

**VALLEY OF THE MOON WATER DISTRICT**

**BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**VALLEY OF THE MOON WATER DISTRICT  
FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**TABLE OF CONTENTS**

FINANCIAL SECTION

|  |    |
|--|----|
| Independent Auditor’s Report.....  | 1  |
| Management’s Discussion and Analysis.....  | 3  |
| Basic Financial Statements:  |    |
| Comparative Statement of Net Assets.....   | 6  |
| Comparative Statement of Revenues, Expenses, and Changes in Net Assets .....     | 7  |
| Comparative Statement of Cash Flows .....  | 8  |
| Notes to Basic Financial Statements.....   | 9  |
| Required Supplementary Information:  |    |
| Schedule of Funding Progress for Post-employment Health Insurance Benefits ..... | 22 |



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Valley of the Moon Water District  
El Verano, California

We have audited the accompanying basic financial statements of the Valley of the Moon Water District (District) as of and for the fiscal year ended June 30, 2012, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Valley of the Moon Water District as of June 30, 2012, and the changes in financial position and cash flows, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, effective July 1, 2011.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2012, on our consideration of the Valley of the Moon Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the Schedule of Funding Progress for Post-employment Health Insurance Benefits on page 22 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.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Culver City, California  
October 29, 2012

## Management's Discussion and Analysis

The Management's Discussion and Analysis of the Valley of The Moon Water District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Please read this in conjunction with the financial statements as listed in the Table of Contents.

### Using This Financial Report

This annual report consists of three required financial statements. The "Comparative Statement of Net Assets" is similar to a "Balance Sheet" of a private sector (commercial) entity. Assets and Liabilities are reported in this statement.

The "Comparative Statement of Revenue, Expenses, and Changes in Net Assets" reports revenues and expenses of the District and is similar to an "Income Statement" of a commercial enterprise.

The "Comparative Statement of Cash Flows" reports what activity occurred that caused increases and decreases in cash. This is very similar to a private sector cash flow statement. Increases or decreases in cash are segregated into natural categories such as "Operating Activities", "Capital and Related Financing Activities", "Non-Capital and Related Financing Activities", and "Investing Activities".

All statements are in comparative form to facilitate comparison to last fiscal year's financial activity.

### The Comparative Statement of Net Assets

Condensed comparative information is as follows:

|   | <u>6/30/2012</u>    | <u>6/30/2011</u>    | <u>Change</u>     |
|---|---------------------|---------------------|-------------------|
| <b><u>ASSETS</u></b>                                |                     |                     |                   |
| Current Assets                                      | \$2,942,201         | \$2,559,982         | \$ 382,219        |
| Net Capital Assets                                  | 22,213,830          | 22,810,405          | (596,575)         |
| Other Non-Current Assets                            | <u>556,447</u>      | <u>565,409</u>      | <u>(8,962)</u>    |
| <b>TOTAL ASSETS</b>                                 | <u>25,712,478</u>   | <u>25,935,796</u>   | <u>(223,318)</u>  |
| <b><u>LIABILITIES</u></b>                           |                     |                     |                   |
| Current Liabilities                                 | 329,542             | 336,846             | (7,304)           |
| Long-Term Liabilities                               | 2,682,341           | 2,886,732           | (204,391)         |
| <b>TOTAL LIABILITIES</b>                            | <u>3,011,883</u>    | <u>3,223,578</u>    | <u>(211,695)</u>  |
| <b><u>NET ASSETS</u></b>                            |                     |                     |                   |
| Invested in Capital Assets<br>(net of related debt) | 19,803,024          | 20,237,437          | (434,414)         |
| Unrestricted  | <u>2,897,571</u>    | <u>2,474,781</u>    | <u>422,791</u>    |
| <b><u>TOTAL NET ASSETS</u></b>                      | <u>\$22,700,595</u> | <u>\$22,712,218</u> | <u>\$(11,623)</u> |

The District’s primary assets are property and equipment, investments held with the State LAIF Account and the County of Sonoma Treasury, as well as current assets such as accounts receivable and operating cash.

At the end of the fiscal year, the District had \$2,115,175 in investments included in “Current Assets” shown in the table on the previous page – \$462,602 in the State Investment Pool and \$1,652,573 with the Sonoma County Investment Pool.

**The Comparative Statement of Activities and Changes in Net Assets**

Condensed financial information is as follows (for the fiscal year ended):

| <b><u>OPERATING REVENUES</u></b>                    | <b><u>6/30/2012</u></b> | <b><u>6/30/2011</u></b> | <b><u>Change</u></b> |
|---|-------------------------|-------------------------|----------------------|
| Sale of Water and Service Charges                   | <u>\$4,127,168</u>      | <u>\$3,631,227</u>      | <u>\$495,941</u>     |
| <b><u>OPERATING EXPENSES</u></b>                    |                         |                         |                      |
| Water Purchases                                     | 1,745,234               | 1,506,951               | 238,283              |
| Plant Operating Expenses                            | 797,516                 | 743,508                 | 54,008               |
| General & Administrative Expenses                   | <u>889,126</u>          | <u>889,360</u>          | <u>(234)</u>         |
| TOTAL OPERATING EXPENSES                            | <u>3,431,876</u>        | <u>3,139,819</u>        | <u>292,057</u>       |
| Operating Income Before Depreciation & Amortization | 695,292                 | 491,408                 | 203,884              |
| Depreciation & Amortization                         | <u>759,606</u>          | <u>756,115</u>          | <u>3,491</u>         |
| <b><u>OPERATING INCOME</u></b>                      | (64,314)                | (264,707)               | 200,393              |
| <b><u>NON-OPERATING REVENUES / (EXPENSES)</u></b>   | <u>(37,762)</u>         | <u>(46,742)</u>         | <u>8,980</u>         |
| <b>Income Before Capital Contributions</b>          | (102,076)               | (311,449)               | 209,373              |
| Capital Contributions                               | 90,453                  | 198,078                 | (107,625)            |
| Capital Contributions Refunded                      | <u>0</u>                | <u>(263,224)</u>        | <u>263,224</u>       |
| <b><u>CHANGE IN NET ASSETS</u></b>                  | <u>\$(11,623)</u>       | <u>\$(376,595)</u>      | <u>\$364,972</u>     |

