SOUTH SAN JOAQUIN
IRRIGATION DISTRICT

Annual Financial Report 2012

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South San Joaquin Irrigation District

Annual Financial Report

December 31, 2012 and 2011

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Auditor’s Report

Richardson & Company

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of South San Joaquin Irrigation District (the District), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011 and the results of its operations and cash flows for the years 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.

To the Board of Directors
South San Joaquin Irrigation District

Report on Supplemental Information

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

Richardson & Company

May 2, 2013

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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, 2012 and 2011 and its financial performance for the years then ended. Condensed financial information from 2010 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.

Financial Statements

The District's financial statements include a balance sheet; a statement of revenues, expenses and changes in net position; 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, deferred outflows, obligations (liabilities), deferred inflows, and net position 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, deferred inflows, and net position sections of this statement reveal the sources of the District's capital, and the assets and deferred outflows section shows how the capital has been used. The net position 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 Position

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

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 position that occurred during the year.

Statement of Cash Flows

Because revenues and expenses are not identical to 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

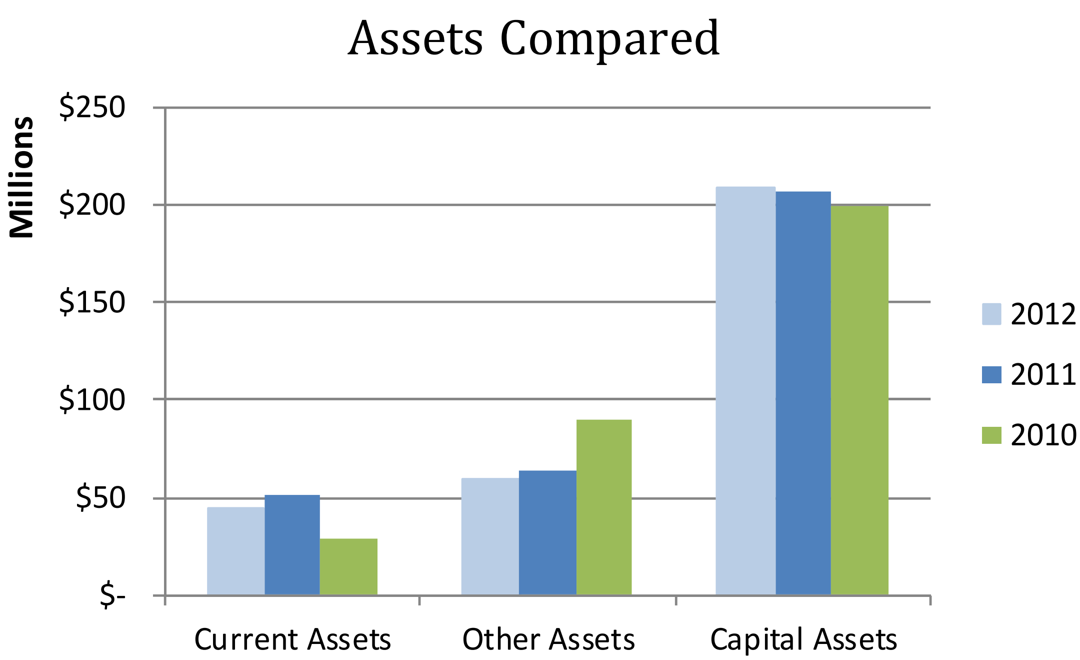
Condensed Balance Sheets

For the Years Ended December 31

	2012	2011	2010
Current assets	$ 44,101,270	$ 51,808,928	$ 29,112,708
Other assets and investments	59,062,083	64,450,879	90,428,963
Capital assets	209,011,181	206,869,492	198,782,430
Total assets	312,174,534	323,129,299	318,324,101
Deferred outflow on refunding of long term debt	678,270		
Total assets and deferred outflows	$ 312,852,804	$ 323,129,299	$ 318,324,101
Current liabilities	$ 6,537,603	$ 10,396,199	$ 5,218,389
Long-term liabilities	16,568,376	18,672,905	20,561,301
Total Liabilities	23,105,979	29,069,104	25,779,690
Net investment in capital assets	194,048,766	196,540,240	193,160,163
Restricted net position	6,504,939	13,976,741	20,706,409
Unrestricted position	89,193,120	83,543,214	78,677,839
Total net position	289,746,825	294,060,195	292,544,411
Total liabilities and net position	$ 312,852,804	$ 323,129,299	$ 318,324,101

2012 and 2011 Balance Sheets Compared

Following a $22.7 million increase in 2011, current assets decreased by $7.7 million, or 15%, during 2012. This decrease was concentrated in cash and cash equivalents. About $3.2 million of the decrease funded an increase in unrestricted investments in marketable securities which are shown in two places on the balance sheet: as "investments in marketable securities" in the current assets section, and as "investments in securities – unrestricted (net of current amounts)" in the other assets and investments section. The remainder of the decrease was due to principal repayment of long term debt and the purchase and construction of new capital assets.

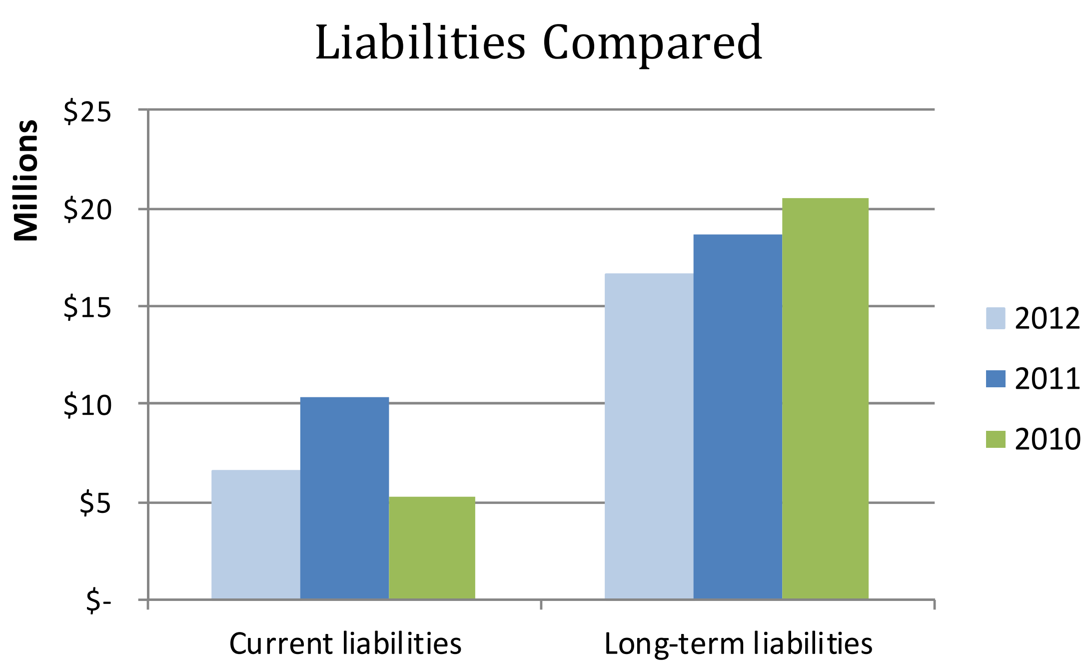


Capital assets, net of depreciation, grew by $2.1 million as the District invested in improvements to the irrigation distribution system, including the completion of a project known as the Division 9 Project, which is a technologically advanced means of delivering piped, pressurized water to individual 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 optimize their irrigation schedule and the District conserves water.

