

SAN MATEO

**LOCAL AGENCY FORMATION COMMISSION**

455 COUNTY CENTER, 2ND FLOOR • REDWOOD CITY, CA 94063-1663 • PHONE (650) 363-4224 • FAX (650) 363-4849

May 9, 2013

TO: Members, Formation Commission

FROM: Martha Poyatos
Executive Officer

SUBJECT: Los Trancos County Water District Update

Summary

At the March LAFCo meeting the Commission received an update on the activities of the Los Trancos County Water District describing activities and services undertaken by the District without complying with LAFCo law that requires application to LAFCo to activate new services. As previously report, the District sold its water system to CalWater in 2005 and the LAFCo 2006 Municipal Service Review included several recommendations including dissolution of the District. Obstacles to dissolution included primarily the fact that the District owned three parcels that the District sought to keep in an undeveloped state and the practice of the District to use property tax as conservation incentives. Since 2005 the District expanded services they describe in the following categories: Land Management Services, Water Movement Control Services, Water Use Efficiency Services and Watershed Fire Protection Services and Financial Management and Budget. In response to the update provided to the Commission in March, LAFCo staff met with District representatives and the District has provided the attached letter with an explanation of services and their financial statement and audit.

Staff continues to develop a report back to the Commission on questions raised at the March hearing including what alternatives exist under LAFCo's authority. The requested report requires additional information and explanation from the District regarding the service areas described in the attached report as well as financial forecasting and it is requested that the Commission review the attached and provide staff with input at your March 15 meeting to assist staff in this effort.

May 6, 2013



Dear Ms. Poyatos,

Thank you for the opportunity to respond to your informational report dated March 14th, 2013 as presented to the LAFCo Commission at their meeting on March 20th 2013. This letter provides an update on current District activities and includes additional information including, FY 12-13 budget, FY 10-11 audit and the 2010 survey summary page.

District Status

Since the sale of water distribution assets to the California Water Services Company in 2005, the District has developed service areas linked to District Ordinance 4. The District operates with the goal of providing services that extend the existing capacity of other agencies, or provides for unmet service needs. In January 2012 the District Board began to evaluate information sent by LAFCo (Jan 3, 2012) regarding activation requests and other LAFCo processes. In the upcoming fiscal year budget the District is providing funding for professional consultation to further explore the activation process. Additionally the District continues to contract for a Recording Secretary, Finance Manager and Services Coordinator.

District Services

Services provided by the District are approved through a formal budgeting process that includes goals and objectives for each service area. All program elements share the primary objective of providing services that promote public health and safety for residents within the District. Whenever required, the District secures necessary permits or other approval from other agencies, and property owners when appropriate.

Land Management Services

The District recognizes our responsibility to maintain District property in a safe condition, and that the conservation of District lands in a natural condition contributes to the overall well being of the District and it's residents. The District is responsible for reducing brush and weeds, reducing the risk of fire, seeing to the health of trees, preserving habitat for local birds and animals, and safeguarding our lake. District lands are maintained as publicly-accessible open space in keeping with surrounding open space areas.

Program Goals:

- o Clear dead limbs, dry plants, invasive plant species.

- o Improve and maintain the former pump house, which will serve to house District records and provide a small meeting space.
- o Maintain the lake and surrounding areas in a safe and attractive condition.

Water Movement Control Services

The overarching goal of this service area is to help ensure water movement-related public health and safety, and environmental quality, through reduction of slope saturation within the District. This is accomplished through the mapping of key surface and subsurface water movement patterns; identification of major control problems within those patterns and their consequent deleterious effects; formulation of appropriate short and long-term mitigation strategies; and collaboration with residents and other agencies to cost effectively implement those strategies. The District also is in the unique position to be able to work on private lands to improve water movement control issues. This unmet service area is critically important to addressing uncontrolled water flow, saturated hillsides, flooding, erosion, landslides and property damage. To further these goals the LTCWD is making available to all residents the following incentive plans:

Down-Slope Protection Initiative Services

DPI promotes the material improvement of District slope stability and safety throughout the District through the reduction of slope saturation resulting from inadequate containment and/or conveyance of road surface and/or residential runoff water onto and/or through adjacent down-slope parcels. This is promoted by incenting District owners of affected down-slope, drainage interactive parcels to work cooperatively with each other and/or the LTCWD to timely accomplish road and residential drainage water containment and conveyance improvements needed to meaningfully reduce the saturation/instability of the affected parcel(s).