The District’s operating revenue increased by \$495,941 or 13.7%. The District’s customer base is relatively stable. Changes in the water sales revenue are primarily attributable to a combination of factors including 1) changes in weather conditions, 2) an annual increase in the water rates, and 3) a minimal addition of new customer accounts.

Water purchases increased \$238,283 or 15.8% over last fiscal year. The District’s unit cost of water bought from the Sonoma County Water Agency went up from \$674.47 per acre foot to \$703.33 per acre foot. This represents a 4.28% increase. The increase in water purchase costs is primarily due to the increased unit cost and the amount of water purchased. Compared to the prior fiscal year, plant operating expenses increased \$54,008 or 7.3% and general and administrative expenses remained the same over the prior fiscal year. Included in the Statement of Activities under “Capital Contributions” are developer projects. The decrease of \$107,625 over last fiscal year is due to a decrease in developer activity.

**Debt Administration**

The District’s long term loan with the Sonoma Valley Bank decreased this year to \$1,729,035 due to the planned FY 2011-12 principal payment of \$131,392. The District’s long term loan with the California Infrastructure and Economic Development Bank decreased this year to \$711,771 due to the planned FY 2011-2012 principal payment of \$33,770.

**Capital Assets**

As reflected in the notes to the financial statements, District’s total planned capital improvements over the next five fiscal years amounts to \$3,180,000. Amounts for each fiscal year are given below:

| <u>Year</u> | <u>Amount</u>       |
|-------------|---------------------|
| 2012/13     | \$1,385,000         |
| 2013/14     | 440,000             |
| 2014/15     | 440,000             |
| 2015/16     | 440,000             |
| 2016/17     | 475,000             |
| Total       | <u>\$ 3,180,000</u> |

Scheduled projects may be extended or shortened somewhat depending on available capital funding and project needs.

**Economic Outlook and Next Years’ Budget and Rates**

The 2012-13 County of Sonoma Local Economic Report included the following highlights:

- The seasonally unadjusted unemployment rate for Sonoma County in August 2012 was 8.3%, down from 9.9% one year prior. Sonoma County’s unemployment rate is below the state (10.4%), and slightly above the nation (8.2%).
- Between 2000 and 2011, the median household income in Sonoma County grew by 16.9% to \$64,031. Looking into 2016, this growth is expected to continue with median income rising to \$76,440, an increase of 16.2% from 2011.
- The number of homes sold in Sonoma County increased by 334 for a total of 5,394, a gain of 6.1% from 2010 to 2011.

The Board of Directors adopted the District’s 2012-2013 budgets and rates on June 5, 2012. The approval of the budget provides funding for the District’s operating, capital and debt service costs for the 2012-2013 fiscal year. The District’s water rates are reviewed by staff on an annual basis. For fiscal year 2012-2013, the Board of Directors approved a 5.7% rate increase to both the basic service charge and water usage rates.

**Request for additional information**

This financial report is designed to provide a general overview of the District’s finances for all those with an interest in its finances. If you have any questions concerning any information provided in this report or need additional information, please contact the District office at (707) 996-1037.

Krishna Kumar  
General Manager

**VALLEY OF THE MOON WATER DISTRICT**  
**COMPARATIVE STATEMENT OF NET ASSETS**  
**June 30, 2012**  
**With Comparative Statement as of June 30, 2011**

