

DIABLO WATER DISTRICT
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2012

DIABLO WATER DISTRICT

JUNE 30, 2012

BOARD OF DIRECTORS

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Enrico Cinquini	Vice President
Kenneth L. Crockett	Member
Edward Garcia	Member
Richard R. Head	Member

SECRETARY-MANAGER

Mike Yeraka

GENERAL COUNSEL FOR THE DISTRICT

Jeffrey D. Polisner

DIABLO WATER DISTRICT

JUNE 30, 2012

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GRIFFIN & PÓKA, INC.
CERTIFIED PUBLIC ACCOUNTANTS
900 COURT STREET
MARTINEZ, CA 94553

JOHN E. GRIFFIN, CPA (1916-1996)
GEOFFREY M. GRIFFIN, CPA
JOSEPH PÓKA, JD, CPA

(925) 228-2800
FAX (925) 228-6634

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Diablo Water District
2107 Main Street
Oakley, CA 94561

Gentlemen:

We have audited the accompanying financial statements of the Diablo Water District, as of and for the year ended June 30, 2012. These financial statements are the responsibility of Diablo 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 opinions.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and comparison information 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.



GRIFFIN & POKA, INC.
Certified Public Accountants

December 19, 2012

DIABLO WATER DISTRICT
YEAR ENDED JUNE 30, 2012
ACRONYMS AND ABBREVIATIONS USED IN THE AUDIT REPORT

In order to facilitate the understanding of the audit report, the following list of acronyms and abbreviations are listed below:

CERBT – California Employer's Retiree Benefit Trust
CCWD – Contra Costa Water District
OAD – Oakley Assessment District
CCWA – Contra Costa Water Authority
CCERA – Contra Costa County Employee's Retirement Association
LAIF – Local Agency Investment Fund
REIMB – Reimbursement
EXT – Extension
MERA – Main Extension Reimbursement Account
GASB – Governmental Accounting Standards Board
CALPERS – California Public Employee's Retirement System
SFAS – Statement of Financial Account Standards
OPEB – Other Post Employment Benefits

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of Diablo Water District's (DWD) financial condition and activities for the fiscal year ending June 30, 2012.

Financial Highlights

Management believes the District's financial condition is strong. The District is well within the financial policies and guidelines set by the Board of Directors and management. The following are key financial highlights:

- ~ Operating revenues from water sales were \$7.28 million, an increase from 2011 in the amount of \$392,461 or 0.6%. Total operating income was \$7.595 million versus a budget of \$7.984 million.
- ~ Operating expenses, without Depreciation, increased by \$536,359 or 7.5% compared to 2011.
- ~ July 2003 Contra Costa County transferred ownership of well systems, Knightsen M25, Beacon West M26 and Willow Park Marina M27. Upon this transfer the District also received fund balances totaling \$59,000. In the past years the District had been contracted to maintain these same well systems. The county billed the users for water service and paid DWD for its services. DWD now bills the users of the Knightsen well system and receives payment for users of Beacon West and Willow Park Marina well systems from the county property tax roll. Fund balance for year ending June 2012 for Knightsen well system was (\$40,614), Beacon West well system \$14,772 and Willow Park Marina \$151,514.

DWD continued its Service Maintenance Contract with the County to maintain the Willows Mobile Home Park M28 through September 24, 2011 when the contract came to an end. Income through June 2012 for this maintenance totaled \$1,627.

- ~ DWD entered into a Service Maintenance agreement with Delta Mutual Water Company in 1999. DWD maintains the well system. In addition DWD bills and collects the well system's water charges. Monthly DWD transfers to Delta Mutual all monies collected from the well system's users and bills Delta Mutual for the actual cost of material, and personnel in accordance with the agreement. Income through June 2012 totaled \$8,742.
- ~ Rock Island Marina – This subdivision was under construction and revenue was collected from the property tax rolls as well as billing based on water meter usage to cover variable costs such as power & chemicals. The property was recently foreclosed by the Bank, and DWD has put a hold on collections from the property tax rolls. As of June 30, 2012 the fund balance was \$140,092.
- ~ Brentwood Overlap – Some of the land south of Neroly Road and Delta Road was in both DWD and City of Brentwood's corporate territories creating an overlap of potential service areas. In 2000 this area was detached from DWD's territory and was annexed to Brentwood to eliminate the overlap of service areas. For connections in the overlap area the City of Brentwood agreed to pay connection fees to DWD at the time of connection. There were no connection fees collected for this overlap area through fiscal year ending June 30, 2012.
- ~ Brentwood Intertie - DWD entered into an agreement with the City of Brentwood in 1996 for the construction of the water main connecting the City's distribution system to DWD's. This enabled DWD to transport treated water (purchased from Contra Costa Water District (CCWD) by City of Brentwood) from Randall Bold Water Treatment Plant (RBWTP) to the City of Brentwood. Brentwood agreed to pay DWD for costs associated with the operation and maintenance of the intertie, pumping charges, energy demand charges and any additional charges. In 2005 Brentwood entered into an agreement with Contra Costa Water to receive treated water from RBWTP directly and began construction of a water pipeline from RBWTP to the City of Brentwood. In October 2005 Brentwood started receiving water through their pipeline and began disassembling the intertie between DWD and Brentwood.

Terms of the agreement requires DWD to reimburse the City of Brentwood \$58,500, in six annual payments commencing on January 1, 2008 and ending January 1, 2013.