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

Restricted Assets	2012	2011	2010
Debt service reserve fund	$ 1,798,060	$ 2,498,474	$ 2,503,755
Construction fund - irrigation		6,297,274	13,008,978
Construction and capital replacement funds - water treatment	4,675,932	5,157,241	5,155,191
Accrued interest receivable on restricted investments	30,947	23,752	38,485
Total restricted assets	**6,504,939**	**13,976,741**	**20,706,409**
Less: restricted accrued interest receivable in current assets	(30,947)	(23,752)	(38,485)
Noncurrent restricted assets	**$ 6,473,992**	**$ 13,952,989**	**$ 20,667,924**

Restricted assets decreased about $7.5 million in 2012. There were two major factors in this decrease. First, the restricted construction fund was fully spent on qualifying capital projects. The construction fund was created pursuant to the terms of the 2008A certificates of participation to reserve the proceeds of the borrowing for qualifying uses. The construction fund was restricted to expenditures for capital improvements. The second factor in the decrease of restricted assets was the reduction of the debt service reserve by $700,000 which occurred in the course of refunding the Revenue Certificates of Participation Series 2008A with the issuance of the Refunding Revenue Bonds Series 2012A.



Current liabilities fell almost $3.9 million or 37%. A comparison of the graphs above for current liabilities and for current assets shows that these two categories mirror a closely related pattern of increases and decreases for the years shown. Because current assets and current liabilities have risen and fallen together, the working capital ratio has stayed in a narrow range of 5.0 to 6.7 over the past 3 years. This means the amount of current assets has remained 5.0

to 6.7 times the amount of current liabilities. These high levels for the working capital ratio show a strong ability to pay obligations as they come due over the next year.

All of the 2012 decrease in current liabilities was caused by paying down accounts payable related to construction work in progress, and construction contract retentions. There was also a decrease of $121,000 in the on-farm conservation liability during 2012. During 2011 the District began the on-farm conservation program whereby 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 the District's 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 District's liability.

2011 and 2010 Balance Sheets Compared

Current assets increased by almost $23 million, or 78%, 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 $26 million due to the shortening of the maturities in the portfolio of investment securities.

Capital assets, net of depreciation, 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 described above. 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 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.

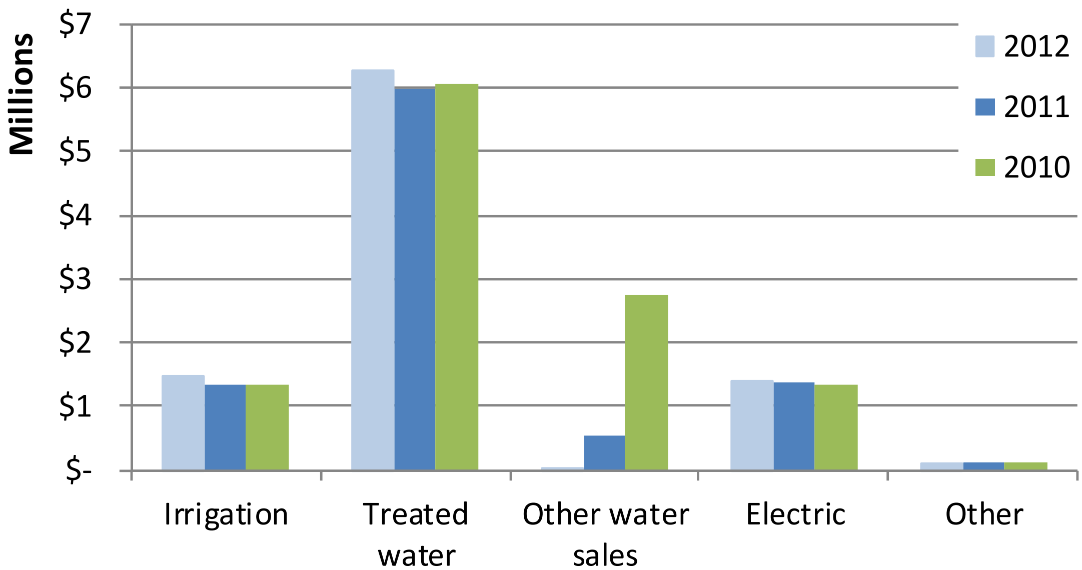
Current liabilities jumped almost 100% or $5.2 million. About half of this increase is in accounts payable representing open invoices for construction work in progress at the end of 2011. The remainder of the increase is due to liabilities for construction retainages ($1.1 million) and $900,000 of on-farm conservation liability.

Comparative Statement of Revenues

For the Years Ended December 31

	2012	2011	2010
Operating Revenues			
Irrigation sales	$ 1,465,622	$ 1,338,919	$ 1,332,958
Treated water sales	6,258,240	5,993,528	6,073,327
Other water sales	25,016	525,423	2,763,240
Electric sales	1,398,632	1,369,576	1,335,568
Other	96,467	109,410	123,894
Total Operating Revenues	9,243,977	9,336,856	11,628,987
Nonoperating Revenues			
Proposition 13 subvention	3,272,619	3,249,823	3,210,297
Interest income	1,395,646	935,824	1,025,033
Gain (loss) on property and equipment	34,622	153,231	12,301
Distributions from Tri-Dam Project & Power Authority	7,334,000	13,955,114	1,900,000
Undistributed earnings of Tri-Dam Project	(267,705)	(3,086,497)	7,350,555
Total Nonoperating Revenues	11,769,182	15,207,495	13,498,186
Total Revenues	$ 21,013,159	$ 24,544,351	$ 25,127,173