|   | June 30, 2012        | June 30, 2011        |
|---|----------------------|----------------------|
| <b>ASSETS</b>                                   |                      |                      |
| <b>CURRENT ASSETS</b>                           |                      |                      |
| Cash and Investments                            | \$ 2,234,715         | \$ 2,050,529         |
| Accounts Receivable                             | 640,357              | 442,449              |
| Interest Receivable                             | 4,069                | 2,761                |
| Other Receivables                               |                      | 968                  |
| Inventory                                       | 45,579               | 47,813               |
| Prepaid Expenses                                | 17,481               | 15,462               |
| <b>TOTAL CURRENT ASSETS</b>                     | <b>2,942,201</b>     | <b>2,559,982</b>     |
| <b>NONCURRENT ASSETS</b>                        |                      |                      |
| Land  | 215,795              | 215,795              |
| Construction in Progress                        | 50,243               | 79,888               |
| Utility, Plant & Equipment                      | 34,226,234           | 34,063,637           |
| Less-Accumulated Depreciation                   | (12,278,442)         | (11,548,915)         |
| <b>TOTAL CAPITAL ASSETS, NET</b>                | <b>22,213,830</b>    | <b>22,810,405</b>    |
| <b>OTHER NONCURRENT ASSETS</b>                  |                      |                      |
| Prepaid Post-employment Benefits                | 526,447              | 532,409              |
| Loan Fees (Net of Amortization)                 | 30,000               | 33,000               |
| <b>TOTAL OTHER NONCURRENT ASSETS</b>            | <b>556,447</b>       | <b>565,409</b>       |
| <b>TOTAL ASSETS</b>                             | <b>25,712,478</b>    | <b>25,935,796</b>    |
| <b>LIABILITIES</b>                              |                      |                      |
| <b>CURRENT LIABILITIES</b>                      |                      |                      |
| Accounts Payable                                | 203,008              | 202,292              |
| Accrued Wages                                   | 15,103               | 11,919               |
| Accrued Interest                                | 67,161               | 79,115               |
| Customer Deposits                               | 44,270               | 43,520               |
| <b>TOTAL CURRENT LIABILITIES</b>                | <b>329,542</b>       | <b>336,846</b>       |
| <b>LONG TERM LIABILITIES</b>                    |                      |                      |
| Due Within One Year                             | 237,601              | 212,813              |
| Due in More Than One Year                       | 2,444,740            | 2,673,919            |
| <b>TOTAL LONG TERM LIABILITIES</b>              | <b>2,682,341</b>     | <b>2,886,732</b>     |
| <b>TOTAL LIABILITIES</b>                        | <b>3,011,883</b>     | <b>3,223,578</b>     |
| <b>NET ASSETS</b>                               |                      |                      |
| Invested in Capital Assets, Net of Related Debt | 19,803,024           | 20,237,437           |
| Unrestricted                                    | 2,897,571            | 2,474,781            |
| <b>TOTAL NET ASSETS</b>                         | <b>\$ 22,700,595</b> | <b>\$ 22,712,218</b> |

See accompanying notes to basic financial statements



**VALLEY OF THE MOON WATER DISTRICT**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**For the Fiscal Year Ended June 30, 2012**  
**With Comparative Statement for the Fiscal Year Ended June 30, 2011**

|  | June 30, 2012 | June 30, 2011 |
|--|---------------|---------------|
| <b>Operating Revenues</b>                      |               |               |
| Water Sales                                    | \$ 4,127,168  | \$ 3,631,227  |
| Total Operating Revenues                       | 4,127,168     | 3,631,227     |
| <b>Operating Expenses</b>                      |               |               |
| Water Purchases                                | 1,745,234     | 1,506,951     |
| Plant Operating Expenses                       | 797,516       | 743,508       |
| General and Administrative Expenses            | 889,126       | 889,360       |
| Depreciation                                   | 756,606       | 753,115       |
| Amortization                                   | 3,000         | 3,000         |
| Total Operating Expenses                       | 4,191,482     | 3,895,934     |
| Operating Income (Loss)                        | (64,314)      | (264,707)     |
| <b>Non-Operating Revenues (Expenses)</b>       |               |               |
| Other Income                                   | 36,043        | 57,015        |
| Interest Earned                                | 16,277        | 13,475        |
| Gain (Loss) on Sale/Disposal of Capital Assets | 5,545         | (4,400)       |
| Interest Expense                               | (95,627)      | (112,832)     |
| Total Non-Operating Revenues (Expenses)        | (37,762)      | (46,742)      |
| Net Income (Loss) Before Capital Contributions | (102,076)     | (311,449)     |
| <b>Capital Contributions</b>                   |               |               |
| Capital Contributions                          | 90,453        | 198,078       |
| Capital Contribution Refunded                  |               | (263,224)     |
| Total Capital Contributions                    | 90,453        | (65,146)      |
| Change in Net Assets                           | (11,623)      | (376,595)     |
| Total Net Assets, Beginning of Fiscal Year     | 22,712,218    | 23,088,813    |
| Total Net Assets, End of Fiscal Year           | \$ 22,700,595 | \$ 22,712,218 |

See accompanying notes to basic financial statements

**VALLEY OF THE MOON WATER DISTRICT**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2012**  
**With Comparative Statement for the Fiscal Year Ended June 30, 2011**

