is substantially complete, on budget, and operational as of the date of this report. The 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 the overall area.
- Unused water is recirculated
- 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.

Culminating with the Division 9 project, the District has for several years been accelerating work on capital improvements and replacements in order to take advantage of lower construction costs and strong cash flows of the District. The foreseeable future, at least through 2012, augurs substantially reduced capital spending.

Financing

Just after issuing this report the District expects to close a new bond sale to fully refinance the existing Series 2008A Certificates of Participation. The par amount of the 2008A debt to be refunded is \$19,125,000 and the par amount of the new issue is \$17,975,000. Both the new and old issues have final maturities in 2019. The net present value of the savings is expected to

be \$680,000 including total, nondiscounted debt service reduction of \$1.4 million. The effect in 2012 will be to reduce debt service by \$157,000.

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, 2011 and 2010

	2011	2010
ASSETS		
Current Assets		
Cash & cash equivalents - unrestricted	\$19,730,050	\$8,819,764
Cash & cash equivalents - restricted	4,612,029	2,396,311
Investments in marketable securities	28,144,325	16,190,106
Accounts receivable	3,387,235	3,062,203
Accrued interest receivable - unrestricted	164,832	124,072
Accrued interest receivable - restricted	23,752	38,485
Prepaid expenses	181,111	677,884
Inventories	177,622	200,194
Total Current Assets	56,420,957	31,509,019
Other Assets and Investments		
Investments in securities - unrestricted (net of current amounts)	6,562,329	22,846,531
Investments in securities - restricted (reserves for debt service, construction, water treatment plant)	9,340,960	18,271,613
Notes and loans receivable	947,759	840,209
Investment in Tri-Dam Project	42,987,802	46,074,299
Total Other Assets and Investments	59,838,850	88,032,652
Capital Assets		
Non-depreciable	21,335,496	9,400,916
Depreciable	234,569,913	232,189,006
Less accumulated depreciation	(49,035,917)	(42,807,492)
Total Capital Assets	206,869,492	198,782,430
TOTAL ASSETS	\$323,129,299	\$318,324,101

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

South San Joaquin Irrigation District

Balance Sheets

December 31, 2011 and 2010

	2011	2010
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$3,970,682	\$773,027
Construction contract retentions payable	1,053,677	
Conservation program liability	919,066	
Accrued expenses	514,921	574,621
Deferred revenue	1,324,189	1,334,798
Current portion of long-term debt	2,090,000	2,010,000
Compensated absences	523,664	525,943
Total Current Liabilities	10,396,199	5,218,389
Long-Term Liabilities		
LT Debt - 2008 Certificates of Participation	17,035,000	19,125,000
Compensated absences	1,637,905	1,436,301
Total Long-Term Liabilities	18,672,905	20,561,301
TOTAL LIABILITIES	29,069,104	25,779,690
Net Assets		
Invested in capital assets, net of related debt	196,540,240	193,160,163
Restricted	13,976,741	20,706,409
Unrestricted	83,543,214	78,677,839
TOTAL NET ASSETS	294,060,195	292,544,411
TOTAL LIABILITIES AND NET ASSETS	\$323,129,299	\$318,324,101

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, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Irrigation sales	\$1,338,919	\$1,332,958
Treated water sales	5,993,528	6,073,327
Other water sales	525,423	2,763,240
Electric sales	1,369,576	1,335,568
Other	109,410	123,894
Total Operating Revenues	9,336,856	11,628,987
OPERATING EXPENSES		
Wages	5,846,998	5,505,963
Payroll taxes and benefits	4,469,090	4,195,466
Materials and supplies	1,845,261	1,711,530
Maintenance, repairs, and improvements	466,541	556,157
Utilities	725,380	747,437
Conservation	1,496,802	
General and administrative	2,906,541	3,716,858
Depreciation	6,289,996	5,957,370
Total Operating Expenses	24,046,609	22,390,781
Net Loss From Operations	(14,709,753)	(10,761,794)
NONOPERATING REVENUES (EXPENSES)		
Proposition 13 subvention property taxes	3,249,823	3,210,297
Interest income	935,824	1,025,033
Changes in market value of investments	(407,560)	(167,185)
Interest expense	(734,060)	(799,203)
Gain (loss) on property and equipment	153,231	12,301
Tri-Dam Power Authority distributions	1,000,000	200,000
Tri-Dam Project distributions	12,955,114	1,700,000
Undistributed earnings of Tri-Dam Project	(3,086,497)	7,350,555
Total Nonoperating Revenues (Expenses)	14,065,875	12,531,798
Net Income (Loss) before Contributions	(643,878)	1,770,004
Capital contributions	2,159,662	2,890,645
Change in Net Assets	1,515,784	4,660,649
Net Assets, Beginning of Year	292,544,411	287,883,762
NET ASSETS, END OF YEAR	\$294,060,195	\$292,544,411