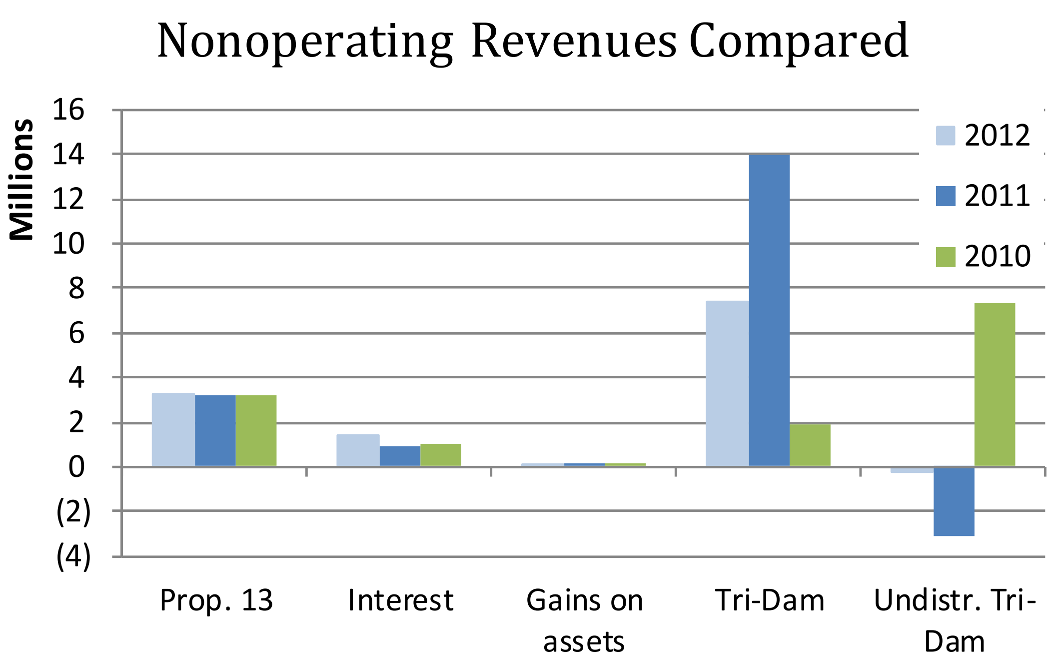
Operating Revenues Compared



2012 and 2011 Revenues Compared

The comparative statement of revenues shows changes from 2011 to 2012 in the District's revenues, classified into operating and nonoperating categories. Total revenues dropped about $3.6 million or 15%. As total operating revenues dropped only 1%, nearly the entire revenue decline was in the category of nonoperating revenues. Nonoperating revenues decreased $3.5 million or 23%. This is entirely due to a decrease in earnings and distributions from the Tri-Dam Project and the Tri-Dam Power Authority. Within the operating revenues category, irrigation sales, which usually change very little from year to year increased 9% because of pressurization fees which customers of the pressurized Division 9 project began paying in 2012. Other water sales, which are mostly sales of water to other agencies, dropped by 95% or $500,000.

Sale of water to other agencies is the largest component of other water sales. This revenue source fluctuates 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.



2011 and 2010 Revenues Compared

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 often the largest component of other water sales. 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.

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.

Comparative Statement of Operating Expenses

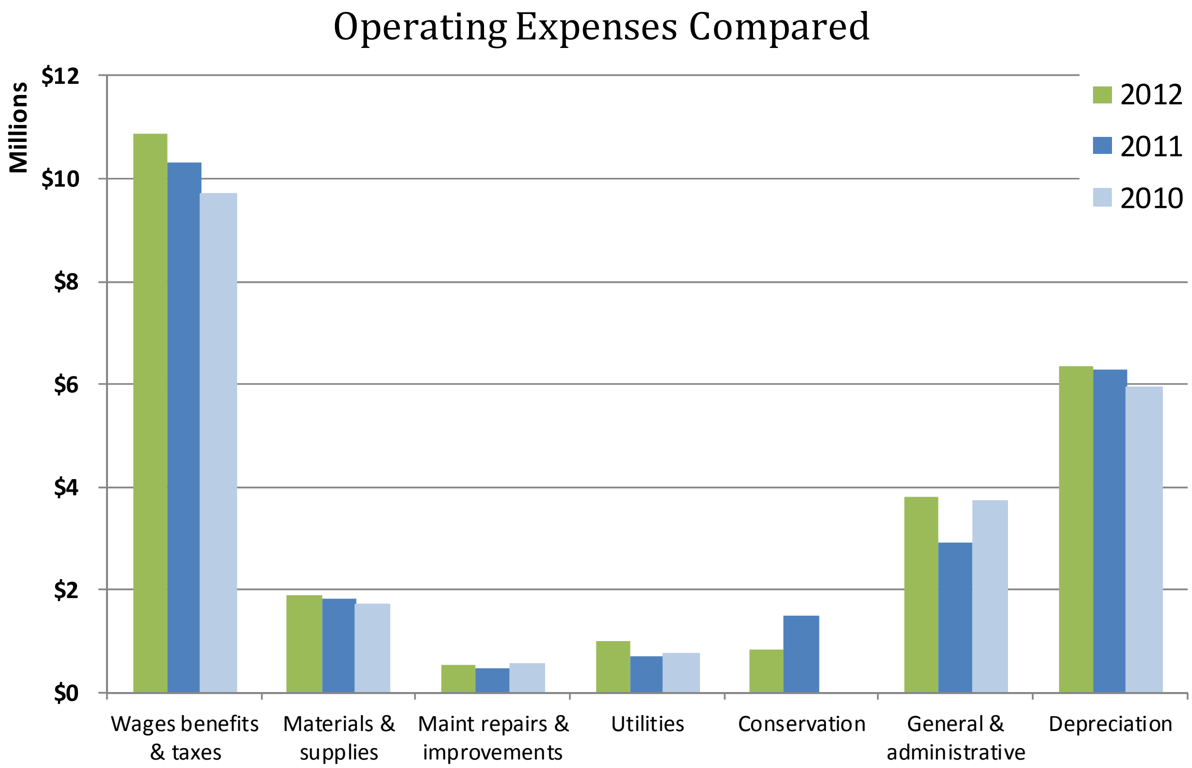
For the Years Ended December 31

	2012	2011	2010
Wages, benefits, & payroll taxes	$ 10,891,054	$ 10,316,088	$ 9,701,429
Materials & supplies	1,906,054	1,845,261	1,711,530
Maintenance, repairs, and improvements	552,247	466,541	556,157
Utilities	1,020,540	725,380	747,437
Conservation	833,661	1,496,802	
General and administrative	3,501,151	2,906,541	3,716,858
Depreciation	6,342,879	6,289,996	5,957,370
Total operating expenses	$ 25,047,586	$ 24,046,609	$ 22,390,781

2012 and 2011 Operating Expenses Compared

The condensed statement of operating expenses, above, shows a 6% increase of $1.3 million in 2012 for total operating expenses. The main cause is that general and administrative expense increased 32% or $900,000. Of this increase, $328,000 was the issuance cost of the 2012A Refunding Bonds. Almost $500,000 of the increase to general and administrative expense was attributable to legal fees related to answering information requests of the San Joaquin County Local Agency Formation Commission ("LAFCo") about the District's application to provide retail electric service.

Wages, benefits, and payroll taxes increased 6% or $575,000 and conservation expense for the on-farm conservation program dropped nearly $700,000 or 44%. This program is planned to run for three years, ending with 2013.



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. 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.