|   | June 30, 2012 | June 30, 2011 |
|---|---------------|---------------|
| Cash Flows From Operating Activities  |               |               |
| Cash Received from Customers  | \$ 3,930,978  | \$ 3,628,843  |
| Payments to Suppliers for Goods and Services  | (2,661,691)   | (2,592,394)   |
| Payments to Employees and Related Items   | (750,811)     | (737,890)     |
| Net Cash Flows Provided by Operating Activities   | 518,476       | 298,559       |
| Cash Flows From Capital and Related Financing Activities  |               |               |
| Acquisition of Capital Assets   | (160,156)     | (913,893)     |
| Proceeds from Sale of Capital Assets  | 5,670         |               |
| Principal Payment on Long Term Debt   | (165,162)     | (155,138)     |
| Interest Payments   | (107,581)     | (131,964)     |
| Capital Contribution Refunded   |               | (263,224)     |
| Capital Contributions   | 90,453        | 198,078       |
| Net Cash Flows (Used) by Capital and Related Financing Activities                                 | (336,776)     | (1,266,141)   |
| Cash Flows From Non-Capital and Related Financing Activities                                      |               |               |
| Payment on Settlement Agreement   | (48,526)      | (48,526)      |
| Other Income  | 36,043        | 57,015        |
| Net Cash Flows Provided (Used) by Non-Capital and Related Financing Activities                    | (12,483)      | 8,489         |
| Cash Flows From Investing Activities  |               |               |
| Interest Income   | 14,969        | 16,290        |
| Net Cash Flows Provided by Investing Activities   | 14,969        | 16,290        |
| Net Increase (Decrease) in Cash and Investments   | 184,186       | (942,803)     |
| Cash and Investments, Beginning of Fiscal Year  | 2,050,529     | 2,993,332     |
| Cash and Investments, End of Fiscal Year  | \$ 2,234,715  | \$ 2,050,529  |
| Reconciliation of Cash and Investments to Amounts<br>Reported on the Statement of Net Assets:     |               |               |
| Cash and Investments  | \$ 2,234,715  | \$ 2,050,529  |
| Reconciliation of Operating Income (Loss) to Net Cash<br>Provided by Operations:                  |               |               |
| Operating Income (Loss)   | \$ (64,314)   | \$ (264,707)  |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided<br>by Operating Activities: |               |               |
| Depreciation  | 756,606       | 753,115       |
| Amortization  | 3,000         | 3,000         |
| (Increase) Decrease in Other Receivables  | 968           | 710           |
| (Increase) Decrease in Accounts Receivable  | (197,908)     | (3,574)       |
| (Increase) Decrease in Inventory  | 2,234         | 1,571         |
| (Increase) Decrease in Prepaid Expenses   | (2,019)       | (1,134)       |
| (Increase) Decrease in Prepaid Post-employment Benefits   | 5,962         |               |
| Increase (Decrease) in Accounts Payable   | 716           | (162,574)     |
| Increase (Decrease) in Accrued Wages  | 3,184         | (26,550)      |
| Increase (Decrease) in Customer Deposits Payable  | 750           | 480           |
| Increase (Decrease) in Compensated Absences   | 9,297         | (1,778)       |
| Total Adjustments   | 582,790       | 563,266       |
| Net Cash Provided by Operating Activities   | \$ 518,476    | \$ 298,559    |

See accompanying notes to basic financial statements

**VALLEY OF THE MOON WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**Note 1: Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Valley of the Moon Water District (District) was formed in 1960 through an election under Division 12, Section 30000 of the California State Water Code for the primary purpose of providing adequate quantities of potable water to all properties located within the District.

The District accounting policies conform to accounting principles generally accepted in the United States of America as applicable to governments, in accordance with the uniform system of accounts for water utility special enterprise districts as prescribed by the State Controller in compliance with the government code of the State of California.

**B. Method of Accounting**

The District follows the accrual basis of accounting. The District's policy is to record all assets, liabilities, revenues, and expenses on the accrual basis of accounting and the flow of economic resources measurement focus. Under this method, revenue is recognized when earned and expenses are recognized when the related liability is incurred. Receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

**C. Budgetary Reporting**

The Board of Directors adopts the budget by passage of a resolution prior to July 1<sup>st</sup>, for the new fiscal year. The general manager is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total appropriations must be approved by the Board of Directors.

**D. Inventories**

Materials, supplies, and gasoline are valued at cost using the first-in-first-out method.

**E. Deferred Charges**

Loan fees are amortized over 20 years; organization and master water plan costs are amortized over 5 years.

**F. Capital Assets**

Land, structures, and improvements are recorded at cost at the time of purchase, or if constructed, at the completion of the construction. Contributed assets are recorded at their fair value at the time of transfer to the District. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Specifically, transmission and distribution mains are depreciated over 67 years; wells, springs, and tunnels over 30 years; reservoirs and tanks over 50 years; equipment over 5-25 years; meters over 20 years; and structures and improvements over 25 years.

**VALLEY OF THE MOON WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**Note 1: Summary of Significant Accounting Policies (Continued)**

**G. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**H. Proprietary Fund Accounting**

The District has one fund which is considered a proprietary fund.

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has opted to apply all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operation of the fund. All other expenses are reported as non-operating expenses.

**I. Flexible Benefits Plan**

The District has established a benefits plan including a Dependent Care Expense Reimbursement Plan and a Medical Care Expense Reimbursement Plan. Pre-tax premium elections under the plan are intended to qualify for the exclusion from income provided by Section 125 of the Internal Revenue Code. At present, this plan is only used for medical premiums.

**J. New Accounting Pronouncements**

The District has implemented the requirements of GASB Statement No. 64 during the fiscal year ended June 30, 2012.

Governmental Accounting Standards Board Statement No. 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions*

This Statement is effective for periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. Implementation of the GASB Statement No. 64, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2012.

**VALLEY OF THE MOON WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**Note 2: Cash and Investments**

Classification

The cash and investments are classified in the financial statements as shown below, based on whether or not its use is restricted under the terms of District debt instruments or District agreements.