- ~ RBWTP – In June 1989 DWD and CCWD entered into a Joint Exercise of Powers Agreement to construct a water treatment plant to be co-owned. CCWD owns 62.5% and DWD 37.5%. CCWD employees run the plant. Annually CCWD presents the budget for the next fiscal year. DWD pays monthly its share of the operation and maintenance expenses. After the actual expenses are audited, a reconciliation payment is made either to or from DWD. Reconciliation for year ending 2011 resulted in payment to DWD by CCWD of \$60,495. Total paid to CCWD for DWD's share of RBWTP expenses for year ending June 2012 was \$1,198,445. In September 2010 DWD's share of the fixed costs at the RBWTP shifted down from 37.5% to 30% as a result of CCWD re-rating the Plant from 40 million gallons per day to 50 million gallons per day.

- ~ RBWTP Bond – DWD makes semi-annual payments to CCWD for its share of construction cost of RBWTP per the Joint Exercise of Power agreement. Total paid for year 2011/2012 was \$1,339,306.
- ~ Main Extension Reimbursement Fund – Included in the per meter connection fee is an amount assessed for Main Extension Reimbursement. This fund is used to reimburse developers who are required to install oversized water lines for future use. Reimbursement for year ending June 30, 2012 totaled \$195,208. Fund balance for year ending June 30, 2012 is \$527,508.
- ~ Developer Connection Fees collected for the year ending June 30, 2012 totaled \$496,196, \$1,009,204 less than budgeted as development is not coming back as quickly as was hoped.
- ~ Sandhill Project – The State of California Department of Health declared water wells in the Sandhill area (approximately 56) contaminated and hazardous to health for human consumption. As a Safe Drinking Water emergency project DWD annexed the area. A 12" water main from Laurel Road south to Bolton Road including Ray Avenue, Malicoat Avenue, Douglas Road and Hill Avenue was constructed to provide domestic water supply and eliminate the use of the existing nitrate impacted private wells.

DWD entered into a contract between the State of California Department of Water Resources for a loan of \$275,500 payable over 35 years to finance the construction of the pipeline. An assessment on each parcel for construction costs and connection fees was assessed through the Contra Costa County property tax roll.

June 1, 2005 DWD paid the loan balance of \$199,772. This enabled DWD to get a better Bond Rating which gave the District a lower interest rate for the financing of the Glen Park Well System. Total collected from Contra Costa County property tax roll for Fiscal year 2012 was \$17,286.
- ~ The Glen Park Well System was completed in July 2006 and the Stonecreek Well System was completed in June 2011. For the year ending June 30, 2012 these two systems supplemented 372 million gallons of water, which equals a savings of \$637,660 in raw water purchases. Total operating expenses for Glen Park Well were \$64,405 and the total operating expenses for Stonecreek Well were \$62,311 which is comparable to the savings in operating costs at RBWTP for treating less water at the plant.
- ~ January 2005 DWD authorized the issuance and sale of 2005 Water Revenue Certificates of Participation in an amount not to exceed \$7.5 million for the purpose of providing funds to finance the Well System project. In March 2005 DWD entered into an agreement with Union Bank of California establishing Union Bank as trustee to execute and deliver the Certificates and to deposit proceeds in a fund for payment of project costs as requisitioned by DWD. In March 2005 DWD also entered into the Installment Sale Agreement with Public Property Financing Corporation of California which established a semiannual payment schedule. Total payments towards the 2005 Water Revenue Certificates of Participation for year ending June 30, 2012 were \$472,044.
- ~ In July 2008 DWD began searching for a location for a second well. The Stonecreek location was selected. The Stonecreek Well project began in April 2010 and in May 2010 the District executed an Installment Sale Agreement relating to the \$4,200,000, 2010 Water Revenue Certificates of Participation to finance the Stonecreek project. Total for year ending June 30, 2012 for investigation, design and construction was \$160,648. The Stonecreek well was placed into service in June 2011. The total payments towards the 2010 Water Revenue Certificates of Participation for year ending June 30, 2012 were \$278,556.
- ~ In December 2007 construction of the South Park Well was completed by Shea Homes as part of the summer Lakes subdivision and DWD took over ownership of the well at that time. The well serves three purposes; backup drinking water supply for the Summer Lakes subdivision, water to keep the lake level topped-off and irrigation for a large park turf area. DWD bills the Summer Lakes Homeowners association for the Lake Fill and Irrigation water on a monthly basis at the well water rate identified in the District's Regulations. Monies collected from the South Park well billing are kept in a separate fund and are used to pay District costs to operate the well system. The net income for the well system for the year ending June 30, 2012 was \$13,283.
- ~ Deferred Compensation - DWD offers its employees a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code.

All amounts of compensation represent a general obligation of the District. The deferred account is administered by Lincoln Financial Group. Balance at year end June 2012 was \$409,527.

~ As required by General Accounting Standards Board Statement Number 45 (GASB 45), DWD entered into contract with Bickmore Risk Services to perform an actuarial valuation of other post employment benefits liabilities. On completion of the actuarial valuation on May 27, 2009, the Board of Directors authorized the General Manager to enter discussions with CalPers to determine the details of becoming part of the California Employers' Retiree Benefit Trust beginning by June 30, 2010, with the intent of being fully funded over a period of ten years. To comply with GASB 45 In June, 2010 the District deposited \$652,335 into a trust with CalPers (CERBT). The District's fund balance in CERBT as of June 30, 2012, was \$813,255.

~ Infrastructure

Management discussed booking infrastructure as required by Governmental Accounting Standards Board Statement Number 34 (GASB 34). The District elected to use the basic method and to report infrastructure acquisitions prospectively.