Conforming Culverts Initiative Services

CCI promotes the material improvement of slope stability and safety throughout the District within by improving the ability of roadside storm drainage channels to contain and convey surface water runoff through necessary repair or replacement of inadequately functioning residential entryway culverts to ensure their full conformance with applicable design standards, and reasonably anticipated drainage flows. This is promoted by supporting District residents to repair or replace non-conforming or otherwise improvable residential entryway culverts through the provision of targeted technical assistance and District financial support.

Ramona Road

The District, through its geotechnical and engineering consultants, has long-recognized the importance of addressing road fill saturation as the key contributing factor to instability of the section of Ramona Road near 281 Ramona Road and 1243 Los Trancos Road. The District continues to maintain resources (financial, technical support, engineered improvement plans) to implement improvements that reduce slope saturation. The District remains committed to working with and through the Department of Public Works to support road stabilization efforts, that have water movement control related elements, through financial contributions or other support as deemed useful by the Department.

Water Use Efficiency Services

This service actively promotes the wise, long term, and sustainable use of water resources through support and encouragement of residents implementation of effective conservation measures. WUES adopts best management practices for water conservation at all District landscapes, properties, and facilities. The District promotes public education regarding water conservation while considering and understanding the implications of climate change to the District and its residents. WUES implements effective resident-side conservation measures via a broad range of incentives focused on encouraging the installation of water efficient appliances such as toilets and washing machines as well as renovations to landscaping to improve irrigation efficiency and to utilize plants that need less water when established. Residential incentive programs include:

Replace (with lower flow models)

- toilets
- shower heads
- kitchen faucets
- clothes washers (Tier 3)
- dish washers (Tier 3)

Install

- On demand hot water systems
- Pressure regulators
- Smart irrigation controllers (evapotranspiration controlled)
- Updated irrigation systems
- Low water required plantings, esp. CA native plants
- Mulch in planting areas

Watershed Fire Protection Services (WFPS)

The focus of WFPS is to participate in protecting the LTCWD watershed; including residents, property and the environment. The District accomplishes this through, education, fire prevention, and hazard mitigation, and other related non-emergency activities. WFPS actively participates in the community and strives to effectively and efficiently use all the available resources to provide services that are highly valued by District residents.

WFPS Services include:

- Evacuation route maintenance
- Residential Incentive Programs:
 - Fire safety assessments
 - Defensible space clearing
 - SOD prevention and removal
 - Wood shake replacement
 - Automatic gas shut off valves
 - Roof and gutter clearing
 - Eucalyptus and/or Monterey Pine Removal
 - Buffer Zones

Financial Management and Budget:

Budget Overview: The District finance committee and finance manager review and update administrative and operational budget categories based on historical data and new information. They solicit service area budget requests and incorporate them into a preliminary line item budget. In May, the Board reviews the preliminary budget, establishes a budget reserve amount, and adjusts line items to achieve budget goals. The Board approves the preliminary budget as amended. In June, the Board reviews the revised budget, makes additional adjustments as necessary, and approves a final budget.

Reserve: For the past several years annual budgeted expenses have slightly exceeded projected revenues in order to provide additional necessary services using reserve funds. Last FY (2012-2013) the District reserves were held at \$70,000, an amount the Board felt necessary to address cash flow issues associated with tax revenue seasonality, and to provide a buffer for unanticipated expenses. The District plans to maintain an annual reserve in this general range.

Financial Policies and Procedures: As noted above, the District has engaged in an extensive review of all District policies, including financial policies. Broad categories in the formal Policies and Procedures manual are; General Financial Management, Expense Authorization, Budget Process, and Investment of District Funds. Upon final approval of the manual these policies will be made available to the public and upon request.

The District has created detailed internal financial management instructions to guide the Finance Committee and Finance Manager in routine matters. The Finance committee routinely receives and reviews the entire Quickbooks account, and has web-based access to our bank and investment accounts to ensure oversight and visibility into all District financial matters. The Board reviews and approves financial reports at each regular Board meeting.

Thank you again for the opportunity to provide this information to the San Mateo LAFCo Commission. The District appreciates the detailed information you have provided on various LAFCo processes. We would be pleased to answer any additional questions or provide further information that you may require.