Capital Assets and Debt Administration

Capital assets include the District's water system infrastructure of dams, canals, pipelines, and pumps, as well as the Nick C. DeGroot water treatment plant, other buildings, and equipment.

2012 and 2011 Capital Assets Compared

Net capital assets totaled $209 million at December 31, 2012 and increased $2.1 million from the previous year. The increase was caused by the combination of a net increase in gross capital assets of almost $8.4 million due to new construction and purchases, partially offset by an increase to accumulated depreciation of $6.2 million. The most important addition to capital assets was $6 million for the irrigation distribution system consisting mostly of additional construction on the pressurized Division 9 project described earlier. Another significant addition was about $1 million for new fiber filtration modules at the water treatment plant. See Note 6 to the basic financial statements.

2011 and 2010 Capital Assets Compared

Net capital assets totaled $207 million at December 31, 2011 and increased $8.1 million from the previous year. The increase was caused by the combination of a net increase in gross capital assets of $14.3 million due to new construction and purchases, partially offset by an increase to accumulated depreciation of $6.2 million. The most important addition to capital assets was $13 million for the irrigation distribution system consisting mostly of first year construction on the pressurized Division 9 project described earlier. The Division 9 project began construction in 2011 and was completed in 2012.

2012 and 2011 Long-Term Debt Compared

At December 31, 2012 there was $15,945,000 of long term debt outstanding. This amount consisted only of the Series 2012A Series Revenue Refunding Bonds. The amount outstanding decreased $3,180,000 (or 17%) due to a refunding transaction and maturities of existing debt. See Note 8 to the basic financial statements.

2011 and 2010 Long-Term Debt Compared

At December 31, 2011 there was $19,125,000 of long term debt outstanding. This amount consisted only of the Series 2008A Series Revenue Certificates of Participation. The amount outstanding decreased $2,110,000 (or 10%) due solely to maturities of existing debt.

Expectations for 2013

The Water Conservation Act of 2009, also known as California State Senate Bill SBx7-7, required the adoption of irrigation water prices that are based at least in part on the volume of water used, by July 31, 2012. The District complied with this new statute by adopting volumetric irrigation rates on July 31, 2012. During the 2013 irrigation season the District will issue volumetric bills along with a notice that the bills are not to be paid. In 2014 the District will begin both billing and collecting volumetric charges. This approach will allow the water users and District personnel time to work out possible difficulties of the new billing method. Before the adoption of volumetric rates, irrigation charges were based only on acreage at the rate of $24 per acre per year. The new volumetric rate adds a charge of $3 per acre-foot while continuing the $24 per acre charge. The volumetric rate approximately offsets the costs of billing the volumetric rate, so there is no increment of financial benefit to the District from adding the $3 per acre-foot charge.

General and administrative expense should decrease more than $300,000 if all else remains equal, because 2012 bond issuance costs will not repeat in 2013. Legal costs related to answering LAFCo's information requests, which were the largest component of the growth in general and administrative expense in 2012, are difficult to predict because they depend on future decisions of the board of directors, and the future course of the LAFCo process.

A decision from LAFCo on the District's application to provide retail electric service is expected in 2013. An approval would not assure that the District would proceed with the project. It would merely put the District's board of directors in a position to re-evaluate the feasibility and benefits of the plan and make its own determination of whether to begin the project or not.

Electric revenues are expected to decline in 2013 by $480,000 due to expiration of the state's 5 year solar generation incentive in June, 2013. On the other hand, treated water sales are expected to increase nearly $500,000 because of a forecast for higher water demand in the cities served by the water treatment plant.

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 was completed in 2012. 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 augurs substantially reduced capital spending while maintaining a steady program of routine maintenance, repairs, and improvements to District assets.

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.

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Basic Financial Statements

South San Joaquin Irrigation District
Balance Sheets
December 31, 2012 and 2011

	2012	2011
ASSETS AND DEFERRED OUTFLOWS		
ASSETS		
Current Assets		
Cash & cash equivalents - unrestricted	$ 11,173,985	$ 19,730,050
Investments in marketable securities	28,928,287	28,144,325
Accounts receivable	3,361,449	3,387,235
Accrued interest receivable - unrestricted	309,139	164,832
Accrued interest receivable - restricted	30,947	23,752
Prepaid expenses	145,762	181,112
Inventories	151,701	177,622
Total Current Assets	44,101,270	51,808,928
Other Assets and Investments		
Cash & cash equivalents - restricted	758,688	4,612,029
Investments in securities - unrestricted (net of current amounts)	9,001,039	6,562,329
Investments in securities - restricted (reserves for debt service, construction, water treatment plant)	5,715,304	9,340,960
Notes and loans receivable (and $56,469 accrued interest)	866,954	947,759
Investment in Tri-Dam Project	42,720,098	42,987,802
Total Other Assets and Investments	59,062,083	64,450,879
Capital Assets		
Non-depreciable	8,669,188	21,335,496
Depreciable	255,598,623	234,569,913
Less accumulated depreciation	(55,256,630)	(49,035,917)
Total Capital Assets	209,011,181	206,869,492
TOTAL ASSETS	312,174,534	323,129,299
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding of long term debt	678,270	
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 312,852,804	$ 323,129,299

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

South San Joaquin Irrigation District
Balance Sheets
December 31, 2012 and 2011

	2012	2011
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	$ 694,516	$ 3,970,682
Construction contract retentions payable	236,090	1,053,677
Conservation program liability	798,014	919,066
Accrued expenses	423,248	514,921
Unearned revenue	1,319,595	1,324,189
Current portion of long-term debt	2,406,650	2,090,000
Compensated absences	659,490	523,664
Total Current Liabilities	6,537,603	10,396,199
Long-Term Liabilities		
Long-term debt	15,032,095	17,035,000
Compensated absences	1,536,281	1,637,905
Total Long-Term Liabilities	16,568,376	18,672,905
TOTAL LIABILIITES	23,105,979	29,069,104
NET POSITION		
Net investment in capital assets	194,048,766	196,540,240
Restricted	6,504,939	13,976,741
Unrestricted	89,193,120	83,543,214
TOTAL NET POSITION	289,746,825	294,060,195
TOTAL LIABILITIES AND NET POSITION	$ 312,852,804	$ 323,129,299