DIABLO WATER DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

Current Assets:

Cash in bank - general checking	\$ 1,084,841	
Cash in bank - money market	93,417	
Cash in bank - Maint. Bond deposit	15,000	
Cash in bank- payroll tax deposit	100	
Cash in bank- Investments	1,102,427	
Deferred compensation investment	409,527	
Cash in bank- UBS	31,189	
Cash on hand	1,850	
Cash in CERBT	813,255	
Investments - State of California Local Agency Investment Fund	8,342,213	
Series 2005 revenue certificates	515,559	
Series 2010 revenue certificates	830,191	
Cash in bank - Laurel Woods (Note 10)	23,682	
Total cash and cash equivalents (Note 4)	\$ 13,263,251	
Accounts receivable (Note 6)	491,257	
Accounts receivable - Delta Mutual (Note 17)	2,051	
Accounts receivable- Sandhill (OAD)	79,799	
Accounts receivable wells #24 and #25	2,226	
Deposits and prepayments	1,000	
Total current assets		\$ 13,839,584

Fixed Assets: (Note 8)

Land	\$ 2,733,489	
Water treatment plant	23,194,958	
Transmission and distribution	4,712,522	
General plant	1,934,996	
Infrastructure	18,024,516	
Office Equipment	394,003	
Work in progress	19,363	
Total fixed assets	\$ 51,013,847	
Less: Accumulated depreciation	18,706,038	
Net fixed assets		32,307,809

Other Assets: (Note 11)

Bond financing costs CCWD	\$ 1,313,686	
Bond financing costs series 2010	89,037	
Bond financing costs series 2005	135,216	\$ 1,537,939

TOTAL ASSETS **\$ 47,685,332**

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

LIABILITIES

Current Liabilities:

Accounts payable	\$ 2,702	
Developer's Admin/Engineering/Inspection deposits	17,792	
Deposits - customers	195,015	
Deposits- hydrant	4,250	
Deposits-Knightsen customers	300	
Substandard street deposit (Note 10)	23,754	
Main extension reimbursement payable (Note 9)	527,508	
Notes payable- current portion (Note 11)	1,250,250	
Maintenance Bonds	429,000	
Deferred compensation payable (Note 5)	409,527	
Accrued benefits payable	9,157	
Total current liabilities		\$ 2,869,255

Long-Term Liabilities: (Note 11)

CCWA bonds	\$ 7,188,395	
2005 Series bonds	5,860,000	
2010 Series bonds	3,860,000	
Total long-term liabilities		16,908,395

TOTAL LIABILITIES **\$ 19,777,650**

Net Assets: (Note 12)

Retained earnings (Operations)	\$ 23,625,270	
Appropriated equity (Facilities Reserve)	4,282,412	
TOTAL NET ASSETS		\$ 27,907,682

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

OPERATING INCOME

Water Sales:

Residential and business	\$ 7,200,006	
Industrial	87,696	
Other	<u>0</u>	
Total water sales		\$ 7,287,702

OPERATING EXPENSES

Source of Supply:

Purchase of water	\$ 2,602,840
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Water Treatment:

Randall-Bold expenses (Note 16)	1,203,620
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Maintenance:

Salaries	\$ 85,166	
Employee benefits	63,485	
Payroll taxes	5,860	
Engineering	64,365	
Major maintenance projects	20,740	
Maintenance	28,553	
General operating supplies	16,886	
Utilities	<u>1,802</u>	
Total maintenance		286,857

Transmission and Distribution:

Salaries	\$ 297,174	
Employee benefits	141,438	
Payroll taxes	21,267	
Operating blending	22,782	
Major maintenance projects	88,792	
Maintenance	322,261	
Public right of way relocate	13,485	
Water samples	28,460	
Chemicals	27,105	
General operating supplies	70,817	
Telephone	1,914	
Utilities	184,609	
Reimbursed overhead	<u>(7,232)</u>	
Total transmission and distribution		1,212,872

Customer Accounts:

Salaries	\$ 486,815	
Employee benefits	265,233	
Payroll taxes	36,600	
Credit card processing fee	28,149	
Collection expense	<u>1,470</u>	
Total customer accounts		818,267

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

OPERATING EXPENSES (continued)

Administration and General:

Salaries	\$ 110,397	
Salaries - Facilities Reserve	160,631	
Employee benefits	50,952	
Employee benefits - Facilities Reserve	85,331	
Payroll taxes	7,793	
Retirement benefit CCCERA	143,316	
Office expense	164,039	
Radio read upgrade	86,248	
Consulting fees	24,739	
Insurance	98,591	
Rent	75,835	
Health benefits, retirees	55,055	
Auditing and accounting	42,966	
Director's fees and expenses	7,150	
Dues and subscriptions	15,773	
Legal	40,465	
Utilities	7,501	
Telephone	5,945	
Auto	37,223	
Taxes and Licenses	1,640	
Travel and training	10,471	
Administrative expenses- Facility reserve	41,414	
Miscellaneous	17,549	
Total administration and general		1,291,024

Other Operating Expenses:

Depreciation	\$ 1,231,280	
Total other operating		1,231,280
Total operating expenses:		\$ 8,646,760

Net Operating Income (Loss) including Depreciation **\$ (1,359,058)**

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

NON-OPERATING INCOME AND EXPENSES

Income:

Interest	\$ 66,275	
LAIF interest income	22,104	
CERBT interest income	9,922	
County well system labor, overhead and vehicle reimbursement (Note 7)	1,627	
Delta Mutual labor, overhead and vehicle reimbursement (Note 17)	8,742	
Grant income prop. 50	384,086	
Miscellaneous charges	87,042	
Developer fees	496,196	
Well income	18,569	
Rental income	59,062	
Late fees and other charges	65,752	
Other income	46,905	
Total non-operating income		1,266,282