Respectfully yours,

Susan Coons
Board President 2013

Attachments:
FY 12-13 Budget
FY 11-12 Audit
2010 Resident Survey summary

Los Trancos County Water District

Profit & Loss Budget Overview

July 2012 through June 2013

TOTAL

Jul '12 - Jun 13

Ordinary Income/Expense

Income

43400 · Direct Public Support

43405 · Property Tax Revenue 280,723.66

Total 43400 · Direct Public Support 280,723.66

45000 · Investments

45030 · Interest-Savings, Short-term CD 325.00

Total 45000 · Investments 325.00

Total Income 281,048.66

Expense

61100 · Water Use Efficiency

60904 · WUE Rebate - Exterior 18,300.00

61102 · WUE Rebate - Interior 5,250.00

61104 · Education and Promotion 2,500.00

61105 · Rainwater Harvesting 5,600.00

Total 61100 · Water Use Efficiency 31,650.00

61200 · Emergency Preparedness

61205 · Fire Safety Escape Routes 33,500.00

61207 · Fire Safety Community Buffer 12,000.00

61208 · Fire Safety Residential Program 38,000.00

Total 61200 · Emergency Preparedness 83,500.00

62800 · Lands

62802 · Fuel load reduction/SOD treatme 3,000.00

62803 · Maintenance 8,775.00

62807 · Water Emergency Security 1,680.00

62808 · Red Shed 3,000.00

62890 · Utilities - Water 200.00

Total 62800 · Lands 16,655.00

62900 · Water Movement Control

62901 · Mapping, Drafting, Engineering 17,700.00

62903 · Water testing 7,000.00

62904 · Ramona Road Study 70,000.00

62905 · Residential Incentive Program 40,000.00

Total 62900 · Water Movement Control 134,700.00

Los Trancos County Water District

Profit & Loss Budget Overview

July 2012 through June 2013

TOTAL

Jul '12 - Jun 13

64800 - Contract Services

64801 - Recording Secretary	7,400.00
64802 - Temporary Services	1,600.00
64805 - Bookkeeping	6,000.00
64807 - Program Coordinator	24,000.00
64810 - Accounting Fees	4,900.00
64840 - Legal Fees	12,000.00

Total 64800 - Contract Services 55,900.00

65000 - Operations

65010 - Books, Subscriptions, Reference	60.00
65020 - Postage, Mailing Service	120.00
65030 - Printing and Copying	2,500.00
65040 - Supplies	3,820.00
65060 - Technology	600.00

Total 65000 - Operations 7,100.00

65100 - Other Types of Expenses

65105 - Insurance, Liability	4,180.00
65120 - Insurance - D and O	2,210.00
65150 - Memberships and Dues	722.00
65155 - Grants and Donations	1,000.00
65180 - LAFCO	139.00

Total 65100 - Other Types of Expenses 8,251.00

68300 - Travel and Meetings

68310 - Conference, Convention, Meeting	120.00
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Total 68300 - Travel and Meetings 120.00

Total Expense 337,876.00

Net Ordinary Income -56,827.34

Net Income -56,827.34

FY 11-12 Reserves 127,727

FY 12-13 Reserves 70,900



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

October 9, 2012

Mr. David Smernoff
162 Los Trancos Circle
Portola Valley, CA 94028

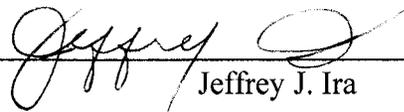
Dear District Representative:

Enclosed are two bound and two unbound copies of our report dated October 9, 2012, covering our audit of the financial statements of the Los Trancos Water District for the fiscal year ended June 30, 2012. We have also separately sent you one PDF copy for distribution to the board members.

Very truly yours,

C. G. UHLENBERG LLP

By



Jeffrey J. Ira

JJI/gt

Encl.

LOS TRANCOS COUNTY WATER DISTRICT

FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

* * *

LOS TRANCOS COUNTY WATER DISTRICT

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C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Los Trancos County Water District
Portola Valley, California

We have audited the accompanying financial statements of the business-type activities of the Los Trancos County Water District (the "District"), as of and for the years ended June 30, 2012 and 2011, which collectively comprise all of the District's basic financial statements. These financial statements are the responsibility of the Los Trancos County Water District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly the financial position of the Los Trancos County Water District, as of June 30, 2012 and 2011, the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As Described in Note 1, the District has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is required supplementary information to, although not a part of, the basic financial statements.