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 Position
For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Irrigation sales	$ 1,465,622	$ 1,338,919
Treated water sales	6,258,240	5,993,528
Other water sales	25,016	525,423
Electric sales	1,398,632	1,369,576
Other	96,467	109,410
Total Operating Revenues	9,243,977	9,336,856
OPERATING EXPENSES		
Wages	6,140,709	5,846,998
Payroll taxes and benefits	4,750,345	4,469,090
Materials and supplies	1,906,054	1,845,261
Maintenance, repairs, and improvements	552,247	466,541
Utilities	1,020,540	725,380
Conservation	833,661	1,496,802
General and administrative	3,501,151	2,906,541
Depreciation	6,342,879	6,289,996
Total Operating Expenses	25,047,586	24,046,609
Net Loss From Operations	(15,803,609)	(14,709,753)
NONOPERATING REVENUES (EXPENSES)		
Proposition 13 subvention property taxes	3,272,619	3,249,823
Interest income	1,395,646	935,824
Changes in market value of investments	(1,064,023)	(407,560)
Interest expense	(527,311)	(734,060)
Debt issuance costs	(328,494)	
Gain (loss) on property and equipment	34,622	153,231
Tri-Dam Power Authority distributions	1,000,000	1,000,000
Tri-Dam Project distributions	6,334,000	12,955,114
Undistributed earnings of Tri-Dam Project	(267,705)	(3,086,497)
Total Nonoperating Revenues (Expenses)	9,849,354	14,065,875
Net Income (Loss) before Contributions	**(5,954,255)**	**(643,878)**
Capital contributions	1,640,885	2,159,662
Change in Net Position	**(4,313,370)**	**1,515,784**
Net Position, Beginning of Year	294,060,195	292,544,411
NET POSITION, END OF YEAR	**$ 289,746,825**	**$ 294,060,195**

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, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 9,279,325	$ 9,005,412
Payments for goods and services	(12,122,734)	(10,045,443)
Payments to employees for services	(6,888,028)	(5,635,406)
Cash Provided (Used) by Operating Activities	(9,731,437)	(6,675,437)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax receipts	3,263,918	3,322,607
Tri Dam Power Authority cash distributions	1,000,000	1,000,000
Cash Provided by Noncapital Financing Activities	4,263,918	4,322,607
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	954,298	2,082,682
Proceeds from the sale of capital assets	43,861	162,610
Purchase of capital assets	(11,560,422)	(10,599,334)
Advance refunding of long-term debt	(19,922,647)	
Principal payments on long-term debt	(2,030,000)	(2,010,000)
Interest payments on long-term debt	(822,542)	(767,560)
Debt issuance costs paid	(328,494)	
Proceeds from debt issuance	19,726,145	
Cash Used by Capital and Related Financing Activities	(13,939,801)	(11,131,602)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,244,148	909,796
Purchases of investment securities	(81,371,560)	(41,099,272)
Proceeds from sales and maturities of investment securities	80,710,521	53,952,348
Decrease (Increase) in notes and loans receivable	80,805	(107,550)
Tri Dam Project cash distributions	6,334,000	12,955,114
Cash Provided by Investing Activities	6,997,914	26,610,436
Net Increase (Decrease) in Cash and Cash Equivalents	(12,409,406)	13,126,004
Cash and Cash Equivalents at Beginning of Year	24,342,079	11,216,075
Cash and Cash Equivalents at End of Year	**$ 11,932,673**	**$ 24,342,079**
RECONCILIATION OF CASH TO BALANCE SHEET		
Cash & cash equivalents - unrestricted	$ 11,173,985	$ 19,730,050
Cash & cash equivalents - restricted	758,688	4,612,029
Cash & cash equivalents - total	**$ 11,932,673**	**$ 24,342,079**

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, 2012 and 2011

	2012	2011
RECONCILIATION OF NET LOSS FROM OPERATIONS TO CASH USED FOR OPERATING ACTIVITIES		
Net Loss From Operations	$ (15,803,609)	$ (14,709,753)
Depreciation	6,342,879	6,289,996
(Increase) Decrease in operating assets		
Accounts receivable	34,486	(320,835)
Prepaid expenses	35,347	496,773
Inventories	25,921	22,572
Increase (Decrease) in operating liabilities		
Accounts payable	(340,551)	464,228
Conservation program liability	(121,052)	919,066
Accrued expenses	65,535	(26,200)
Unearned revenue	(4,594)	(10,609)
Compensated absences	34,201	199,325
Cash Used by Operating Activities	**$ (9,731,437)**	**$ (6,675,437)**
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Assets received as capital contributions	$ 686,587	$ -
Decrease in fair value of investments in marketable securities	(1,064,023)	(407,560)
Increase (decrease) in investment in Tri Dam Project, net of cash	(267,705)	(3,086,497)

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 Statements number 14 and 61, 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.

The District is a member of the San Joaquin River Group Authority (SJRGA), and also of the San Joaquin Tributaries Authority (SJTA). The SJRGA was created in 1996 as a joint powers authority consisting of the District, Modesto Irrigation District, Oakdale Irrigation District, Turlock Irrigation District, Friant Water Users Authority, and San Joaquin River Exchange Contractors Water Authority in order to represent these organizations in the investigation, monitoring, planning, control, mitigation of water issues, and enhancement of the environmental conditions in the Delta which impact the members. The agreement terminates in December 2036, unless extended by the participants. The SJTA was formed in 2012 for similar purposes with the District, Modesto Irrigation District, Oakdale Irrigation District, Turlock Irrigation District, and the City and County of San Francisco as members. These financial statements do not include the SJRGA or the SJTA because the District has only a residual interest, not an equity interest, in the assets of these entities. Both the SJRGA and the SJTA issue financial statements which can be obtained by contacting the executive director of the SJTA at http://calsmartwater.org/contact/.

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.

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

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

C. 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 2012A Revenue Refunding Bonds to be used in the event of inadequate funds to pay debt service. The construction fund was also established under the terms of the Certificates of Participation to hold the proceeds of the borrowing before they were exhausted in early 2012. The construction fund, which was fully expended during 2012, was available 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 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:

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

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.

M. Reclassification

Restricted cash and cash equivalents at December 31, 2011 was reclassified from current to other assets to reflect the fact that the amount is not available for current operations. This reclassification has no effect on total assets.

NOTE 3 – Cash and Investments

A. Classification

Cash and investments are classified in the financial statements as shown below at December 31, 2012 and 2011:

	2012	2011
Cash and cash equivalents - unrestricted	$ 11,173,985	$ 19,730,050
Cash and cash equivalents - restricted	758,688	4,612,029
Total cash and cash equivalents	**11,932,673**	**24,342,079**
Investments in marketable securities - current portion	28,928,287	28,144,325
Investments in marketable securities - noncurrent portion, unrestricted	9,001,039	6,562,329
Investments in securities - restricted (reserves for debt service, construction, water treatment plant)	5,715,304	9,340,960
Total investments in marketable securities	**43,644,630**	**44,047,614**
Total cash and investments	**$ 55,577,303**	**$ 68,389,693**

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.

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

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, 2012 and the credit ratings assigned.