Statement of Net Assets:

|                      |              |
|----------------------|--------------|
| Cash and Investments | \$ 2,234,715 |
|----------------------|--------------|

Cash and Investments as of June 30, 2012 consists of the following:

|                                |                  |
|--------------------------------|------------------|
| Cash on Hand                   | \$ 500           |
| Cash in Bank                   | 119,040          |
| Investments                    | 2,115,175        |
| <br>Total Cash and Investments | <br>\$ 2,234,715 |

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

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

| Authorized Investment Type                | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment In One Issuer |
|---|------------------|---------------------------------|----------------------------------|
| Local Agency Investment Fund (State Pool) | N/A              | None                            | \$50 million                     |
| Certificates of Deposit                   | N/A              | None                            | \$100,000                        |
| Sonoma County Pooled Investment Fund      | N/A              | None                            | None                             |
| Passbook Savings Accounts                 | N/A              | None                            | None                             |
| U.S. Treasury Obligations                 | N/A              | None                            | None                             |

**VALLEY OF THE MOON WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**Note 2: Cash and Investments (Continued)**

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

| Investment Type               | Carrying Amount     | Remaining Maturity (in Months) |                    |                 |                 |                 |                        |
|-------------------------------|---------------------|--------------------------------|--------------------|-----------------|-----------------|-----------------|------------------------|
|                               |                     | 12 Months<br>Or Less           | 13 to 24<br>Months | 25-36<br>Months | 37-48<br>Months | 49-60<br>Months | More than<br>60 Months |
| State Investment Pool (LAIF)  | \$ 462,602          | \$ 462,602                     | \$ -               | \$ -            | \$ -            | \$ -            | \$ -                   |
| Sonoma County Investment Pool | 1,652,573           | 1,652,573                      |                    |                 |                 |                 |                        |
|                               | <u>\$ 2,115,175</u> | <u>\$ 2,115,175</u>            | <u>\$ -</u>        | <u>\$ -</u>     | <u>\$ -</u>     | <u>\$ -</u>     | <u>\$ -</u>            |

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

| Investment Type               | Carrying Amount     | Minimum Legal Rating | Exempt From Disclosure | Rating as of Fiscal Year End |             |                     |
|-------------------------------|---------------------|----------------------|------------------------|------------------------------|-------------|---------------------|
|                               |                     |                      |                        | AAA                          | AA          | Not Rated           |
| State Investment Pool (LAIF)  | \$ 462,602          | N/A                  | \$ -                   | \$ -                         | \$ -        | \$ 462,602          |
| Sonoma County Investment Pool | 1,652,573           | N/A                  |                        |                              |             | 1,652,573           |
| Total                         | <u>\$ 2,115,175</u> |                      | <u>\$ -</u>            | <u>\$ -</u>                  | <u>\$ -</u> | <u>\$ 2,115,175</u> |

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments (other than LAIF and Sonoma County Investment Pool).

**VALLEY OF THE MOON WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**Note 2: Cash and Investments (Continued)**

Custodial Credit Risk

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

The District had no deposits with financial institutions in excess of federal depository insurance limits as of June 30, 2012.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and the Sonoma County Investment Pool).

Investment in State Investment Pool

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

**VALLEY OF THE MOON WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**Note 3: Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

|   | Balance at<br>July 1, 2011 | Additions           | Deletions       | Transfers       | Balance at<br>June 30, 2012 |
|---|----------------------------|---------------------|-----------------|-----------------|-----------------------------|
| <b>Capital Assets, not being depreciated:</b>       |                            |                     |                 |                 |                             |
| Land  | \$ 215,795                 | \$ -                | \$ -            | \$ -            | \$ 215,795                  |
| Construction in Progress                            | 79,888                     | 8,629               | (125)           | (38,149)        | 50,243                      |
| <b>Total Capital Assets, not being depreciated</b>  | <b>295,683</b>             | <b>8,629</b>        | <b>(125)</b>    | <b>(38,149)</b> | <b>266,038</b>              |
| <b>Capital Assets, being depreciated:</b>           |                            |                     |                 |                 |                             |
| Source of Supply                                    | 8,384,008                  |                     |                 |                 | 8,384,008                   |
| Transmission and Distribution                       | 23,943,300                 | 151,527             |                 | 38,149          | 24,132,976                  |
| General Plant                                       | 1,736,329                  |                     | (27,079)        |                 | 1,709,250                   |
| <b>Total Capital Assets, being depreciated</b>      | <b>34,063,637</b>          | <b>151,527</b>      | <b>(27,079)</b> | <b>38,149</b>   | <b>34,226,234</b>           |
| Less Accumulated Depreciation                       | (11,548,915)               | (756,606)           | 27,079          |                 | (12,278,442)                |
| <b>Total Capital Assets, being depreciated, net</b> | <b>22,514,722</b>          | <b>(605,079)</b>    |                 | <b>38,149</b>   | <b>21,947,792</b>           |
| <b>Total Capital Assets, Net</b>                    | <b>\$ 22,810,405</b>       | <b>\$ (596,450)</b> | <b>\$ (125)</b> | <b>\$ -</b>     | <b>\$ 22,213,830</b>        |

**Note 4: Operating Leases and Commitments**

**A. Pitney Bowes**

The District is obligated to make lease payments for office equipment (Pitney Bowes) until December 2015. The following is a schedule by years of future minimum rental payments required under the operating lease as of June 30, 2012:

| Fiscal<br>Year Ending<br>June 30, | Amounts       |
|-----------------------------------|---------------|
| 2013                              | \$ 253        |
| 2014                              | 253           |
| 2015                              | 253           |
| 2016                              | 173           |
| <b>Total</b>                      | <b>\$ 932</b> |

**B. Larbre Well Lease**

The District also entered into a well lease agreement (Larbre Well Lease) whereby the District is purchasing water from the owner. The District must maintain average monthly purchases of at least \$2,000 for the period of December 1 to November 30. The lease was amended in December 2009, and expires on December 1, 2014. For the current fiscal year, \$31,413 was used for purchases under this agreement and \$34,826 was used for water purchases in the prior fiscal year. For the period of December 1, 2010 to November 30, 2011 the District paid \$38,012.