C. G. Uhlenberg LLP

October 9, 2012
Redwood City, California

LOS TRANCOS COUNTY WATER DISTRICT

BALANCE SHEETS
JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and Investments	\$ 115,779	\$ 233,721
Total Current Assets	<u>115,779</u>	<u>233,721</u>
Total Assets	<u>\$ 115,779</u>	<u>\$ 233,721</u>
Liabilities & Net Assets		
CURRENT LIABILITIES		
Account Payable	<u>\$ -</u>	<u>\$ 15,641</u>
Total Current Liabilities	<u>-</u>	<u>15,641</u>
LONG-TERM LIABILITIES		
Notes Payable	<u>617,762</u>	<u>617,762</u>
Total Long-Term Liabilities	<u>617,762</u>	<u>617,762</u>
Total Liabilities	<u>617,762</u>	<u>633,403</u>
NET ASSETS		
Unrestricted	(501,983)	(399,682)
Total Net Assets	<u>(501,983)</u>	<u>(399,682)</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 115,779</u>	<u>\$ 233,721</u>

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

LOS TRANCOS COUNTY WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR EACH OF THE FISCAL YEARS ENDED
JUNE 30, 2012 AND JUNE 30, 2011

	<u>2012</u>	<u>2011</u>
OPERATING EXPENSES:		
Administrative expenses	\$ 10,713	\$ 7,876
Services and supplies	21,955	23,546
Insurance	6,375	6,169
Property management	11,761	24,760
Water conservation	20,817	4,867
Water movement	167,422	52,677
Emergency preparedness/Fire safety	91,874	107,184
Water connection fee discount	40,000	45,680
	<u>370,917</u>	<u>272,759</u>
Total operating expenses		
OPERATING LOSS	<u>(370,917)</u>	<u>(272,759)</u>
NON-OPERATING INCOME		
Property taxes	267,996	276,445
Miscellaneous collections	-	5,070
	<u>620</u>	<u>1,028</u>
Interest income		
Total non-operating income (expense)	<u>268,616</u>	<u>282,543</u>
NET INCOME	(102,301)	9,784
NET ASSETS - BEGINNING OF YEAR	<u>(399,682)</u>	<u>(409,466)</u>
NET ASSETS - END OF YEAR	<u>\$ (501,983)</u>	<u>\$ (399,682)</u>

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

LOS TRANCOS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS
FOR EACH OF THE YEARS ENDED
JUNE 30, 2012 AND JUNE 30, 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments for administrative expenses	\$ (10,713)	\$ (7,876)
Payments for services and supplies	(37,596)	(15,905)
Payments for insurance	(6,375)	(6,169)
Payments for property management	(11,761)	(24,760)
Payments for water conservation	(20,817)	(4,867)
Payments for water movement	(167,422)	(52,677)
Payments for emergency preparedness/fire safety	(91,874)	(107,184)
Payments for water connection fee discount	(40,000)	(45,680)
Net cash used in operating activities	<u>(386,558)</u>	<u>(265,118)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property tax received	267,996	283,289
Miscellaneous collections	-	5,070
Net cash provided by noncapital financing activities	<u>267,996</u>	<u>288,359</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	620	1,028
Net cash provided by investing activities	<u>620</u>	<u>1,028</u>
Net increase (decrease) in cash and cash equivalents	(117,942)	24,269
Cash and cash equivalents, beginning of year	233,721	209,452
Cash and cash equivalents, end of year	<u>115,779</u>	<u>233,721</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	(370,917)	(272,759)
Adjustments to reconcile operating loss to cash provided by (used in) operating activities:		
Increase in accounts payable	(15,641)	7,641
Net cash used in operating activities	<u>\$ (386,558)</u>	<u>\$ (265,118)</u>

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

LOS TRANCOS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

1. ORGANIZATION

Los Trancos County Water District (the District) is a California Special District originally organized to provide water services to Vista Verde, Los Trancos Woods, Blue Oaks, and nearby areas within San Mateo County. The District was formed in January 1955. It ceased operating pumping plants at various locations in April 2005 when the District sold their water transmission and distribution system to California Water Service for \$125,000. Also included was Los Trancos' water supply assurance. This sale consists of all mains, services, tanks, pumps, rights of way and other related assets. The District has retained their property, approximately 5 acres mol in three parcels, and will continue to collect property tax revenue from the County, and use the revenue to maintain their property and make it available to the community, promote water conservation, to make the watershed fire safe, to improve water movement control, and other projects that the District deems beneficial that are within the Water Code. The District has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is required supplementary information to, although not a part of, the basic financial statements. This is a practice common among many special districts especially for those with small revenues and uncomplicated financial matters.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the District are summarized below:

Fund Accounting – The District follows enterprise fund accounting principles as appropriate to local special governmental units of this type.

Proprietary Funds – Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent they do not conflict or contradict guidance of the GASB. Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds. The District has elected to not follow subsequent private sector guidance.