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, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$9,005,412	\$12,708,347
Other receipts		123,894
Payments for goods and services	(10,045,443)	(7,180,327)
Payments to employees for services	(5,635,406)	(9,787,950)
Cash Provided (Used) by Operating Activities	(6,675,437)	(4,136,036)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax receipts	3,322,607	3,056,878
Tri Dam Power Authority cash distributions	1,000,000	200,000
Cash Provided by Noncapital Financing Activities	4,322,607	3,256,878
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	2,082,682	1,380,839
Proceeds from the sale of capital assets	162,610	12,301
Purchase of capital assets	(10,599,334)	(5,516,674)
Principal payments on long-term debt	(2,010,000)	(1,935,000)
Interest payments on long-term debt	(767,560)	(799,203)
Cash Used by Capital and Related Financing Activities	(11,131,602)	(6,857,737)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	909,796	1,064,412
Purchases of investment securities	(41,099,272)	(117,465,557)
Proceeds from sales and maturities of investment securities	53,952,348	114,809,052
Decrease (Increase) in notes and loans receivable	(107,550)	124,988
Tri Dam Project cash distributions	12,955,114	1,700,000
Cash Provided by Investing Activities	26,610,436	232,895
Net Increase (Decrease) in Cash and Cash Equivalents	13,126,004	(7,504,000)
Cash and Cash Equivalents at Beginning of Year	11,216,075	18,720,075
Cash and Cash Equivalents at End of Year	\$24,342,079	\$11,216,075
RECONCILIATION OF CASH TO BALANCE SHEET		
Cash & cash equivalents - unrestricted	\$19,730,050	\$8,819,764
Cash & cash equivalents - restricted	4,612,029	2,396,311
Cash & cash equivalents - total	\$24,342,079	\$11,216,075

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, 2011 and 2010

	2011	2010
RECONCILIATION OF NET LOSS FROM OPERATIONS TO CASH USED FOR OPERATING ACTIVITIES		
Net Loss From Operations	(\$14,709,753)	(\$10,761,794)
Depreciation	6,289,996	5,957,371
(Increase) Decrease in operating assets		
Accounts receivable	(320,835)	1,204,762
Prepaid expenses	496,773	(390,623)
Inventories	22,572	25,995
Increase (Decrease) in operating liabilities		
Accounts payable	464,228	(109,949)
Conservation program liability	919,066	
Accrued expenses	(26,200)	26,232
Deferred revenue	(10,609)	(1,509)
Compensated absences	199,325	(86,521)
Cash Used by Operating Activities	(\$6,675,437)	(\$4,136,036)
 SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Assets received as capital contributions	\$ -	\$ 1,509,806
Decrease in fair value of investments in marketable securities	(407,560)	(167,185)
Increase (decrease) in investment in Tri Dam Project, net of cash	(3,086,497)	7,350,555

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

Notes to the Basic Financial Statements

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Notes to the Basic Financial Statements

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 the cities of 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

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. As required by Governmental Accounting Standards Board Statement number 14, these financial statements present the District as well as the District's one half share of the Tri-Dam Project because the District has an equity interest in Tri-Dam Project. Tri-Dam Project also issues separate financial statements which may be obtained by writing to PO Box 1158, Pinecrest, CA 95364-0158 or by sending an email message to clerk@tridamproject.com or on the web at <http://www.tridamproject.com/reports.aspx>.

The District is a member, with the Oakdale Irrigation District, in the Tri-Dam Power Authority which owns and operates dam, reservoir, and hydroelectric generating plant at Sandbar. The Tri-Dam Power Authority issues its own audited financial statements which may be obtained by writing to to PO Box 1158, Pinecrest, CA 95364-0158 or by sending an email message to clerk@tridamproject.com or on the web at <http://www.tridamproject.com/reports.aspx>. These financial statements do not include the Tri-Dam Power Authority because the District has only a residual interest, not an equity interest, in the assets of Tri-Dam Power Authority.

Notes to the Basic Financial Statements

The District is also a member, with five other parties, of the San Joaquin River Group Authority. The San Joaquin River Group Authority (SJRGGA) was created in September, 1996 under a joint exercise of powers agreement between the District, Modesto Irrigation District, Oakdale Irrigation District, Turlock Irrigation District, Friant Water Users Authority, and San Joaquin River Exchange Contractors Water Authority to represent these organizations in the investigation, monitoring, planning, control, mitigation of water issues, and to enhance the environmental conditions in the Delta which impact the Parties. The agreement terminates in December 2036, unless extended by the participants. These financial statements do not include the San Joaquin River Group Authority because the District has only a residual interest, not an equity interest, in the assets of the San Joaquin River Group Authority. The San Joaquin River Group Authority does not issue 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

Notes to the Basic Financial Statements

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. Cash and Cash Equivalents

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 reports restricted and unrestricted cash, including bank deposits and the District’s investment in the State of California Local Agency Investment Fund (LAIF), as well as cash equivalents in the statement of cash flows. The District defines cash equivalents as certain highly liquid investments with an original maturity of three months or less, including only money market mutual funds. Other securities with an original maturity of three months or less not meeting this definition are not reported as cash equivalents.