**VALLEY OF THE MOON WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**Note 5: Capital Improvement Program**

The District has developed a capital improvement program for water projects including water mains, wells, storage tanks, and pump stations. The list of improvements has been developed by District staff and consulting engineers. Projects have been identified from a series of annual capital improvement program updates developed by District staff from the Strategic Water Supply Plan prepared by JONWRM, from a Water Master Plan and a Water Storage Plan prepared by Brelje & Race, and from a Master Plan for Ground Water Development and Management by Luhdorff and Scalmanini. Projects are phased in over a five-year period, although this is not a rigid schedule and may be extended or shortened somewhat depending on available capital funding and project needs.

Projected capital improvements over the next five years are as follows:

| <u>Fiscal<br/>Year</u> | <u>Per Updated Budget 12/13</u> |
|------------------------|---------------------------------|
| 2012/2013              | \$ 1,385,000                    |
| 2013/2014              | 440,000                         |
| 2014/2015              | 440,000                         |
| 2015/2016              | 440,000                         |
| 2016/2017              | 475,000                         |

**Note 6: Long-Term Debt**

**Changes in Long-Term Debt**

The following is a summary of changes in long-term debt for the District for the fiscal year ended June 30, 2012:

|                              | <u>Balance at<br/>July 1, 2011</u> | <u>Additions</u>  | <u>Repayments</u>   | <u>Balance at<br/>June 30, 2012</u> | <u>Due Within<br/>One Year</u> |
|------------------------------|------------------------------------|-------------------|---------------------|-------------------------------------|--------------------------------|
| Certificate of Participation | \$ 1,860,427                       | \$ -              | \$ (131,392)        | \$ 1,729,035                        | \$ 144,326                     |
| CIEDB Loan Payable           | 745,541                            |                   | (33,770)            | 711,771                             | 34,841                         |
| Settlement Agreement         | 145,579                            |                   | (48,526)            | 97,053                              | 48,526                         |
| Compensated Absences         | 135,185                            | 113,855           | (104,558)           | 144,482                             | 9,908                          |
| Total                        | <u>\$ 2,886,732</u>                | <u>\$ 113,855</u> | <u>\$ (318,246)</u> | <u>\$ 2,682,341</u>                 | <u>\$ 237,601</u>              |

**VALLEY OF THE MOON WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**Note 6: Long-Term Debt (Continued)**

The details of the long-term debt are as follows:

**A. Certificate of Participation/1999 Installment Purchase Contract**

In September 1999, the District sold a \$2,833,992 Certificate of Participation Note to Sonoma Valley Bank (now Westamerica Bank) in order to finance the initial two years of the Capital Improvement Program. Upon Total annual payments (principal and interest) are \$213,638 with interest accruing at 4.00%. The note matures on September 1, 2021. During the 2010/11 fiscal year, the District renegotiated the terms of the Note to lower the interest rate from 5.25% to 4.00%.

The loan fees carried on the statement of net assets at \$60,000 are amortized over the life of the loan. \$3,000 is amortized each fiscal year. As of June 30, 2012, the loan fees, net of accumulated amortization, were \$30,000.

The remaining debt service payments are as follows:

| <u>Fiscal Year</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|--------------------|---------------------|-------------------|---------------------|
| 2013               | \$ 144,326          | \$ 69,312         | \$ 213,638          |
| 2014               | 150,099             | 63,539            | 213,638             |
| 2015               | 156,103             | 57,535            | 213,638             |
| 2016               | 162,347             | 51,291            | 213,638             |
| 2017               | 168,841             | 44,797            | 213,638             |
| 2018-2022          | <u>947,319</u>      | <u>117,112</u>    | <u>1,064,431</u>    |
| Totals             | <u>\$ 1,729,035</u> | <u>\$ 403,586</u> | <u>\$ 2,132,621</u> |

**B. CIEDB Loan Payable/Enterprise Fund Installment Sale Agreement**

On June 15, 2008, the District entered into an installment sale agreement with California Infrastructure and Economic Development Bank for \$810,000. Proceeds of this agreement were used for the construction portion of the Well No. 5 Replacement Project, which includes replacement of an abandoned production well, construction of a well house and security fence, and acquisition and installation of a pump, appurtenances, a filtration system, and a disinfection system. Interest accrues on the agreement at 3.17% and repayments began on February 1, 2009. The agreement matures on August 1, 2027.

The remaining debt service payments are as follows:

| <u>Fiscal Year</u> | <u>Principal</u>  | <u>Interest</u>   | <u>Total</u>      |
|--------------------|-------------------|-------------------|-------------------|
| 2013               | \$ 34,841         | \$ 22,011         | \$ 56,852         |
| 2014               | 35,945            | 20,889            | 56,834            |
| 2015               | 37,084            | 19,731            | 56,815            |
| 2016               | 38,260            | 18,538            | 56,798            |
| 2017               | 39,473            | 17,305            | 56,778            |
| 2018-2022          | 216,946           | 66,633            | 283,579           |
| 2023-2027          | 253,581           | 29,418            | 282,999           |
| 2028               | <u>55,641</u>     | <u>882</u>        | <u>56,523</u>     |
| Totals             | <u>\$ 711,771</u> | <u>\$ 195,407</u> | <u>\$ 907,178</u> |

**VALLEY OF THE MOON WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**Note 6: Long-Term Debt (Continued)**

**C. Settlement Agreement**

During the fiscal year 2009-10, the District entered into a settlement agreement with the Sonoma County Water Agency (Agency), as a result of a dispute with respect to the calculation of payments to be made to the Agency by the District under the Restructured Agreement for Water Supply for the costs of constructing the Eldridge-Madrone Pipeline. The terms of the settlement agreement call for the District to pay the Agency five annual installments of \$48,526 at zero interest, beginning fiscal year 2009-10 and ending fiscal year 2013-14.