Basis of Accounting – The financial statements reflect accrual basis accounting in which income is recognized when earned and expenses are recognized when incurred. Property and equipment are capitalized and depreciated as discussed below.

Revenues and Expenses – Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The District does not have any operating revenues.

Property and Equipment – All property and equipment are valued at historical cost or estimated historical cost if historical cost is not available. Depreciation of property and equipment is computed by the straight-line method over the estimated useful lives ranging from five to thirty-eight years. The District does not have any property and equipment.

LOS TRANCOS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

3. **CASH AND INVESTMENTS**

Cash and investments as of June 30, 2012 and June 30, 2011 were as follows:

	<u>2012</u>	<u>2011</u>	<u>Rating</u>
Union Bank of California:			
Checking	\$ 11,635	\$ 7,097	NA
Local Agency Investment Fund	<u>104,144</u>	<u>226,524</u>	Not Rated
 Total Cash and Investments	 <u>\$ 115,779</u>	 <u>\$ 233,621</u>	

The California Government Code requires California banks and savings and loan associations to secure a district's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a district's deposits. California law also allows financial institutions to secure a district's deposits by pledging first trust deed mortgage notes having a value of at least 150% of a district's total first trust deed mortgage notes having a value of at least 150% of a district's total deposits. The deposits include uninsured and/or uncollateralized deposits held by trustees for the District.

The District's deposits are insured up to \$250,000 per depositor per bank by Federal Deposit Insurance Corporation (FDIC). The bank balances, before reconciling items, for the checking account at June 30, 2012 and June 30, 2011 were \$11,635 and \$7,097 respectively. As of June 30, 2012 and June 30, 2011, the District's Union Bank accounts were fully insured by FDIC.

External Investment Pool

The District invests in the California State Treasurer's Local Agency Investment Fund (LAIF). LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the State Treasurer. As of June 30, 2012 and June 30, 2011, LAIF had approximately \$22 billion and \$23 billion in investments, respectively.

LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost of best estimate for those securities where market value is not readily available. The district's investments with LAIF at June 30, 2012 and June 30, 2011, included a portion of the pooled funds invested in structured notes and asset-backed securities. These investments are described as follows.

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and / or that have embedded forwards or options.

Assets-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as a principal and interest repayment from a pool of mortgage (such as Collateralized Mortgage Obligations) or credit card receivables.

LOS TRANCOS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

As of June 30, 2012 the District had \$104,144 invested in LAIF, which had invested 3.47% of the pool investment funds in Structured Notes and Asset-Backed Securities. The District valued its investments with LAIF by multiplying its account balance with a fair value factor determined by LAIF. This factor is the result of dividing all LAIF participants' total aggregate fair value (\$60,588,263,603) by total aggregate amortized cost (\$60,514,457,551) resulting in a factor of 1.001219643.

As of June 30, 2011 the District had \$226,524 invested in LAIF, which had invested 5.01% of the pool investment funds in Structured Notes and Asset-Backed Securities. The District valued its investments with LAIF by multiplying its account balance with a fair value factor determined by LAIF. This factor is the result of dividing all LAIF participants' total aggregate fair value (\$66,489,270,508) by total aggregate amortized cost (\$66,384,617,119) resulting in a factor of 1.001576470.

Marketing Investments to Fair Value (GASB 31)

Under GASB 31, the District must adjust the carrying value of its investments to reflect their fair market value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year. The District has determined the adjustment to fair market value is immaterial as both June 30, 2012 and June 30, 2011.

4. CHANGES IN LONG-TERM LIABILITIES

The \$617,762 Loan from Developers does not have scheduled payments due at this time. No payments are due on the loan until 32 houses in the property have been constructed. There is no interest charge for the lifetime of this loan. After such time as the 32 houses have been constructed, the District will pay off the loan at the rate of \$2,250 per quarter. The first payment of \$2,250 is due at the end of the first full calendar quarter during which at least 32 houses are constructed and are paying for water service for the entire quarter. After such time as 36 houses have been constructed, the District will pay off the loan at the rate of \$2,750 per quarter. The loan is secured by developer fees. The District did not make any loan principle or interest payments for the years ended June 30, 2012 and 2011.

5. INSURANCE

The District carries insurance coverage through Farallon Associates. The insurance policy includes liability coverage in the amount of \$3,000,000 with general aggregate coverage at 3,000,000 with a deductible of \$500. The directors and officers are covered with fiduciary liability in the amount of \$3,000,000 with a \$2,500 deductible.