D. Investment Basis

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

E. 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. The debt service reserve is established under the terms of the 2008A Certificates of Participation to be used in the event of inadequate funds to pay debt service. The construction fund is also established under the terms of the Certificates of Participation to hold the proceeds of the borrowing. The construction fund may be used only to pay for certain capital assets including irrigation infrastructure and the Schulz Solar Farm. The capital replacement reserve of the water treatment plant is funded by the cities under an agreement that limits the use of those funds to the cost of capital assets of the water treatment plant.

F. 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

Notes to the Basic Financial Statements

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 year for which they are levied.

G. Inventory

Inventories are valued at cost based upon physical determinations made at the end of each year. Inventories are assumed to be consumed on the “last in, first out” basis.

H. Prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements.

I. 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:

<u>Assets</u>	<u>Years</u>
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

Notes to the Basic Financial Statements

J. Conservation Liability

The District offers an on-farm conservation program, where the District reimburses irrigators for part of the cost of installing qualifying conservation measures in order to improve efficiency of use of the District's water resource. Under the on-farm program, an irrigator proposes new water conservation measures for their farm under guidelines issued by the District. The District determines whether the proposal qualifies, and if it does, then the District commits to reimburse the farmer for a portion of the cost of the approved measures subject to installation by the farmer and inspection by the District. When the District initially approves an irrigator's conservation proposal, it records a liability for the expected reimbursement amount. Once the conservation measures are installed and satisfactorily inspected, the District pays the cost-share reimbursement to the farmer and relieves the liability for that project.

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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash & cash equivalents - unrestricted	\$19,730,050	\$8,819,764
Cash & cash equivalents - restricted	4,612,029	2,396,311
Total cash and cash equivalents	<u>24,342,079</u>	<u>11,216,075</u>
Investments in marketable securities - current portion	28,144,325	16,190,106
Investments in securities - unrestricted (net of current amounts)	6,562,329	22,846,531
Investments in securities - restricted (reserves for debt service, construction, water treatment plant)	9,340,960	18,271,613
Total investments in marketable securities	<u>44,047,614</u>	<u>57,308,250</u>
Total cash and investments	<u>\$68,389,693</u>	<u>\$68,524,325</u>

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	N/A	None	N/A
Obligations issued by United States government or its agencies	5 years	N/A	None	None
Obligations of any state or any local agency within any state in the United States	5 years	N/A	None	None
Bankers acceptances	180 days	N/A	40%	30%
Commercial paper	270 days	AAA/Aaa	25%	10%
Negotiable certificates of deposits	5 years	N/A	30%	None
Medium term corporate notes	5 years	A	30%	None
California Local Agency Investment Fund	N/A	N/A	None	None
Collateralized obligations and mortgage backed bonds	5 years	A	20%	None
Repurchase agreements	1 year	N/A	None	None
Money market funds	N/A	AAA/Aaa*	20%	10%

*Must have highest rating from two nationally recognized statistical organizations.

Notes to the Basic Financial Statements

The following table summarizes investments that are authorized by the District's long-term debt agreement, which are not subject to the limitations of the California Government Code:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One issuer
Cash	N/A	FDIC insured or collateralized	N/A	N/A
US Treasury obligations	N/A	N/A	N/A	N/A
US agency obligations representing full faith and credit of United States	N/A	N/A	N/A	N/A
Federal National Mortgage Association	N/A	N/A	N/A	N/A
Federal Home Loan Mortgage Corporation	3 years	AAA/Aaa	N/A	N/A
Deposit accounts, CDs, federal funds and banker's acceptances with domestic banks	360 days	FDIC insured or: A-1, A-1+, or P-1	N/A	N/A
Commercial paper	270 days	A-1+/P-1	N/A	N/A
Money market fund	N/A	AAAm/AAArn-G	N/A	N/A
Pre-refunded municipal obligations from any US state	N/A	Highest of Moody's or S & P	N/A	N/A
Investment Agreements supported by opinions of counsel	N/A	AA by S&P	N/A	N/A
Local Agency Investment Fund	N/A	N/A	N/A	N/A

Notes to the Basic Financial Statements

C. Interest Rate Risk and Credit 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. Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. Information about the interest rate risk and the credit risk of the District's investments is provided by the following table that shows the District's investments by maturity as of December 31, 2011 and the credit ratings assigned.