Expenses:

Interest on CCWD bonds	\$ 577,261	
Interest on 2005 series bonds	256,810	
Interest on 2010 series bonds	166,063	
Total non-operating expenses		1,000,134

Net non-operating income (loss)	266,148
Net Income (Loss) after Depreciation	(1,092,910)
Add back Depreciation Expense	1,231,280
Net Income (Loss) before Depreciation	\$ 138,370

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT
CHANGES TO NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>DISTRICT TOTAL (1)</u>	<u>OPERATIONS (2)</u>	<u>FACILITIES RESERVE (3)</u>
Beginning balances - June 30, 2011			
Cash	\$ 14,774,930	\$ 9,546,154	\$ 5,228,776
Non- cash net assets	<u>14,225,662</u>	<u>14,225,662</u>	
Total Net Assets	\$ 29,000,592	\$ 23,771,816	\$ 5,228,776
 Net Loss after Depreciation (Page 5)	 (1,092,910)	 (1,092,910)	
 Expense and Revenue Allocations:			
Payments for CCWD bond		669,653	(669,653)
Payments for 2005 well bond		472,044	(472,044)
Payment for 2010 well bond		278,556	(278,556)
 Facilities reserve expenses:			
Engineering		33,836	(33,836)
Legal		6,710	(6,710)
County collection fees		793	(793)
Publications		75	(75)
Salaries		245,962	(245,962)
Employee benefits			
Reservoir 3 construction		19,363	(19,363)
Stonecreek construction		160,648	(160,648)
Ground water exploration		15,486	(15,486)
Glen park well		1,875	(1,875)
 Facilities reserve revenue:			
Developer fees		(496,196)	496,196
Grant funds		(384,086)	384,086
Interest income		(61,047)	61,047
SH tax assessment fees		(17,308)	17,308
Net Loss after Allocations	\$ (1,092,910)	\$ (146,546)	\$ (946,364)
 Ending balances - June 30, 2012			
Cash	13,263,251	8,980,839	4,282,412
Non-cash net assets	<u>14,644,431</u>	<u>14,644,431</u>	
Total Net Assets	<u>\$ 27,907,682</u>	<u>\$ 23,625,270</u>	<u>\$ 4,282,412</u>

- (1) Total District Net Assets
(2) Allocations to Operations
(3) Allocations to Facilities Reserve

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

OPERATING CASH FLOWS:

Cash receipts from customers		\$ 7,287,702
Cash payments:		
To suppliers	\$ 3,806,460	
For operating expenses	<u>3,609,020</u>	
Total cash payments		<u>7,415,480</u>
Total operating activities		\$ (127,778)

NON-OPERATING CASH FLOWS:

Other revenue	\$ 1,266,282	
Other expenses	<u>(1,000,134)</u>	
Total non-operating activities		266,148

CAPITAL PROJECT CASH FLOWS:

Capital expenditures	\$ <u>(326,887)</u>	
Total capital activities		(326,887)

FINANCING CASH FLOWS:

Principal payments on bonds	\$ <u>(1,204,750)</u>	
Total financing activities		(1,204,750)

BALANCE SHEET CASH FLOWS:

Increase in accounts receivable	\$ (109,866)	
Decrease in well systems receivables	14,422	
Increase in OAD receivable	(23)	
Increase in other receivables	(516)	
Decrease in other assets	126,914	
Increase in accounts payable	817	
Increase in admin/eng/insp deposits	7,358	
Decrease in customer/hydrant deposits	(4,875)	
Decrease in main street ext reimb.payable	(180,055)	
Increase in maintenance bonds	15,000	
Increase in deferred comp payable	3,255	
Increase in payables	<u>9,157</u>	
Total balance sheet activities		<u>(118,412)</u>
Net decrease in cash and cash equivalents		\$ (1,511,679)
Cash and cash equivalents at beginning of year		<u>14,774,930</u>
Cash and cash equivalents at end of year		<u>\$ 13,263,251</u>

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT

CASH AND INVESTMENTS AVAILABLE FOR OPERATIONS FOR THE YEAR ENDED JUNE 30, 2012

CASH AND INVESTMENTS- JUNE 30, 2012

Cash in bank - general checking	\$ 1,084,841	
Cash in bank - money market	93,417	
Cash in bank - Maint. Bond deposit	15,000	
Cash in bank - payroll tax deposit	100	
Cash in bank - investments	1,102,427	
Deferred compensation investments	409,527	
Cash in bank - UBS	31,189	
Cash on hand	1,850	
Investments - State of California LAIF	8,342,213	
Cash in CERBT	813,255	
Series 2005 revenue certificates	515,559	
Series 2010 revenue certificates	830,191	
Cash in bank - Laurel Wood (Note 10)	23,682	
Total cash		\$ 13,263,251

RESTRICTED FUNDS:

Deferred compensation	\$ 409,527	
Series 2005 revenue certificates	515,559	
Series 2010 revenue certificates	830,191	
Cash in CERBT	813,255	
Rate stabilization fund	1,000,000	
Facilities reserve	4,282,412	
Main extension reimbursement	527,508	
Customer deposits	199,565	
Developer's admin/eng/insp deposits	17,792	
Maintenance bonds	429,000	
Payroll tax deposit	100	
South park well system	254,519	
Knightsen well system	(40,614)	
Beacon west well system	14,772	
Willow park marina well system	151,514	
Rock island well system	140,092	
Laurel woods account	23,682	
Total restricted funds		\$ 9,568,874
Cash and Investments available for operations		\$ 3,694,377

The accompanying notes are an integral part of this statement.