Notes to the Basic Financial Statements

2012 INVESTMENTS BY MATURITY

Category	Moody's or S&P Rating	Year of Maturity 2013	2014	2015	2017	Total
US agencies						
	AA+	$ -	$ -	$ -	$ 3,984,821	$ 3,984,821
State and municipal debt						
	A	125,323		216,466		341,789
	A insured	973,086				973,086
	A-	514,272	407,980			922,252
	A- insured	976,955				976,955
	A+		212,476			212,476
	A+ insured	334,902	968,087			1,302,989
	A1	255,858				255,858
	A1 insured	401,993				401,993
	A2	410,484				410,484
	AA	859,693	133,970			993,663
	AA insured	781,399				781,399
	AA-	356,067	207,908			563,975
	AA- insured	4,008,379	757,916			4,766,295
	AA+	526,147	601,197			1,127,344
	AA+ insured	254,446				254,446
	Aa1	1,755,485				1,755,485
	Aa2	100,948				100,948
	Aa2 insured	204,696				204,696
	Aa3		465,993			465,993
	Aa3 insured	776,611				776,611
	AAA	1,088,583				1,088,583
	AAA insured	100,958				100,958
	M1G1	6,049,335		240,125		6,289,460
	Baa2 insured	1,057,710	1,144,269			2,201,979
	A3 insured	51,169				51,169
	Escrowed to maturity insured	50,660				50,660
	BBB insured	1,676,725				1,676,725
Total state and municipal debt		23,691,884	4,899,796	456,591	-	29,048,271
Negotiable certificates of deposit						
	FDIC Insured	5,635,626	1,470,899	489,733		7,596,258
Corporate notes						
	A	1,004,620				1,004,620
	BBB+	2,010,660				2,010,660
Total corporate notes		3,015,280	-	-	-	3,015,280
Total		**$ 32,342,790**	**$ 6,370,695**	**$ 946,324**	**$ 3,984,821**	**$ 43,644,630**

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

		Year of Maturity			
Category	**Moody's or S&P Rating**	**2012**	**2013**	**2014**	**Total**
US agencies					
	Aaa	$ 15,204,109	$ -	$ 6,119,738	$ 21,323,847
State and municipal debt					
	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
Total state and municipal debt		13,678,699	3,176,555	23,417	16,878,671
Negotiable certificates of deposit					
	FDIC Insured	4,863,922	981,174		5,845,096
Total		**$ 33,746,730**	**$ 4,157,729**	**$ 6,143,155**	**$ 44,047,614**

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 were as follows at December 31, 2012.

Issuer	Investment Type		Amount
Federal Natl Mortgage Association	U. S. Agencies	$	3,984,821

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 were as follows at December 31, 2011.

Issuer	Investment Type		Amount
Federal Home Loan Mortgage Corp.	U. S. Agencies	$	8,173,933
Federal National Mortgage Assn.	U. S. Agencies		8,120,419
Roseville, Calif. City School Dist.	Municipal Debt		5,761,845
Federal Home Loan Bank	U. S. Agencies		5,026,600
State of California	Municipal Bonds		2,519,775

At December 31, 2012, cash included $2,279,861 held in commercial banks of which 100% was insured by the Federal Deposit Insurance Corporation. At December 31, 2011, cash included $788,947 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:

	2012	2011
Proposition 13 subvention	$ 1,823,403	$ 1,814,702
Water treatment plant sales	1,168,314	1,185,575
Irrigation charges	322,047	329,332
PG&E	30,850	45,069
Miscellaneous	16,835	12,557
Total	$ 3,361,449	$ 3,387,235

Notes and loans receivable consist of two significant amounts. The first is a note receivable from a real estate development firm in the principal amount of $503,647 and accrued interest of $38,059. This note is for reimbursement to the District for costs to build irrigation facilities which the developer was responsible to provide to the District under the terms of a developers agreement. During 2012 the parties agreed to reduce the amount of this note by $63,125 in recognition of the fact that the developer does not own a portion of the property on which the improvements were built. Also during 2012 the annual interest rate was reduced from 4.5% to 2.25% retroactive to the inception of the note on July 28, 2009. From June 1, 2012 forward the interest rate is variable with a minimum annual rate of 2%. The minimum rate of 2% has been in effect since June 1, 2012 through the date of this report. Pro-rata amounts of principal are payable upon sales of any of the subject property. Any principal and interest remaining unpaid on June 1, 2017 is due on that date.

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, 2012 and at December 31, 2011 was $306,838, plus accrued interest of $18,410 and $12,274, respectively. This loan bears interest at 2% per annum.

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, 2012 and 2011

	2012	2011
Current assets	$ 23,539,134	$ 26,299,621
Capital assets	60,443,538	58,658,721
Deferred outflows	2,742,289	2,825,389
Total assets and deferred outflows	$ 86,724,961	$ 87,783,731
Current liabilities	$ 1,093,274	$ 1,627,290
Noncurrent liabilities	191,492	180,837
Total liabilities	1,284,766	1,808,127
Net investment in capital assets	60,443,538	58,658,721
Unrestricted net position	24,996,657	27,316,883
Total net position	85,440,195	85,975,604
Total liabilities and net position	$ 86,724,961	$ 87,783,731

Condensed Statements of Revenues, Expenses, & Changes in Net Assets
For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating revenues	$ 20,489,380	$ 24,900,195
Operating expenses	7,734,577	7,490,326
Net Income from Operations	12,754,803	17,409,869
Nonoperating Revenues		
Investment earnings	27,719	41,655
Water sales	97,057	114,902
Rental of equipment and facilities	56,811	51,270
Gain on disposal of capital assets	12,087	34,546
Reimbursements	171,833	38,564
Other nonoperating revenue	24,161	159,028
Fish and water quality studies	(736,346)	(966,209)
Goodwin Dam expenses	(275,534)	(256,391)
Total Nonoperating Revenues	(622,212)	(782,635)
Extraordinary income item - business interruption insur.		3,110,000
Change in Net Position	12,132,591	19,737,234
Net position, beginning of year	85,975,604	92,148,598
Less: distributions to OID and SSJID	(12,668,000)	(25,910,228)
Net Position, End of Year	$ 85,440,195	$ 85,975,604

Notes to the Basic Financial Statements

NOTE 6 – Capital Assets

Changes in capital assets accounts for the year ended December 31, 2012 are summarized below:

	December 31, 2011	Additions	Disposals	Transfers and Adjustments	December 31, 2012
Capital assets not being depreciated:					
Land	$ 1,382,984	$ -	$ -	$ -	$ 1,382,984
Water treatment plant land	5,834,926				5,834,926
Solar Land	512,400				512,400
Construction in progress - Irrigation	13,582,979	5,897,352		(18,647,188)	833,143
Construction in progress - WTP		1,012,924		(907,189)	105,735
Construction in progress - Solar	22,207	61,024		(83,231)	-
Total	21,335,496	6,971,300	-	(19,637,608)	8,669,188
Capital assets being depreciated:					
Improvements	243,015			170,952	413,967
Dams, canals, and laterals	91,074,331	822,827		11,166,505	103,063,663
Buildings	1,380,655			178,820	1,559,475
Vehicle and excavators	3,227,020	607,012	(116,953)		3,717,079
Machinerey and equipment	2,572,388	15,947		7,130,911	9,719,246
Water treatment plant ("WTP") vehicles	425,786		(14,453)		411,333
WTP improvements	629,600				629,600
WTP building and equipment	49,759,497	14,078			49,773,575
WTP original construction	63,633,679	62,644		907,189	64,603,512
WTP pump stations - original construction	9,732,439				9,732,439
Solar plant	11,891,503			83,231	11,974,734
Total	234,569,913	1,522,508	(131,406)	19,637,608	255,598,623
Less accumulated depreciation:					
Improvements	(158,417)	(15,372)			(173,789)
Dams, canals, and laterals	(27,141,434)	(1,989,924)			(29,131,358)
Buildings	(506,342)	(29,314)			(535,656)
Vehicle and excavators	(2,090,245)	(316,451)	107,713		(2,298,983)
Machinerey and equipment	(1,353,119)	(189,709)			(1,542,828)
Water treatment plant ("WTP") vehicles	(251,823)	(25,758)	14,453		(263,128)
WTP improvements	(44,745)	(48,860)			(93,605)
WTP building and equipment	(6,238,177)	(1,271,266)			(7,509,443)
WTP original construction	(7,811,220)	(1,626,280)			(9,437,500)
WTP pump stations - original construction	(1,622,074)	(324,415)			(1,946,489)
Solar plant	(1,818,321)	(505,530)			(2,323,851)
Total	(49,035,917)	(6,342,879)	122,166	-	(55,256,630)
Net Depreciable Capital Assets	185,533,996	(4,820,371)	(9,240)	19,637,608	200,341,993
Net Capital Assets	$ 206,869,492	$ 2,150,929	$ (9,240)	$ -	$ 209,011,181

Notes to the Basic Financial Statements

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

	December 31, 2010	Additions	Disposals	Transfers and Adjustments	December 31, 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		22,207			22,207
Total	9,400,917	13,007,640	-	(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				1,380,655
Vehicle and excavators	3,189,721	98,870	(61,571)		3,227,020
Machinerey and equipment	1,933,522	62,363		576,503	2,572,388
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			49,759,497
WTP original construction	62,781,742	851,937			63,633,679
WTP pump stations - original construction	9,732,439				9,732,439
Solar plant	11,891,503				11,891,503
Total	232,189,006	1,378,797	(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)			(27,141,434)
Buildings	(473,958)	(32,384)			(506,342)
Vehicle and excavators	(1,840,046)	(311,770)	61,571		(2,090,245)
Machinerey and equipment	(1,188,114)	(165,005)			(1,353,119)
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)			(7,811,220)
WTP pump stations - original construction	(1,297,659)	(324,415)			(1,622,074)
Solar plant	(1,306,079)	(512,242)			(1,818,321)
Total	(42,807,491)	(6,289,997)	61,571	-	(49,035,917)
Net Depreciable Capital Assets	189,381,515	(4,911,200)	-	1,063,681	185,533,996
Net Capital Assets	$ 198,782,432	$ 8,096,440	$ -	$ (9,380)	$ 206,869,492

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 contain renewal options for additional future periods. Minimum rental payments due under the leases for future calendar years are as follows:

2013	$ 15,161
2014	10,863
2015	4,526
Total	$ 30,550

NOTE 8 – Long-term Liabilities

A. Description of individual long-term debt issues outstanding

Long-term debt at December 31, 2012 consists of Refunding Revenue Bonds Series 2012A issued on May 3, 2012 in an advance refunding of all the outstanding Revenue Certificates of Participation Series 2008A. Series 2012A was issued in the original amount of $17,975,000 plus an original issue premium of $1,751,145. The Bonds are secured by a lien on the net water system revenues. The terms of the Bonds 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 $2,030,000 to $2,545,000 due on October 1 annually through 2019, and semi-annual interest payments, ranging from $50,900 to $298,100, due on April 1 and October 1 through 2019. Coupon rates range from 3.0% to 4.0%.

Long-term debt at December 31, 2011 consisted of Series 2008A Revenue Certificates of Participation issued on July 1, 2008 in the original amount of $25,000,000. The proceeds were 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 required the District to annually collect revenues of at least 125% of annual debt service, after subtracting operating and maintenance expenses. Debt service required 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 ranged from 3.4% to 4.1%.

B. Required disclosure of long term debt activity

Activity during the years ending December 31, 2012 and 2011, in the long-term debt accounts, was as shown in the following tables:

	December 31, 2011	Additions	Reductions	December 31, 2012	Due Within One Year
Long-Term Liabilities					
2008A Revenue Certificates of Participation	$ 19,125,000	$ -	$ (19,125,000)	$ -	$ -
2012A Refunding Revenue Bonds	-	17,975,000	(2,030,000)	15,945,000	2,050,000
Original issue premium on 2012A Refunding Bonds	-	1,751,145	(257,400)	1,493,745	356,650
Subtotal long term debt	19,125,000	19,726,145	(21,412,400)	17,438,745	2,406,650
Compensated absences	2,161,569	593,001	(558,799)	2,195,771	659,490
Total long term liabilities	$ 21,286,569	$ 20,319,146	$ (21,971,199)	$ 19,634,516	$ 3,066,140
Deferred Outflows					
Deferred amount on refunding of 2008A Certificates of Participation	$ -	$ (797,647)	$ 119,377	$ (678,270)	$ (165,406)

	December 31, 2010	Additions	Reductions	December 31, 2011	Due Within One Year
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	$ 23,097,244	$ 583,324	$ (2,393,999)	$ 21,286,569	$ 2,613,664

C. Debt service requirements to maturity

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

	Principal	Interest	Total
2013	$ 2,050,000	$ 596,200	$ 2,646,200
2014	2,110,000	534,700	2,644,700
2015	2,180,000	471,400	2,651,400
2016	2,260,000	384,200	2,644,200
2017	2,355,000	293,800	2,648,800
2018 - 2019	4,990,000	301,400	5,291,400
Total	$ 15,945,000	$ 2,581,700	$ 18,526,700

D. Advance Refunding

On May 3, 2012 the District issued Refunding Revenue Bonds Series 2012A in an advance refunding of all the outstanding Revenue Certificates of Participation Series 2008A. The advance refunding resulted in a difference of $797,647 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged as an addition to interest expense through the year 2019 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 7 years by $1,413,529 to $20,826,841 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,387,455.

E. Defeasance of Debt

In the current year the District defeased the 2008A Revenue Certificates of Participation by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At December 31, 2012, $17,035,000 of outstanding certificates of participation are considered defeased.

NOTE 9 – Net Position

Net position, formerly called net assets, is the excess of all the District's assets and deferred outflows over all its liabilities and deferred outflows. Net position is divided into three components.