2011 INVESTMENTS BY MATURITY

Investment Category	Moody's or S&P Rating	Year of Maturity			Total
		2012	2013	2014	
<u>Negotiable certificates of deposit</u>	FDIC Insured	\$ 4,863,922	\$ 981,174	\$ -	\$ 5,845,096
<u>State and municipal debt</u>	A-	776,875			776,875
	A, AMBAC Insured	202,072			202,072
	A+		698,429		698,429
	A1	1,016,280			1,016,280
	A2		126,521		126,521
	AA-, Escrowed to maturity	24,942			24,942
	Aa2		73,360		73,360
	Aa3	1,538,945	693,296		2,232,241
	AMBAC Insured	25,038			25,038
	M1G1	9,292,470			9,292,470
	SP-1+	546,382			546,382
	BBB		1,584,949		1,584,949
	AA-	255,695			255,695
	AA-, Insured by FGIC, MBIA			23,417	23,417
<u>US agencies</u>	Aaa	15,204,109		6,119,738	21,323,847
Total		\$33,746,730	\$4,157,729	\$6,143,155	\$44,047,614

Notes to the Basic Financial Statements

Information about the interest rate risk and the credit risk of the District's investments is provided by the following table that shows the District's investments by maturity as of December 31, 2010 and the credit ratings assigned.

2010 INVESTMENTS BY MATURITY

Investment Category	Moody's or S&P Rating	Year of Maturity			Total
		2011	2012	2013	
Negotiable certificates of deposit	FDIC Insured	\$ 2,701,302	\$ 1,465,132	\$ -	\$ 4,166,434
Medium term corporate notes	Aa3	270,835			270,835
	AA		1,043,460		1,043,460
	A	1,194,277			1,194,277
US Agencies	AAA	14,083,949	15,183,150	14,421,880	43,688,979
	AA	119,657			119,657
	M1G1	4,719,950			4,719,950
	A2	504,110			504,110
	Not rated	1,326,539	274,009		1,600,548
Total		\$ 24,920,619	\$ 17,965,751	\$ 14,421,880	\$ 57,308,250

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.

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, which represent 5% or more of total District-wide investments are as follows at December 31, 2011.

Issuer	Investment Type	Amount
Federal Home Loan Mortgage Corp.	Federal Agency Securities	\$ 8,173,933
Federal National Mortgage Assn.	Federal Agency Securities	8,120,419
Roseville, Calif. City School Dist.	Municipal Debt	5,761,845

Notes to the Basic Financial Statements

Federal Home Loan Bank	Federal Agency Securities	\$5,026,600
State of California	Municipal Bonds	2,519,775

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

At December 31, 2011, cash included \$788,947 held in commercial banks of which 100% was insured by the Federal Deposit Insurance Corporation. 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.

NOTE 4 –Accounts and Notes Receivable

Accounts receivable are composed of the following elements:

	<u>2011</u>	<u>2010</u>
Proposition 13 subvention	\$ 1,814,702	\$ 1,887,485
Water treatment plant sales	1,185,575	767,679
Irrigation charges	329,332	389,715
Miscellaneous	12,557	17,324
PG&E	45,069	-
Total	<u>\$ 3,387,235</u>	<u>\$ 3,062,203</u>

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 \$566,772 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.

Notes to the Basic Financial Statements

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, 2011 and at December 31, 2010 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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Current assets	\$26,299,621	\$38,858,913
Capital assets	58,658,721	52,473,923
Other noncurrent assets	2,825,389	2,908,489
Total assets	<u>\$87,783,731</u>	<u>\$94,241,325</u>
Current liabilities	\$1,627,290	\$2,047,586
Noncurrent liabilities	180,837	45,141
Total liabilities	<u>1,808,127</u>	<u>2,092,727</u>
Net assets invested in capital assets	58,658,721	52,473,923
Unrestricted net assets	<u>27,316,883</u>	<u>39,674,675</u>
Total net assets	<u>85,975,604</u>	<u>92,148,598</u>
Total liabilities and net assets	<u>\$87,783,731</u>	<u>\$94,241,325</u>

Condensed Statements of Revenues, Expenses, & Changes in Net Assets
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues	\$24,900,195	\$19,322,875
Operating expenses	<u>8,712,926</u>	<u>8,477,120</u>
Net Income from Operations	<u>16,187,269</u>	<u>10,845,755</u>
Nonoperating Revenues		
Investment earnings	41,655	106,168
Water sales	114,902	109,804
Rental of equipment and facilities	51,270	61,037
Gain on disposal of capital assets	34,546	
Reimbursements	38,564	77,860
Other	<u>159,028</u>	<u>261,092</u>
Total Nonoperating Revenues	439,965	615,961
Extraordinary income item - business interruption insur.	<u>3,110,000</u>	<u>6,639,395</u>
Change in Net Assets	19,737,234	18,101,111
Net assets, beginning of year	92,148,598	77,447,487
Less: Distributions to OID and SSJID	<u>(25,910,228)</u>	<u>(3,400,000)</u>
Net Assets, End of Year	<u>\$85,975,604</u>	<u>\$92,148,598</u>