DIABLO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 GENERAL ORGANIZATION AND DESCRIPTION OF THE REPORTING ENTITY

The Diablo Water District was organized and exists under, and by virtue of, the County Water District Law of the State of California, Division 12 of the Water Code. (Sections 30000-33901)

The District is governed by a Board of Directors consisting of five members, one of whom is annually elected President. The General Manager - Secretary is appointed by the Board pursuant to Section 30540 of the Water Code.

Diablo Water District changed its name from Oakley Water District on May 1, 1993.

The District's revenue is generated by direct collection of water usage charges from approximately 10,000 households located within the District's service area and is accordingly classified as an enterprise fund.

NOTE 2 ACCOUNTING POLICIES

Diablo Water District uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Depreciation has been computed on the straight-line method over the estimated useful lives of the assets. Depreciation expense has been reflected as an operating expense.

By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

The preliminary and final budgets are revised by the District's governing board and the district manager during the year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds.

Designation of ending fund balances indicate tentative plans for financials resource utilization in a future period. Reservations of fund balances of governmental funds are established to either 1) satisfy legal covenants that require a portion of the fund balance to be segregated, or 2) identify the portion of the fund that is not appropriate for future expenditures.

The District has designated a Facilities Reserve as a separate line item, this is not a separate fund as funds are defined under GASB 34. The amounts shown in the Facilities Reserve represent management designations to be used in the budget making process. Accordingly, the amounts separated are used by management as a budgetary planning tool to monitor amounts that remain available for expected operational expenses. The amounts classified under Facilities Reserve represent items that management will not include for anticipated expenses.

The preparation of financial statements in conformity with accounting principles accepted in the United States of America requires management to make estimates and assumption 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 expenditures during the reporting period. Actual results could differ from those estimates.

DIABLO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 ACCOUNTING POLICIES (continued)

Capital assets, recorded at historical cost or estimated historical cost if actual historical cost is not available, are detailed in the note titled "Fixed Assets", shown in later notes below. Capital assets include land, buildings, equipment, pipelines, machinery and site improvements. Capital assets are defined as assets with an initial individual costs of more than \$5,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is recorded on the straight-line basis over the useful life of the assets.

NOTE 3 BASIS OF PRESENTATION

The accompanying financial statements of the District have been prepared in conformity with United States General Accepted Accounting Principles, as prescribed by the Government Accounting Standards Board (GASB). In June 1999 GASB issued Statement 34 title "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". For Diablo Water District, implementation of the Statement requirements became effective with the fiscal year ended June 30, 2004. The changes in presentation are discussed below.

Management's Discussion and Analysis: GASB Statement 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities. This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Financial Statements: GASB Statement 34 defines major funds and requires that major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds are combined and reported in a single column, regardless of their fund type.

Diablo Water District maintains only one fund and it is reported as a proprietary fund. The amounts listed under the heading Facilities Reserve do not represent a separate fund as defined by GASB 34. The amounts shown under Facilities Reserve assist management in the budgetary process and are not available for operational expenses.

Infrastructure: GASB Statement 34 requires disclosure of infrastructure items under several reporting options. Infrastructure is defined as capital assets of a relatively permanent nature that have longer estimated lives (50 or more years) than ordinary capital assets. Infrastructure items are to be reported at historical costs (purchase price). Management may elect to use either a basic approach, depreciating the asset over its expected life, or a modified approach, which requires establishing an asset management system and making a condition assessment every three years.

The District elected to use the basic approach. Under the basic approach all new infrastructure, including improvements that increase capacity or efficiency or lengthen the life of the asset, is booked, its useful life is estimated and the asset is depreciated over its useful life.

DIABLO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 CASH AND INVESTMENTS

District policy requires that all cash deposits be insured by the Federal Deposit Insurance Corporation or by the federal Savings and Loan Insurance Corporation, or be collateralized by government securities. District policy also allows investments in securities authorized by Section 53601 or 53635 of the Government Code.

Under the California Government Code, banks and savings and loan associations are required to secure deposits made by state or local government units by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the total amount deposited by the public agencies.

All cash investments held by the financial institutions are fully insured or collateralized.

Investments are carried at fair market value.

NOTE 5 DEFERRED COMPENSATION

The District offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code and Section 53213 of the Government Code of the State of California.

All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights represent a general obligation of the District. Accordingly, they are reflected as part of the District's assets on its financial statements. The corresponding obligation is reflected in the District's liabilities.

The deferred compensation is invested in various interest-bearing accounts. Under the terms of the deferred compensation plan, the entire amount of \$409,527 is unencumbered and available for payments to which participants may be entitled as a result of termination of services, age 65, death, or unforeseeable emergency.

NOTE 6 ACCOUNTS RECEIVABLE – UTILITY SERVICE

Accounts receivable at June 30, 2012 totaled \$491,257. Accounts over sixty days were immaterial. The Board approved turning accounts over to a collection agency at the discretion of the Secretary-Manager. Accounts are written off when approved by the Board of Directors.

NOTE 7 COUNTY WELLS

Effective July 1, 1994, the District entered into a service agreement with the Contra Costa County to operate and maintain four well-water systems, known as Knightsen, Beacon West, Willow Park Marina and Willow Mobile Home Park. On July 1, 2003 the County donated three of the wells to the District and kept Willow Home Park. The donated wells, with an estimated value of \$3,800,000 were capitalized as infrastructure and as capital contributions in Facilities Reserve.

