

***Florin Resource Conservation District
Comprehensive Annual Financial Report
For the Fiscal Year ended
June 30, 2011***



Elk Grove, California



FLORIN RESOURCE CONSERVATION DISTRICT

Comprehensive Annual Financial Report

For the Fiscal Year Ended

June 30, 2011

Prepared by the Finance Department
9257 Elk Grove Boulevard
Elk Grove, California 95624, (916) 685-3556, www.egws.org

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FLORIN RESOURCE CONSERVATION DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

June 30, 2011

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February 21, 2012

Members of the Board of Directors
Florin Resource Conservation District

Directors:

The Florin Resource Conservation District is required by State statute to publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we are pleased to present the Comprehensive Annual Financial Report for the Florin Resource Conservation District (District) for the fiscal year ended June 30, 2011. The information presented in this annual report is intended to provide financial information with all the disclosures necessary to enable the District's customers, investment community and general public to assess the District's financial condition.

This report contains management's representations concerning the finances of the District. Management is responsible for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed to both protect the District's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The District's financial statements have been audited by Richardson & Company, a firm of licensed certified public accountants with which the District contracts for these services. The goal of the independent audit is to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2011, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2011, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This transmittal letter is designed to complement the MD&A and is intended to be read in conjunction with it. The District's MD&A can be located immediately following the independent auditors' report.

The Comprehensive Annual Financial Report is organized into Introductory, Financial, and Statistical sections. The Introductory section includes this transmittal letter, the District's organizational chart and a list of principal officials. The Financial section includes: Independent Auditor's Report on the District's financial statements; MD&A; June 30, 2011 basic financial statements, including the statement of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows and notes to the basic financial statements and required supplementary information. The statistical section is the chief source of information regarding the District's economic condition. The financial statements are prepared in accordance with GAAP.

DISTRICT PROFILE

History

The Florin Resource Conservation District was formed in 1953, pursuant to Section 9000 et seq. of the Public Resources Code of the State of California. The District, which is located approximately six miles southeast of the City of Sacramento in the west central portion of unincorporated Sacramento County, was formed to address soil degradation issues resulting from poor irrigation and drainage. There currently are approximately 100,000 acres within the District. The Elk Grove Water District (EGWD) is a medium sized water purveyor near Sacramento, California, serving a population of approximately 40,000 persons. Water system operations date back to 1893 when the water service was started by a private interest. The water system was purchased by the Florin Resource Conservation District (FRCD) in 1999, and is operated as a department of FRCD.

The FRCD also provides technical assistance and conservation education to farmers, community members and students. In addition, the FRCD participates in a number of regional environmental activities. The EGWD service area is divided into two distinct service areas commonly referred to as Service Area 1 and Service Area 2. Source water for Service Area 2 is provided by the Sacramento County Water Agency (SCWA), a wholesaler of surface and groundwater. SCWA owns and operates groundwater wells, storage tanks, water treatment facilities, and water conveyance systems. SCWA receives some treated surface water from the City of Sacramento. Source water for Service Area 1 is provided by four (4) deep wells and three (3) older shallow wells owned and operated by EGWD. Water is not shared between the two service areas except in an emergency.

The District is governed by a five member Board of Directors serving four year staggered terms, and has one component unit used to facilitate debt issuances, the Florin Resource Conservation District Economic Development Corporation (the Corporation). The Corporation is reported in these financial statements on a blended basis due to the District's Board of Directors serving as the Corporation's governing body, the ability of the District to impose its will on the Corporation and the fact that the sole purpose of the Corporation is to provide financing to the District under the District's debt issuance documents. More information on the Corporation may be found in Note A to the basic financial statements.

Accounting System and Budgetary Controls

The District's accounting records are maintained using the accrual basis of accounting, except for the General Fund, which uses the modified accrual basis. The revenues of the District's enterprise funds are recognized when they are earned and the expenses are recognized when they are incurred.

The District staff works with the Finance Department to develop the annual budget. The Finance Department first provides a copy of the proposed budget to the Finance Committee, making any necessary adjustments arising from that review. Then the Finance Manager presents the proposed budget to the Board of Directors for their review. The budget is required to be adopted on or before June 30th of each year. The budget is used as a management tool for projecting and measuring revenues and expenses.