The remaining annual debt service payments are as follows:

| <u>Fiscal Year</u> | <u>Payment</u>   |
|--------------------|------------------|
| 2013               | \$ 48,526        |
| 2014               | <u>48,527</u>    |
| Total              | <u>\$ 97,053</u> |

**D. Compensated Absences**

Included in accrued liabilities are accruals for accumulated sick leave and fully vested accumulated vacation pay. It is District policy to allow employees with greater than 15 years of service to receive 50% payment of their accumulated sick leave upon retirement, or have 100% applied to their PERS retirement credit, and to pay no accumulated sick leave upon termination under other circumstances (such as employees who have less than 15 years of service). However for employees with more than 10 consecutive years of service, those individuals can convert all unused sick leave hours to PERS.

**Note 7: Employees Retirement Plan (Defined Benefit Pension Plan)**

**A. Plan Description:**

The District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and local resolution. Copies of PERS' annual financial report may be obtained from the Executive Office, 400 P Street, Sacramento, CA 95814.

**B. Funding Policy:**

All full-time District employees are eligible to participate in the system. Benefits vest after five years of service. District employees who retire at or after age 50, with a minimum of five years credited service, are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to percent (2.5%-at age 55) times the number of years service credit times their annual salary, based on the highest 36 consecutive months.

**VALLEY OF THE MOON WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**Note 7: Employees Retirement Plan (Defined Benefit Pension Plan) (Continued)**

**B. Funding Policy: (Continued)**

District employees are required to contribute 3.614% of their annual salary to PERS, which does not include the 7% employee contribution paid by the District. The District is required to contribute all amounts necessary to fund the benefits for its members using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration. At June 30, 2011, the combined employer/employee rate was 24.043% of annual salary. However, for employees who are covered by Social Security, a rate of zero percent is charged for the first \$133 per month.

For 2011-2012, the District's annual pension cost was \$99,344, not including \$50,574 which is the employees required contribution of 7% paid by the District. The \$99,344 contributed for the fiscal year ending June 30, 2012 was equal to 100% of the required contribution for that fiscal year. The District's annual pension costs for fiscal years ending June 30, 2011 and 2010 were \$81,749 and \$74,022, respectively, and equal 100% of the required contributions for each fiscal year.

**Note 8: Net Assets**

GASB Statement No. 34 requires that the difference between assets and liabilities be reported as net assets. Net assets are classified as either invested in capital assets, net of related debt, restricted, or unrestricted.

Net assets that are invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, laws or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted net assets. Unrestricted net assets include designated net assets of \$1,000,000, which has been designated by the Board for emergencies. The District has no net assets which would be restricted by enabling legislation.

**Note 9: Post-employment Health Insurance Benefits**

Plan Description

The District provides certain health insurance benefits, in accordance with memoranda of understanding, to retired employees as detailed below:

A. PEMHCA Contribution

The District currently provides health benefits through the California Public Employee's Retirement System (CalPERS) Health Benefits Program under the Public Employees' Medical and Hospital Care Act (PEMHCA). Employees retiring at age 50 and greater with a minimum of 5 years CalPERS service will receive the minimum health premium annually established under the PEMHCA, currently at \$112 per month and nominally increased annually by CalPERS.

**VALLEY OF THE MOON WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**Note 9: Post-employment Health Insurance Benefits (Continued)**

B. Additional Benefit Amount Paid by the District

Employees hired before July 1, 2010, retiring at a minimum age of 50 with a minimum of 5 years of District service, 10 years CalPERS service, and retire while in District service will receive the Additional Benefit Amount, as shown below, and based on the years of service, as shown on the Table. Employees hired on or after July 1, 2010 are not eligible for the Additional Benefit Amount. However, they will be eligible for the PEMHCA Contribution, as described under Section A.

**Retirees under the age of 65**

Single – \$452.68 plus 90% of the rate increase in Kaiser Rate, with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

2 Party (both under 65) – \$822.20 plus 50% of the rate increase in Kaiser Rate, with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

Family (all under 65) – \$1,058.23 plus 50% of the rate increase in Kaiser Rate with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

**Retirees over the age of 65**

Single – \$253.61 plus 90% of the rate increase in Kaiser Supplement / Managed Medicare Monthly Rate with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

2 Party (both over 65) – \$507.21 plus 50% of the rate increase in Kaiser Supplement / Managed Medicare Monthly Rate with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

2 Party (one over 65) – \$706.28 plus 50% of the rate increase in respective Kaiser rates with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

Family (two over 65) – \$760.82 plus 50% of the rate increase in Kaiser Supplement / Managed Medicare Monthly Rate with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

Family (one over 65) – \$959.89 plus 50% of the rate increase in respective Kaiser rates with 2010 rate as the base, effective January 1, 2011 and annually thereafter, less PEMHCA Contribution.

| Credited Years of CalPERS Service | Percentage of Additional Benefit Amount |
|-----------------------------------|---|
| Less than 10                      | 0%                                      |
| 10                                | 50%                                     |
| 11                                | 55%                                     |
| 12                                | 60%                                     |
| 13                                | 65%                                     |
| 14                                | 70%                                     |
| 15                                | 75%                                     |
| 16                                | 80%                                     |
| 17                                | 85%                                     |
| 18                                | 90%                                     |
| 19                                | 95%                                     |
| 20                                | 100%                                    |

**VALLEY OF THE MOON WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**Note 9: Post-employment Health Insurance Benefits (Continued)**

C. Retiree Contribution

Retirees shall contribute the difference between his/her CalPERS Health Premium and the District paid PEMHCA Contribution and Additional Benefit Amount.