Notes to the Basic Financial Statements

NOTE 6 – Capital Assets

Changes in capital assets accounts for the year ended December 31, 2011 are summarized below:

	December 31,			Transfers and	December 31,
	2010	Additions	Disposals	Adjustments	2011
Capital assets not being depreciated:					
Land	\$ 974,861	\$ -	\$ -	\$ 408,123	\$ 1,382,984
Water treatment plant land	5,834,926				5,834,926
Solar Land	512,400				512,400
Construction in progress - Irrigation	2,079,265	12,985,433		(1,481,719)	13,582,979
Construction in progress - WTP	(535)			535	
Construction in progress - Solar	(0)	22,207			22,207
Total	9,400,916	13,007,641		(1,073,061)	21,335,496
Capital assets being depreciated:					
Improvements	243,015				243,015
Dams, canals, and laterals	90,481,814	104,804		487,713	91,074,331
Buildings	1,380,655				1,380,654
Vehicle and excavators	3,189,721	98,870	(61,571)		3,227,020
Machinery and equipment	1,933,522	62,363		576,504	2,572,389
Water treatment plant ("WTP") vehicles	425,786				425,786
WTP improvements	383,367	246,768		(535)	629,600
WTP building and equipment	49,745,442	14,055			49,759,496
WTP original construction	62,781,742	851,937			63,633,678
WTP pump stations - original construction	9,732,439				9,732,439
Solar plant	11,891,503				11,891,503
Total	232,189,006	1,378,796	(61,571)	1,063,681	234,569,913
Less accumulated depreciation:					
Improvements	(144,423)	(13,994)			(158,417)
Dams, canals, and laterals	(25,142,066)	(1,999,368)			(27,141,435)
Buildings	(473,958)	(32,384)			(506,341)
Vehicle and excavators	(1,840,046)	(311,769)	61,571		(2,090,244)
Machinery and equipment	(1,188,114)	(165,005)			(1,353,120)
Water treatment plant ("WTP") vehicles	(226,065)	(25,758)			(251,823)
WTP improvements	(12,863)	(31,882)			(44,745)
WTP building and equipment	(4,969,010)	(1,269,167)			(6,238,177)
WTP original construction	(6,207,208)	(1,604,012)			(7,811,221)
WTP pump stations - original construction	(1,297,659)	(324,415)			(1,622,073)
Solar plant	(1,306,079)	(512,242)			(1,818,321)
Total	(42,807,492)	(6,289,996)	61,571		(49,035,917)
Net Depreciable Capital Assets	189,381,516	(4,911,199)		1,063,681	185,533,998
Net Capital Assets	\$ 198,782,432	\$ 8,096,441	\$ -	\$ (9,379)	\$ 206,869,492

Notes to the Basic Financial Statements

Changes in capital assets 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	\$ 694,538	\$ -	\$ -	\$ 974,861
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)	
Total	12,415,864	4,536,885		(7,551,833)	9,400,916
Capital assets being depreciated:					
Improvements	243,015				243,015
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	(83,331)		3,189,719
Machinery and equipment	1,806,256	50,148		77,118	1,933,522
Water treatment plant ("WTP") vehicles	254,509	171,277			425,786
WTP improvements		10,300		373,067	383,367
WTP building and equipment	49,597,462	12,222	(135,132)	270,890	49,745,442
WTP original construction	61,770,051	437,281		574,410	62,781,742
WTP pump stations - original construction	9,732,439				9,732,439
Solar plant	11,715,729			175,774	11,891,503
Total	223,712,083	1,143,553	(218,463)	7,551,833	232,189,006
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)
Machinery and equipment	(1,057,398)	(130,716)			(1,188,114)
Water treatment plant ("WTP") vehicles	(201,395)	(24,670)			(226,065)
WTP improvements		(12,863)			(12,863)
WTP building and equipment	(3,722,026)	(1,246,984)			(4,969,010)
WTP original construction	(4,634,555)	(1,572,654)			(6,207,208)
WTP pump stations - original 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	186,807,263	(4,813,817)	(163,765)	7,551,833	189,381,514
Net Capital Assets	\$ 199,223,127	\$ (276,932)	\$ (163,765)	\$ -	\$ 198,782,430

Notes to the Basic Financial Statements

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:

2012	\$14,688
2013	12,232
2014	<u>7,320</u>
Total	<u>\$34,230</u>

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. The proceeds are to be used for construction of a solar power generating plant and capital improvements to the District’s irrigation transmission and distribution system. The Certificates are secured by a lien on the net water system revenues. The terms of the Certificates require the District to annually collect revenues of at least 125% of annual debt service, after subtracting operating and maintenance expenses. 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, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Current portion	\$2,090,000	\$2,010,000
Long-term portion	<u>17,035,000</u>	<u>19,125,000</u>
Total	<u>\$19,125,000</u>	<u>\$21,135,000</u>

Notes to the Basic Financial Statements

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,420,000	403,340	2,823,340
2017 - 2019	7,840,000	640,830	8,480,830
Total	<u>\$19,125,000</u>	<u>\$3,482,610</u>	<u>\$22,607,610</u>

Activity during the years ending December 31, 2011 and 2010, in the long-term debt accounts, was as shown in the following table:

	<u>December 31, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2011</u>	<u>Due Within One Year</u>
2008A Revenue Certificates of Participation	\$21,135,000	\$ -	\$ (2,010,000)	\$19,125,000	\$ 2,090,000
Compensated absences	1,962,244	583,324	(383,999)	2,161,569	523,664
Total	<u>\$23,097,244</u>	<u>\$ 583,324</u>	<u>\$ (2,393,999)</u>	<u>\$21,286,569</u>	<u>\$ 2,613,664</u>

	<u>December 31, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2010</u>	<u>Due Within One Year</u>
2008A Revenue Certificates of Participation	\$23,070,000	\$ -	\$ (1,935,000)	\$21,135,000	\$ 2,010,000
Compensated absences	2,048,765	515,632	(602,153)	1,962,244	525,943
Total	<u>\$25,118,765</u>	<u>\$ 515,632</u>	<u>\$ (2,537,153)</u>	<u>\$23,097,244</u>	<u>\$ 2,535,943</u>

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, 2011 and 2010:

Notes to the Basic Financial Statements

	2011	2010
Total capital assets, net of accumulated depreciation	\$ 206,869,492	\$ 198,782,430
Less current portion LT debt	(2,090,000)	(2,010,000)
Less noncurrent portion LT debt	(17,035,000)	(19,125,000)
Add Unspent Proceeds of Debt:		
Debt service reserve fund	2,498,474	2,503,755
Construction fund cash and investments	6,297,274	13,008,978
	\$ 196,540,240	\$ 193,160,163

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, 2011 and 2010.

	2011	2010
Debt service reserve	\$ 2,498,474	\$ 2,503,755
Construction fund	6,297,274	13,008,978
Water treatment plant funds	5,157,241	5,155,191
Accrued interest on restricted investments	23,752	38,485
Total	\$ 13,976,741	\$ 20,706,409

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 – Capital Contributions

Capital contributions consist of cash and other property contributed to the District. Noncash contributed assets are recorded at estimated fair market value at the date of donation. The District recognized capital contributions from various sources as follows:

	2011	2010
Developers	\$ 71,360	\$ 263,282
Municipal customers of water treatment plant	1,063,692	2,627,363
Grant from U. S. Bureau of Reclamation	995,000	
U. S. Natural Resources Conservation Service	29,610	
Total capital contributions	\$ 2,159,662	\$ 2,890,645

Notes to the Basic Financial Statements

NOTE 11 – Retirement Plan

Plan Description

The District contributes to The Miscellaneous Plan of the South San Joaquin Irrigation District, a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees Retirement System (CALPERS). The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statute and the District's Board of Directors. The District is a member of the 2.5% at 55 risk pool. CALPERS issues a publicly available financial report that includes financial statements and required supplementary information. Copies of the CALPERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Plan participants are required to contribute 8 percent of their annual covered salary. The district makes 4% of the contributions required of general bargaining unit employees, under the memorandum of understanding, and all of the contribution required of management employees. The District is required to contribute at an actuarially determined rate; the rate for the period ended December 31, 2011 was 17.041%, the rate for the period ended June 30, 2011 was 14.133%, and the rate for the period ending June 30, 2010 was 13.551%, of covered payroll. The contribution requirements of plan members and the District are established and may be amended by CALPERS. The District's contributions for the years ended December 31, 2011, 2010, and 2009 were \$1,227,429, \$1,061,429, and \$996,782 respectively.

NOTE 12: Other Postemployment Benefits

Plan Description

The District provides a defined benefit other postemployment benefits (OPEB) healthcare plan (the Plan) that provides medical benefits to retired employees and their eligible dependents. The Plan has a maximum benefit ranging up to to 100% of healthcare premiums for up to 180 months. The amount of the benefit depends on the employee's number of unused sick days at the retirement date, length of employment and bargaining unit membership. Upon retirement, if qualified, the employee elects whether to participate in the Plan by exchanging sick days for months of health insurance coverage or take a payment of accrued sick leave as described in Note 2C. Employees that elect to take a payment for accrued sick leave do not participate in the Plan. The District's Board of Directors has the authority to establish and amend benefit provisions. The Plan does not issue separate financial statements.