Mission Statement

The District is "Continually committed to outstanding customer service along with supplying its customers with excellent, safe, affordable water for current and future generations."

Water Supply

Source Water – There are currently four wells that supply groundwater to Service Area 1. The deep aquifer has concentrations of iron and manganese that exceed current federal and state secondary drinking water standards. The deep wells are designed to produce approximately 1,800 gpm each and are conveyed through a small network of raw water mains to the Railroad Water Treatment and Storage Facility to be treated for iron and manganese.

Additional source water is provided from older shallow groundwater wells for emergency or backup water supply. There are three existing shallow wells currently available for emergency purposes. The aquifer for these shallow wells has concentrations of iron, manganese and arsenic that may exceed current federal and state primary and secondary drinking water standards. The three shallow wells are disinfected with 12% liquid chlorine (sodium hypochlorite) prior to being pumped directly in to the water distribution system. These shallow wells are used as needed.

Water Treatment

Elk Grove Water District maintains two water treatment facilities:

The Railroad Water Treatment and Storage Facility provides 4.0 million gallons of water storage, 10 booster pumps (rated at 16,000 gpm capacity each), and water treatment that removes iron, manganese and arsenic. The facility contains one of the four deep wells on-site. The facility has been equipped with a backup power supply generator to run the entire facility in the event of a power failure or emergency. All source water for the treatment facility is groundwater from the four new deep wells. The Railroad Water Treatment and Storage Facility provides most of the water for Service Area 1.

High concentration (12%) sodium hypochlorite is used to oxidize and remove the contaminants. Upgrades and improvements to the plant are ongoing to ensure efficiency and productivity to meet the required demands of its customers and Federal and State regulatory requirements. Chemicals at the plant are stored outside in a locked gated area.

Current Situation

The current and future stability of the EGWD is positive with the existing revenue source remaining stable. Revenues are received entirely through water rates. On April 18, 2007, the Board of Directors approved a 5-year financial plan and water rates ordinance. The first rate increases occurred on April 1, 2007. The Plan automatically increases water rates on July 1st of each of the following 4 years. This makes the water rates known through June 30, 2012. The Board elected to reduce the rate increase effective June 30, 2009, and to forgo the scheduled rate increase for July 1, 2010 and July 1, 2011.

Local Economy

The downturn of the economy caused a great many foreclosures in the area as well as turnover and vacancies in the retail sector. Although the service connections remain stable, the volume of water sold has been affected.

Elk Grove Water District Five Year Plan

EGWD provides water to nearly 12,100 service connections currently and growth projections suggest that the service connections should remain relatively the same in 2012. When EGWD didn't meet FY 2005-06 bond covenant requirements a mandatory rates analysis had to be performed. Bartle Wells Associates (BWA) was hired to perform the bond required rates analysis. To assist in this matter, the General Manager created a Community Advisory Committee (CAC) to work with BWA in developing a five year financial plan (Plan) to benefit the ratepayer's. The CAC identified ratepayer benefits as follows:

- Maintain appropriate level for reserve funds
- Make bond payments and meet bond covenant requirements
- Increase staffing to appropriate level for operational needs
- Comply with state mandated meters installation by 2025
- Replace aging infrastructure
- Eliminate tariff areas and have one set of water rates for both flat rates and metered service
- Accommodate additional growth
- Accommodate other or unknown items

The Plan will act as a guide for future needs and be flexible to adjust as needed.

Long-Term Financial Planning

EGWD is in its fourth year of the five year financial plan. Since April 2007, reserve funding levels have increased and EGWD is meeting its monthly debt obligations as well as meeting bond covenant requirements.

The plan is scheduled to accommodate the following FY 2011-12:

Any capital items remaining from the previous year will continue. EGWD plans to complete a "Water Master Plan".

Another independent five year rate study will be performed with recommended water rates from July 1, 2012 to June 30, 2017. Reserve fund levels will continue to increase and equipment will continue to be purchased.