D. Additional Requirements

In order to be eligible to receive health benefits through CalPERS upon retirement, District employees must meet the following definition of “annuitant” under CalPERS law: 1) Employees must be a member of CalPERS; 2) Employees must be enrolled in the CalPERS Health Program; and 3) Employees must retire within 120 days of separation from employment with the District and receive a monthly retirement allowance from CalPERS.

E. Dental and Vision Coverage for Retirees.

The District will bear the cost of the premiums in full for dental and vision insurance coverage for each employee and dependents upon retirement, provided that the employee has a minimum of twenty (20) years of service with the District at the time of retirement.

Funding Policy

The District adopted a resolution to enter into an agreement with CalPERS to participate in the California Employer’s Retiree Benefit Trust Program (CERBT). During the fiscal year 2011-12, the District contributed \$9,971 to the CERBT to prefund the post retirement health insurance benefits for retirees. The District also paid \$50,510 for current retirees’ health care benefits during the 2011-12 fiscal year.

Annual OPEB and Net OPEB Obligation

The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and 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 fiscal year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation.

|  |                            |
|--|----------------------------|
| Annual required contribution                           | \$ 60,481                  |
| Interest on net OPEB asset                             | (40,516)                   |
| ARC adjustment   | 46,478                     |
| Annual OPEB cost (expense)                             | <u>66,443</u>              |
| Contributions made                                     | <u>(60,481)</u>            |
| Decrease in net OPEB asset                             | 5,962                      |
| Net OPEB obligation (asset) - beginning of fiscal year | <u>(532,409)</u>           |
| Net OPEB obligation (asset) - end of fiscal year       | <u><u>\$ (526,447)</u></u> |

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011-12 and the preceding fiscal year were as follows:

**VALLEY OF THE MOON WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2012**

**Note 9: Post-employment Health Insurance Benefits (Continued)**

| <u>Fiscal<br/>Year<br/>Ended</u> | <u>Annual<br/>OPEB Cost</u> | <u>Percentage of<br/>Annual OPEB<br/>Cost Contribution</u> | <u>Net<br/>OPEB<br/>Obligation<br/>(Asset)</u> |
|----------------------------------|-----------------------------|--|--|
| 6/30/2010                        | \$ 12,500                   | 525.9%   | \$ (532,409)                                   |
| 6/30/2011                        | 79,000                      | 100.0%   | (532,409)                                      |
| 6/30/2012                        | 66,443                      | 91.0%  | (526,447)                                      |

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 53.0% funded. The actuarial accrued liability for benefits was \$1,372,653, and the actuarial value of assets was \$727,622, resulting in an unfunded actuarial accrued liability (UAAL) of \$645,031. The covered payroll (annual payroll of active employees covered by the plan) was \$787,171, and the ratio of the UAAL to the covered payroll was 81.9 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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 the plan members) and include the types 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 assumptions included a 7.61 percent investment rate of return, which is the expected long-term investment returns on plan assets and an annual healthcare cost trend rate of 4.0 to 7.3 percent. The actuarial value of assets was \$727,622. The UAAL is being amortized as a flat percentage of covered payroll over thirty years. The remaining amortization period at July 1, 2011 was twenty-eight years.

**Note 10: Deferred Compensation Plans**

The District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans are available to all employees. The District matches the employees' contribution up to a maximum of \$75 per month. Part-time employees are eligible for the District's match on a pro-rata basis. The Omnibus Budget Reconciliation Act of 1990 mandates social security coverage for state and local government employees who are not covered by a retirement plan. The plans permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust by a third party administrator (AIG Valic and CitiStreet LLC) for the exclusive benefit of the plan participants and their beneficiaries as prescribed by Internal Revenue Code Section 457 (g). Accordingly, these assets have been excluded from the accompanying financial statements.

**VALLEY OF THE MOON WATER DISTRICT**  
**Required Supplementary Information**  
**June 30, 2012**

Post-employment Health Insurance Benefits

Schedule of Funding Progress

| Valuation<br>Date | Accrued<br>Liability<br>(a) | Value of<br>Assets<br>(b) | (Excess<br>Assets)<br>(a)-(b) | Funded<br>Status<br>(b)/(a) | Covered<br>Payroll<br>(c) | % of<br>Payroll<br>[(a)-(b)]/(c) |
|-------------------|-----------------------------|---------------------------|-------------------------------|-----------------------------|---------------------------|----------------------------------|
| 7/1/2009          | \$ 1,255,000                | \$ -                      | \$ 1,255,000                  | 0.0%                        | \$ 758,752                | 165.4%                           |
| 7/1/2011          | \$ 1,372,653                | \$ 727,622                | \$ 645,031                    | 53.0%                       | \$ 787,171                | 81.9%                            |