The County reimburses the District for the actual cost of providing services for Willow Mobile Home Park, including materials, contractors, personnel costs (actual cost of salary and benefits), vehicle costs and overhead. For the year ended June 30, 2012 the reimbursement received or receivable for labor, overhead, vehicle and direct costs totaled \$19,099. After actual expenses of \$17,472, the net income realized by the District for this period was \$1,627.

The District terminated the service agreement with the Contra Costa County in October 2011.

DIABLO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 8 FIXED ASSETS

All fixed assets are recorded at their original cost. The District capitalizes all assets with an original cost of at least \$5,000 and a useful life of at least three years. The cost of additions to the property and major replacements of property are capitalized. Capitalized costs include material, direct labor, transportation and such direct items as engineering, supervision, employee fringe benefits and interest on net borrowed funds related to plant under construction. Contributed property is recorded at estimated fair market value at the date of donation. Repairs, maintenance and minor replacements of property are expensed.

The purpose of depreciation is to spread the cost of capital assets equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of depreciable capital assets. Accumulated depreciation at June 30, 2012 represents the estimated depreciation on all fixed assets since the District began operations, to the date of this report. Fixed assets are classified to conform to the State Controller's uniform accounting for all water districts. Effective July 1, 2003, the District records additions to infrastructure in compliance with GASB-34.

Depreciation of all capital assets in service, excluding land, is charged as an expense against operations each year and the total amount of depreciation taken over the years, accumulated depreciation, is reported on the Statement of Net Assets as a reduction in the book value of the capital assets. Capital assets are depreciated using the straight line method of depreciation, where the cost of the asset is divided by its useful life in years and the result is charged to expense each year until the asset is fully depreciated. The District has assigned the useful lives listed below to capital assets:

	<u>Years</u>
Water Treatment Plant	5 - 50
General Plant	5 - 50
Transmission and Distribution	5 - 50
Infrastructure	25 - 75

Fixed asset costs and accumulated depreciation by asset class:

<u>Asset Class</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Work-in-progress	\$ 19,363	\$ 0
Land	2,733,489	0
Randall-Bold plant	23,194,958	12,227,807
Office equipment	394,003	310,029
Transmission and distribution	4,712,522	2,514,092
General plant	1,934,996	1,200,598
Infrastructure	18,024,516	2,453,512
Totals	\$ 51,013,847	\$ 18,706,038

NOTE 9 MAIN EXTENSION REIMBURSEMENT PAYABLE

Regulation #3 sets forth the connection charges and reimbursements for certain main extensions. In general terms, this regulation requires the main extender to pay to the District a facilities reserve charge and a main extension reimbursement assessment and to advance to the District its costs of materials, labor, engineering and administration. The District reimburses eligible applicants over a ten year period without interest. The reimbursement is paid in July of each year following acceptance of the facilities by the District. The maximum amount of reimbursement cannot exceed ten percent of the originally established potential reimbursement amount. If the ten percent liability is under \$5,000, then \$5,000 will be paid annually until the liability is paid off. This policy is subject to the availability of sufficient funds.

DIABLO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 10 SUBSTANDARD STREET DEPOSIT LIABILITY

Developers are required to deposit with the District the estimated cost of relocating pipelines in substandard streets. The District has deposited \$10,957 received in 1989 from the developers of Laurel Woods in an interest-bearing account. If the costs exceed the amount on deposit the developer is required to reimburse the District. If the costs are less than the amount on deposit the District shall refund the excess to the Developer. The amount on deposit, together with accrued interest, was \$23,682 as of June 30, 2012.

NOTE 11 NOTES PAYABLE

Contra Costa Water District - On May 24, 1989, the District signed a Joint Exercise of Power Agreement with the Contra Costa Water District for a joint water treatment plant. The Diablo Water District's share of the capital costs of the plant, which was completed on July 7, 1992, was \$16,454,516, plus construction period interest of \$2,106,570. The District's 35.5% share of the construction cost will be paid in semiannual payments over a period of 30 years to the Contra Costa Water District, which will pay principal and interest on revenue bonds issued by the Contra Costa Water Authority to finance the project. The original bond issue was called and reissued in 1993, resulting in Diablo Water District's share of amortizable refinancing costs of \$2,824,259. The remaining unamortized balance at June 30, 2012 was \$1,313,686. These costs will be expensed as bonds mature and are included in interest expense. A portion of the payments will come from Facilities Reserve revenues and the balance will come from operating funds.

During the period ending June 30, 2012 the District made payments on its obligation for the Contra Costa Water District bonds as shown below:

	General Fund		Facilities Reserve Fund		Total
Principal	\$ 434,875	\$	434,875	\$	869,750
Interest	234,778		234,778		469,556
Total Payments	\$ 669,653	\$	669,653	\$	1,339,306

2005 Series Certificate Water Revenue Bonds – During fiscal year 2004/2005, the District obtained \$7,500,000 of Series 2005 Revenue bonds. These bonds will be used to finance improvements to the District's water system. The debt service schedule in the agreement calls for semi-annual payments beginning in July 2006 and ending July 2030. The contract calls for interest rates starting at 3.75% and ending at 4.4%.