Notes to the Basic Financial Statements

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. The required contribution is based on projected pay-as-you-go financing requirements. During the year ended June 30, 2010, the District contributed \$1,167,476 to pre-fund the Plan, not including health insurance payments. During the years ended June 30, 2011 and 2010, the District made health insurance premium payments on behalf of retirees of \$78,170 and \$79,805. Plan members did not make any contributions to the Plan.

Annual OPEB Cost and Net OPEB Cost (Expense)

The District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the years ended June 30, 2011 and 2010, the amount actually contributed to the Plan, and changes in the District's Net OPEB obligation:

	2011	2010
Annual required contribution end of year	\$ 73,978	\$ 72,850
Interest on net OPEB obligation	5,751	6,196
Adjustment to annual required contribution	<u>(3,643)</u>	<u>(4,983)</u>
Annual OPEB cost (expense)	76,086	74,063
Contributions made including credited interest	<u>(78,170)</u>	<u>(79,805)</u>
Increase (decrease) in net OPEB obligation	(2,084)	(5,742)
Net OPEB obligation, beginning of period	<u>74,205</u>	<u>79,947</u>
Net OPEB obligation, end of period	<u><u>\$ 72,121</u></u>	<u><u>\$ 74,205</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for the three most recent fiscal years are as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
6/30/2009	\$ 1,289,249	93.79%	\$ 79,947
6/30/2010	74,063	107.75%	74,205
6/30/2011	76,086	102.74%	72,121

Notes to the Basic Financial Statements

Funded Status and Funding Progress

The funded status of the Plan as of December 31, 2010, from the Plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 1,568,982
Actuarial value of Plan assets	<u>1,529,067</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 39,915</u>
Funded ratio (actuarial value of Plan assets/AAL)	97.46%
Covered payroll (active Plan participants)	\$ 5,445,963
UAAL as a percentage of covered payroll	0.73%

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

Actuarial Methods and Assumptions

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

In the January 1, 2010 actuarial valuation, the entry age normal cost method was used. The actuarial valuation used the rates of mortality, disability and other withdrawals used by CALPERS in the valuation of the District's pension plan. The actuarial assumptions included a 7.75 percent investment rate of return, healthcare premium increases starting at 9.0 percent and declining to 4.5 percent for 2017 and later, projected salary increases of 3.25 percent and a 3.25 percent increase in payroll. The UAAL is being amortized over a level percentage of projected payroll over a 30 year open period.

Notes to the Basic Financial Statements

NOTE 13 – 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, 2011.

Type of Coverage	Limit per Occurrence	Aggregate Limit	Deductible
General liability	\$10,000,000	\$ -	\$ 500
Automobile liability (incl. personal injury, property damage)	10,000,000		1,000
Uninsured/Underinsured motorists	1,000,000		
Employment practices liability	10,000,000	10,000,000	
Workers comp - statutory	Statutory		
Workers comp – employer liability	5,000,000		
Public officials and employees E & O	10,000,000	10,000,000	
Personal liability for Board members	500,000	500,000	
Employee benefits liability	10,000,000	10,000,000	
Property coverage (incl. fire, theft, flood)	1,000,000		
Employee dishonesty	400,000		
Boiler & machinery	100,000,000		
Excess insurance	25,000,000	25,000,000	

The District paid no material uninsured losses during the last three fiscal years and had no significant reductions in coverage during the year. 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.

Notes to the Basic Financial Statements

NOTE 14 – Commitments and Contingencies

Contract Commitments

The District had the following significant contract commitments outstanding as of December 31, 2011:

Project Name	Contract Amount	Remaining Contract Commitment
Division 9 construction management services	\$ 988,605	\$ 161,131
Division 9 construction contract	14,000,000	3,913,421
	<u>\$14,988,605</u>	<u>\$4,074,552</u>

Federal Grant

The District received a federal grant of \$1 million for the Division 9 project during 2011. The grant is subject to audit by the awarding agency. Such an audit could result in a request for reimbursement for expenses disallowed under the terms and conditions of the grant agreement. Management believes no material liabilities would result from such a potential audits.

Water Rights Litigation

Since 1987, the Water resources Control Board (“SWRCB”) 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 can require among other measures, that water be released for flow into the Delta by water rights holders such as the District. The SWRCB is currently in the process of developing a new plan for the San Joaquin River and the Southern Delta. If the SWRCB adopts new standards and implements the standards based on the priority of the holders of rights to waters of the San Joaquin River and its tributaries, and specifically the Stanislaus River, the United States Bureau of Reclamation’s water rights for New Melones would be affected before the District’s, as they are junior in priority. The effect of the new standards on the District’s water supply depend upon what standard is adopted and how the SWRCB implements the new standard. 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.