"Net investment in capital assets" describes the portion of net position which represents the 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 investment in capital assets. Net investment in capital assets is made up of the following components as of December 31, 2012 and 2011:

	2012	2011
Total capital assets, net of accumulated depreciation	$ 209,011,181	$ 206,869,492
Less current portion LT debt	(2,406,650)	(2,090,000)
Less noncurrent portion LT debt	(15,032,095)	(17,035,000)
Add deferred amount on refunding of 2012A Refunding		
Revenue Bonds	678,270	
Add Unspent Proceeds of Debt:		
Debt service reserve fund	1,798,060	2,498,474
Construction fund cash and investments		6,297,274
Total	**$ 194,048,766**	**$ 196,540,240**

The second component of net position is restricted net position, which consists of 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 position for December 31, 2012 and 2011.

	2012	2011
Debt service reserve	$ 1,798,060	$ 2,498,474
Construction fund		6,297,274
Water treatment plant funds	4,675,932	5,157,241
Accrued interest receivable on restricted investments	30,947	23,752
Total	**$ 6,504,939**	**$ 13,976,741**

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

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:

	2012	2011
Developers	$ 623,462	$ 71,360
Municipal customers of water treatment plant	937,836	1,063,692
Grant from U. S. Bureau of Reclamation		995,000
U. S. Natural Resources Conservation Service	79,587	29,610
	$ 1,640,885	$ 2,159,662

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, 2012 was 17.671%, the rate for the period ended June 30, 2012 was 17.041%, and the rate for the period ended June 30, 2011 was 14.133%, 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, 2012, 2011, and 2010 were $1,400,644, $1,227,429, and $1,061,429, 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 2K. 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.

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 years ended June 30, 2012 and 2011, the District made health insurance premium payments on behalf of retirees of $69,252 and $78,170. 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, 2012 and 2011, the amount actually contributed to the Plan, and changes in the District's Net OPEB obligation:

	2012	2011
Annual required contribution end of year	$ 88,384	$ 73,978
Interest on net OPEB obligation	5,092	5,751
Adjustment to annual required contribution	(4,146)	(3,643)
Annual OPEB cost (expense)	89,330	76,086
Contributions made including credited interest	(69,252)	(78,170)
Increase (decrease) in net OPEB obligation	20,078	(2,084)
Net OPEB obligation, beginning of period	72,121	74,205
Net OPEB obligation, end of period	$ 92,199	$ 72,121

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 Contributed	Net OPEB Obligation
6/30/2010	$74,063	107.75%	$74,205
6/30/2011	76,086	102.74%	72,121
6/30/2012	89,330	77.52%	92,199

Funded Status and Funding Progress

The funded status of the Plan as of December 31, 2012, from the Plan's most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	$ 2,059,285
Actuarial value of Plan assets	2,042,811
Unfunded actuarial accrued liability (UAAL)	$ 16,474
Funded ratio (actuarial value of Plan assets/AAL)	99.20%
Covered payroll (active Plan participants)	$ 6,080,709
UAAL as a percentage of covered payroll	0.27%

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 July 1, 2011 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 7.06 percent investment rate of return, healthcare premium increases starting at 9.5 percent and declining to 5.0 percent for 2021 and later, and projected salary increases of 3.25 percent. The UAAL is being amortized over a level percentage of projected payroll over a 30 year open period.

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 and is a member of the Special Districts Risk Management Authority (SDRMA). SDRMA is a risk pooling self-insurance authority, created under the provisions of California Government Code Section 6500 et. seq. The purpose of SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. The following is a summary of the insurance policies in force carried by the District as of December 31, 2012.

Type of Coverage	Limit per Occurrence	Aggregate Limit	Deductible
General liability	$ 10,000,000	$ -	$ 1,000
Automobile liability (incl. personal injury, property damage)	10,000,000		-
Uninsured/Underinsured motorists	1,000,000		-
Employment practices liability	10,000,000	10,000,000	25,000
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	1,000
Employee benefits liability	10,000,000	10,000,000	-
Property coverage (including fire & theft)	1,000,000,000		10,000
Property coverage - flood	1,000,000,000		250,000
Employee dishonesty	400,000		35,000
Boiler & machinery	100,000,000		100,000
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.

NOTE 14 – Commitments and Contingencies

Contract Commitments

The District had the following significant contract commitments outstanding as of December 31, 2012:

Project Name	Contract Amount	Remaining Contract Commitment
Contract to refurbish main distribution canal	$ 900,000	$ 663,992

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. A draft substitute environmental document that reviews various potential actions has been released for public review and comment. 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 ("Reclamation") would be affected before the District's, as they are junior in priority. To the extent that curtailment of Reclamation's junior rights are insufficient to implement the standards, the District could be impacted. The potential effect of the new standards on the District's water supply depend upon what standards are adopted and how the SWRCB implements the new standards. It is currently not possible to predict the outcome of these hearings. The District has incurred and will continue to incur legal costs to protect its water rights in the State Board process, but it is not possible to estimate the potential cost for participating in the State Board Process with certainty or to determine the financial impact of the outcome of the hearings on the District. However, the District currently shares costs for participating in the State Board process with other affected public agencies through the San Joaquin Tributaries Authority. The Authority's costs for providing legal representation and expert witness testimony for its member agencies in the State Board process are included in the Authority's annual budget.

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.

NOTE 15 – Change in Estimate

The balance of the long-term note receivable has been adjusted from $566,772 to $503,647, and capital contribution revenue decreased by the same amount based on a new accounting of the final project costs agreed to by the developer. Interest income and "accrued interest receivable – unrestricted" has been reduced by $49,321. The underlying transaction is described in Note 4 – Accounts and Notes Receivable.

NOTE 16 – 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, 2013 the District received a distribution of $3.4 million from Tri-Dam Project.

In April, 2013 the District entered into an agreement to furnish up to 40,000 acre-feet of water to assist the United States Bureau of Reclamation to meet its obligation under the National Marine Fisheries Services 2009 Biological Opinion to increase the flow of the Stanislaus River during April and May of 2013 which is intended to protect migratory fish in the lower San Joaquin River and Delta. This agreement is expected to produce $4,000,000 of revenue to the District. The District is compensated at the rate of $100 per acre-foot of water released from the District's storage on the Stanislaus. Payment is to be furnished by the California Department of Water Resources and the San Luis & Delta Mendota Water Authority who will ultimately make use of the water released by the District under this agreement.

NOTE 17 – New Accounting Standards

Effective January 1, 2012, the District implemented GASB 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.

Effective January 1, 2012, the District implemented GASB 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. The District's debt issuance costs were expensed due to the implementation of this statement.

Notes to the Basic Financial Statements

In June 2012, the GASB approved Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The implementation of this GASB Statement will have a significant impact on the District's financial statements and is effective for the District's December 31, 2015 financial statements. The District will fully analyze the impact of this new Statement prior to the effective date 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]
12/31/2010	$ 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%
12/31/2012	2,042,811	2,059,285	16,474	99.20%	6,080,709	0.27%