During this period ending June 30, 2012 the District made payments, all charged to the Facilities Reserve Fund, for the 2005 Series Certificate Water Reserve Bonds as shown below:

	FACILITIES RESERVE FUND		TOTAL
Principal	\$ 220,000	\$	220,000
Interest	252,044		252,044
Total Payments	\$ 472,044	\$	472,044

DIABLO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

2010 Series Certificate Water Revenue Bonds – During fiscal year 2010/2011, the District obtained \$4,200,000 of Series 2010 Revenue Bonds. These bonds will be used to finance a new well system (Stonecreek). The debt service Schedule in the agreement calls for semi-annual payments beginning in January 2011 and ending January 2035. The range of interest rates cover an initial rate of 2% for the first three years with increases during the term of the loan to 5% for the last four years.

During the period June 30, 2012 the District made payments, all charged to the Facilities Reserve Fund, for the 2010 Series Water Revenue Certificates of Participation as shown below:

	FACILITIES RESERVE FUND	TOTAL
Principal	\$ 115,000	\$ 115,000
Interest	163,556	163,556
Total Payments	\$ 278,556	\$ 278,556

<u>Current & long term liabilities on notes payable</u>	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
Water Revenue Certificates Series 2005	\$ 230,000	\$ 5,860,000	\$ 6,090,000
Water Revenue Certificates Series 2010	115,000	3,860,000	3,975,000
Contra Costa Water District	905,250	7,188,395	8,093,645
Total	\$ 1,250,250	\$ 16,908,395	\$ 18,158,645

Maturities of long-term debt for the next five fiscal years:

6/30/2013	\$ 1,250,250
6/30/2014	355,000
6/30/2015	1,039,500
6/30/2016	1,577,800
6/30/2017	1,600,225
Total	\$ 5,822,775

NOTE 12 FACILITIES RESERVE

The Board of Directors has restricted all facilities reserve charges from new connections to the District's water system as well as the interest earned on the facilities reserve fund to those uses of water connection fees and capacity charges that are authorized by law. Per Regulation 3, these uses may include, but are not limited to, "payment of the costs of planning, designing, and constructing facilities that increase the District's water supply or the capacity of its water treatment, storage and distribution system; for payment of principal and interest on indebtedness incurred for said facilities; and for payment expenses of enlarging or relocating facilities to accommodate growth of the District." The total amount of cash restricted for facilities reserve fund expenditures is shown as Appropriated Equity (Facilities Reserve) on the Statement of Net Assets.

DIABLO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 13 OPERATING LEASES

Total future minimum office lease payments:

6/30/13	\$	58,799
6/30/14		61,452
6/30/15 (10 months)		<u>53,052</u>
Total	\$	<u>173,303</u>

NOTE 14 POST RETIREMENT HEALTH CARE BENEFITS

Full-time employees who retire from the District after at least ten years of service are eligible to receive health care benefits covering themselves and any qualified family members. Once the retiree reaches age 65 family members are no longer covered under the Health Maintenance Organization (HMO) and the Preferred Provider Organization (PPO) and a percentage of the health care benefits for said retirees is covered based on years of service. The District pays 100% of the premiums for both retiree and spouse for all retirees under age 65. After age 65 the District pays a percentage of the premiums based on the years service of the retiree. However, the District only covers the retiree, not the spouse. If the retiree elects to choose an alternative insurance, the District will pay for the lesser of the insurance costs. Expenditures for post-retirement health care benefits for the fiscal year ended June 30, 2012 totaled \$54,416.

The District elected to prefund its GASB 45 actuarial liability of \$652,335 by depositing said amount with CERBT, a Trust established by the California Public Employees' Retirement System. The quarterly statement for the period ending June 30, 2012 issued by CalPers reflected the interest earned since the date of the deposit to bring the balance up to \$813,225.

NOTE 15 BRENTWOOD PUMP STATION (BWPS)

The District entered into an agreement with the City of Brentwood on September 18, 1996 for construction of a water main in Empire Avenue connecting the City's distribution system to the District's. The purpose of the agreement was to enable the District to wheel water treated for potability at the Randall-Bold Water Treatment Plant to the City of Brentwood.

Under the terms of the original agreement the District is not obligated to transport water after December 31, 2003. Commencing the same date, the District is obligated to pay 90% of Brentwood's construction costs up to a maximum of \$585,000 in ten equal annual installments without interest. These provisions are subject to future amendments as agreed by the District and City of Brentwood. At this point it appears that water delivery will be needed beyond the year 2003 and the time to commence repayments will likewise be extended. Accordingly, the \$585,000 obligation, while possible, appears sufficiently remote to preclude booking it at this time as a liability, in accordance with the contingent liability disclosure guidelines under SFAS No. 5.

The agreement was amended on October 25, 2000. The service areas located south of Neroly Road and Delta Road ("overlap areas") will be serviced by Brentwood. The ten annual installments are reduced to six payments starting in 2008 through 2013. At January 1, 2012 the District paid the City of Brentwood \$58,500. For connections in the overlap areas, the City shall pay a connection fee subject to annual increases per the Construction Cost Index.

DIABLO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 16 RANDALL-BOLD EXPENSES AND RECONCILIATION

The District's Statement of Revenues, Expenses, and Changes in Net Assets shows actual expenditures of \$1,203,620 for the Randall-Bold Water Treatment Plant (RBWTP). Each year the Contra Costa Water District issues a reconciliation statement for the District's actual share.

NOTE 17 DELTA MUTUAL AGREEMENT

Effective October 15, 1999, the District entered into a service agreement with Delta Mutual Water Company. The agreement provides for the performance of services by the District required to continue the operation and maintenance of Delta Mutual's water treatment and distribution system. The District bills approximately 120 customers of Delta Mutual semiannually. Upon receipt of payment the District transmits the proceeds to Delta Mutual. In addition to handling collection, the District bills Delta Mutual monthly for repairs, maintenance, testing, inspection and actual costs, including materials, contractors, personnel and vehicle costs and overhead in accordance with the Hour Rates Schedule contained in the agreement.