Notes to the Basic Financial Statements

Other Water Quality Issues

- a. Endangered Species Issues. A biological opinion issued in June, 2009, imposed new flow requirements on the United States Bureau of Reclamation (“USBR”) in its operation of New Melones Reservoir. The District and Oakdale Irrigation District believe that to fully implement the requirements would require that the Districts divert less water in certain years. The Districts challenged the biological opinion in U.S. District Court, and in its decision, the Court affirmed that the Districts’ water rights were not subject to the biological opinion. The Court also overturned the opinion and required the Department of Commerce’s National Marine Fisheries Service to re-consult with the Department of the Interior and issue a new opinion. However, the Court left the opinion in effect during this process. The USBR has stated that it will follow the required flow schedule during the consultation process. The Districts believe that this will result in less storage at New Melones Reservoir and could reduce the capability of the USBR to meet its obligations to the Districts under the 1988 Agreement and Stipulation.
- b. Agricultural Waiver under State Law (Porter Cologne). The District owns drainage facilities that transport used irrigation water to the Stanislaus and San Joaquin Rivers. The District’s agricultural exemption from the State’s waste discharge expired in 2004. New standards require monitoring by regional coalition groups. The District has joined the San Joaquin coalition and pays costs charged to it. To date, no curtailment in the District’s drainage has been required.
- c. TMDL Processes under Clean Water Act. The Central Valley Regional Water Quality Control Board (“CVRWQCB”) is charged with responsibility to establish a Total Maximum Daily Load (“TMDL”) program for the various elements of pollution that contribute to the San Joaquin River and its tributaries being listed as impaired water bodies. Standards have been adopted for dissolved oxygen in the San Joaquin River at the Stockton Deep Ship Water Channel and for salt and boron at Vernalis. The River and its tributaries are also listed as impaired for temperature because of adverse impacts to fisheries. The District is potentially subject to TMDL enforcement measures to the extent that its diversion of surface water or its releases of drain water to the rivers contribute to the problem. The impacts on the District are unknown at this time. The District has been participating in these processes through the San Joaquin River Group Authority.

Notes to the Basic Financial Statements

NOTE 15: Change in Estimate

The balance of the long-term note receivable has been adjusted from \$495,412 to \$566,772, and capital contribution revenue increased by the same amount based on an accounting of the final project costs agreed to by the developer. 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 2010 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 April 30, 2012. 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, 2012 the District received a distribution of \$4.5 million from Tri-Dam Project.

During April 2012, the Board of Director’s approved a resolution to refund the Series 2008A Certificates of Participation to obtain lower interest rates. The average coupon on the remaining 2008 debt is 3.9% and the net interest cost on the 2012 refunding bonds is expected to be 1.7%. The sale of 2012 refunding bonds is expected to close in early May, 2012. The par amount of the 2008A debt to be refunded is \$19,125,000 and the par amount of the new issue is \$17,975,000. Both the new and old issues have final maturities in 2019. The net present value of the savings is expected to be \$680,000 including total, nondiscounted debt service reduction of \$1.4 million. The effect in 2012 will be to reduce debt service by \$157,000.

NOTE 18: New Accounting Standards

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, The Financial Reporting Entity: Omnibus, An Amendment of GASB Statements No. 14 and 34. This Statement modifies the criteria for inclusion of component units in the financial reporting entity. This Statement also clarifies the reporting of equity interests in legally separate organizations. The District will reassess its accounting and financial reporting for interests in joint ventures when this Statement

Notes to the Basic Financial Statements

is implemented. The provisions of this Statement are effective for periods beginning after June 15, 2012.

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows and inflows of resources, which Concepts Statement No. 4 introduced and defined those elements as consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. This Statement amends the net assets reporting requirements of Statement No. 34 by incorporating deferred inflows and outflows into the definitions of the required components of residual measure and by renaming that measure as net position, rather than net assets. This Statement will require the District to reassess the reporting of deferred inflows and outflows to which this Statement is applicable. The provisions of this Statement are effective for periods beginning after December 15, 2011.

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement reclassifies deferred amounts upon refunding of debt as deferred inflows or outflows and requires debt issuance costs to be expensed as incurred, which will affect the accounting for these items related to the District's debt agreement. The provisions of this Statement are effective for periods beginning after December 15, 2012.

The District will fully analyze the impact of these new Statements prior to the effective dates for the Statements listed above.

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Required Supplementary Information

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**Required Supplementary Information for Other Postemployment Benefits (“OPEB”) Plan
(unaudited)**

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 Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2009	\$ -	\$ 1,268,096	\$ 1,268,096	0.00%	\$ 5,868,827	21.61%
12/31/2010	1,529,067	1,568,982	39,915	97.46%	5,445,963	0.73%
12/31/2011	1,647,570	1,668,141	20,571	98.77%	5,786,998	0.36%