For the year ended June 30, 2012, the District billed \$36,365 to Delta Mutual customers. There is a receivable balance of \$13,249.

The District billed Delta Mutual \$16,941 for the District's expenses and overhead for the year ended June 30, 2012. There remains a receivable of \$2,051 for unreimbursed District expenses. Net income to the District for the year ended June 30, 2012 was \$8,742.

NOTE 18 PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

During the fiscal year ending June 30, 2011 the District changed its retirement plan from Contra Costa County Employees Retirement Association (CCCERA) to California Public Employees Retirement System (CALPERS). All District Employees are eligible to participate in pension plans offered by CALPERS, an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employees. CALPERS provides retirement and disability benefits annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the Miscellaneous Employee Plan. Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CALPERS; the District must contribute these amounts. The Plan's provisions and benefits in effect at June 30, 2012 are summarized as follows:

	<u>Miscellaneous</u>
Benefits vesting schedule	5 years service
Benefit payments	Monthly for life
Retirement age (Diablo Water District)	55
Retirement age (CalPers)	50 - 55
Monthly benefits, as a % of annual salary	2% - 2.7%
Required employee contribution rates	8%
Required employer contribution rates	31.021%

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 18 PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (continued)

Contributions necessary to fund PERS on an actuarial basis are determined by CALPERS and its Board of Administration. CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the District must pay annually to fund employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The District uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the year ended June 30, 2012 were \$343,128 respectively. CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes on actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are amortized over a rolling thirty year period. Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Employees are members of the Public Employees Retirement System (PERS).

Plan Description - Diablo Water District contributes to the California Public Employees Retirement System (PERS), an agent multi-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustment, 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. The District's employees participate in the Miscellaneous Employee Plan. Benefit provisions and all other requirements are established by the California Code of Regulations. Audited annual financial statements are available from California PERS at P.O. Box 942709, Sacramento, CA 94229-2709. Employees are eligible for retirement at the age of 50 with at least five years of credited service and are entitled to a monthly benefit of 2.0 to 2.7 percent of final compensation for each year of service credit. Retirement may begin at age 50 with a reduced benefit rate, or at age 55 the maximum benefit rate is reached. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the district, members' accumulated contributions are refundable with interest credited through the date of separation.

Funding Policy:

All full-time classified employees participate in PERS and are required to contribute 8% of their annual covered salary. The District is required to contribute 31.021%, an actuarially determined rate. Benefit provisions for PERS are established by the Public Employees Retirement Law (Part 3 of the California Government Code, Section 20000 et seq.).

NOTE 19 SUBSEQUENT EVENTS

The Contra Costa Water District refinanced the debt due on the bonds issued to cover the building costs of the Randall Bold Water Treatment Plant after June 30, 2012, the ending date of the period covered by this audit. The refinancing resulted in a change in the schedule of payments due effecting the next audit period through October 1, 2020, the date of the last payment due. The figures shown in Note 11 under Current and long term liabilities on notes payable reflect the amounts in effect at June 30, 2012. The figures shown immediately under Maturities for long-term debt for the next five fiscal years reflect the principal amounts due under the new schedule of payments generated by the new refinancing agreement.

DIABLO WATER DISTRICT
COMPARATIVE SCHEDULE
JUNE 30, 2012

OPERATIONS

Comparative schedule of net income

	<u>2011-2012</u>	<u>2010-2011</u>	<u>Difference</u>
Water sales	\$ 7,287,702	\$ 6,895,241	\$ 392,461
Operating expenses	(7,415,480)	(6,875,239)	(540,241)
Depreciation	<u>(1,231,280)</u>	<u>(1,165,374)</u>	<u>(65,906)</u>
Net operating income (loss)	\$ (1,359,058)	\$ (1,145,372)	\$ (213,686)
Interest and other income	1,266,282	1,899,354	(633,072)
Interest on bonds	<u>(1,000,134)</u>	<u>(1,063,040)</u>	<u>62,906</u>
Net income (loss)	\$ (1,092,910)	\$ (309,058)	\$ (783,852)

Comparative schedule of water revenue

	<u>2011-2012</u>	<u>2010-2011</u>	<u>Difference</u>
<u>Water Revenue:</u>			
Residential & business	\$ 7,200,006	\$ 6,772,054	\$ 427,952
Industrial	<u>87,696</u>	<u>123,187</u>	<u>(35,491)</u>
Total revenue	<u>\$ 7,287,702</u>	<u>\$ 6,895,241</u>	<u>\$ 392,461</u>

DIABLO WATER DISTRICT
INSURANCE COVERAGES
FOR THE YEAR ENDED JUNE 30, 2012

RISK MANAGEMENT - The District has purchased commercial insurance for property and liability in the insurance marketplace through East County Insurance Agency, the District's selected insurance broker/ consultant. During the fiscal year which ended June 30, 2012 the District paid \$98,591 for current year coverage.

The District is self-insured for workers' compensation through the ACWA/Joint Powers Insurance Authority. During the fiscal year which is ended June 30, 2012 the District paid \$26,304 for current year coverage.

Note 14 provides more detail on the District compliance with GASB 45 OPEB directives, the District pays health insurance premiums for qualifying retirees. It paid \$54,416 in premiums for other post-retirement benefits during the period under audit.