The EGWD five year plan provides an opportunity to improve water service for existing and future ratepayers. Financial stability is a high priority for the Board. Once the existing projects are completed, there will be no bonding for future projects. All future projects will be funded by water rates.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Florin Resource Conservation District for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2010. This was the second year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for the certificate for another certificate.

The preparation of the comprehensive annual financial report was made possible by the dedicated services of the entire staff of the Finance Department and the District Management team.

Respectfully Submitted,



Dennis M. Coleman
Finance Manager/Treasurer

LIST OF OFFICIALS
JUNE 30, 2011

BOARD OF DIRECTORS:

Barrie Lighfoot
Chairman

Elliot Mulberg
Vice-Chairman

Chuck Dawson
Director

Tom Nelson
Director

Anthony Perez
Director

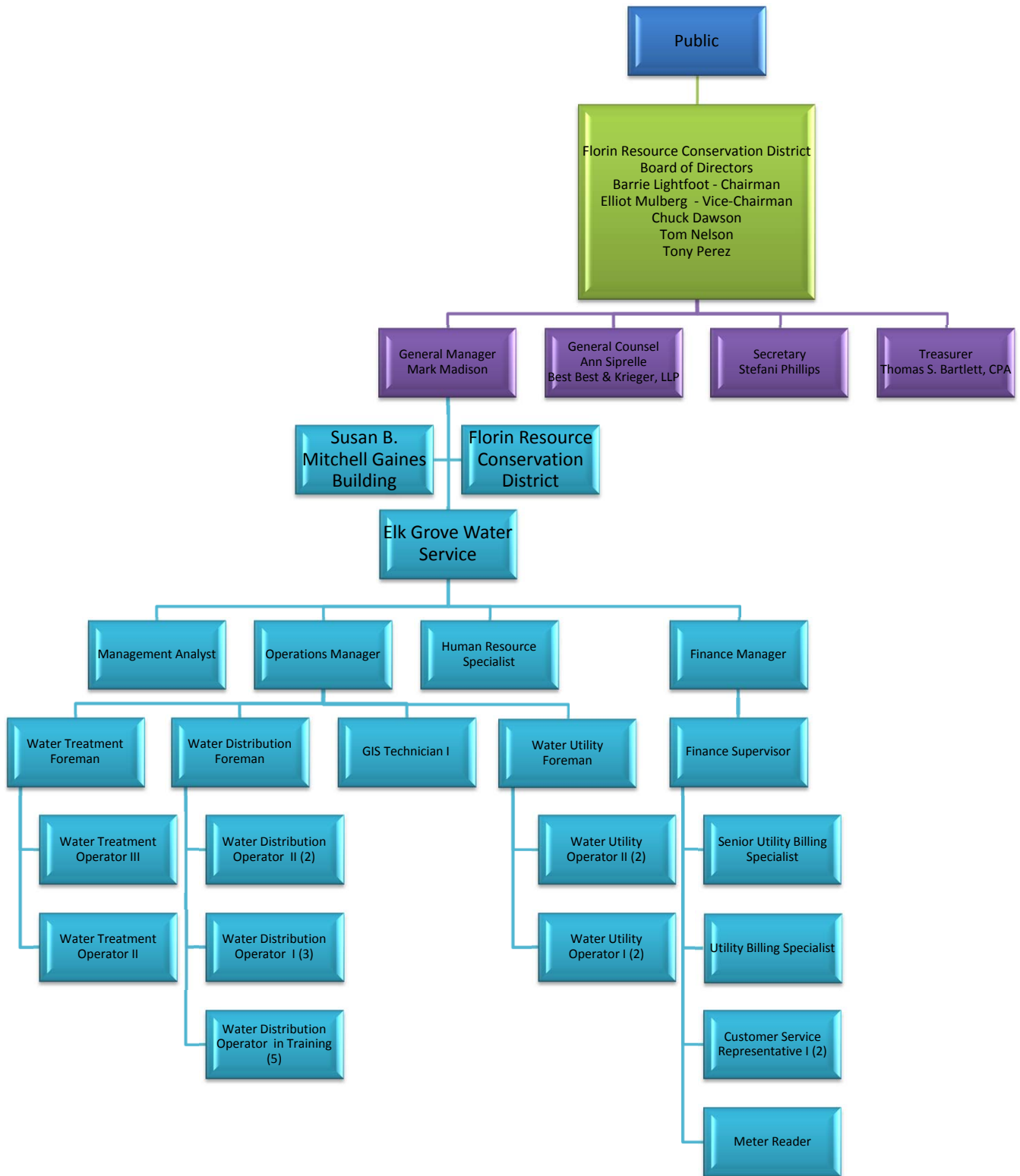
Staff:

Mark J. Madison
General Manager

Thomas S. Bartlett, CPA
Treasurer/ Finance Manager

Stefani Phillips
Secretary/HR Specialist

Florin Resource Conservation District Organization Chart



Thirty- two full-time employees authorized by the Board for FY2010-11 Updated on 05/24/11

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Florin Resource Conservation
District, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danison

President

Jeffrey R. Emer

Executive Director

Richardson & Company

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Florin Resource Conservation District
Elk Grove, California

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the Florin Resource Conservation District (the District), as of and for the years ended June 30, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the District as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

As discussed in Note H to the financial statements, the District believes the Building Fund revenues are not sufficient to make scheduled debt service payments and the District filed a Notice of Listed Event on the related debt. In addition, as discussed in Note H to the financial statements, the District was unable to locate certain accounting records supporting the valuation and recording of the Elk Grove Water Work's assets and records supporting proceeds, discounts and issuance costs of debt issued in 1998 and 1999. The District's management has represented to us that they have no reason to believe the amounts recorded need to be adjusted.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress of the other postemployment benefits plan 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.

Board of Directors
Florin Resource Conservation District

Our audit was for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Richardson & Company

February 21, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following narrative overview and analysis of the financial activities of the Florin Resource Conservation District (District) for the fiscal year ended June 30, 2011 has been prepared by management to enhance the information provided in the transmittal letter. It is intended to be read in conjunction with that letter and should provide a better understanding of the District's financial operations and performance.

FINANCIAL HIGHLIGHTS

- The District's total assets increased by \$0.2 million in 2011. Total liabilities decreased by \$0.9 million. The net result of this activity is a favorable increase in net assets of \$1.1 million.
- Operating revenue of \$15.5 million and operating expenses of \$8.9 million before depreciation resulted in net income from operations of \$4.9 million in enterprise funds. Net non-operating expense of \$3.8 million in business-type activities is the result of \$3.9 million interest expense, offset by non-operating revenue of \$128 thousand.
- Capital assets decreased by \$0.4 million (net of annual depreciation) as a result of expenditures for infrastructure being exceeded by depreciation.
- Restricted cash and investments decreased by \$1.0 million as a result of expenses made to improve the water system.
- Restricted net assets at year end were \$3.0 million, of which \$2.4 million was restricted for debt service and \$0.5 million was held for capital projects.
- The District had positive cash flow from operations of \$6.8 million in 2011. The District spent \$1.4 million on the construction of capital assets and \$4.9 million on principle and interest payments. For 2011, the District experienced an overall increase of \$0.6 million in its cash position, and an ending cash balance of \$12.9 million.

SECTIONS OF THE FINANCIAL STATEMENTS

The three sections of the District's financial statements are the: 1) introductory section, 2) financial section, and 3) statistical section.

Introductory Section

This includes the table of contents, letter of transmittal, list of Board of Directors and Staff, and organization chart. The transmittal letter was revised to discuss items that had a significant impact on the financial statements.

Financial Section

This section includes the auditor's report, management's discussion and analysis and the basic financial statements. The District's basic financial statements are comprised of the government-wide statements, the fund statements, the notes to the basic financial statements, and the required supplementary information. The management's discussion and analysis was adjusted to indicate that the discussion of the change in net assets of governmental activities includes a discussion of the change in fund balance since no significant reconciling items exist between the fund and government-wide statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statistical Section

The statistical section of the financial statements is the chief source of information regarding a government's *economic condition*. All of the information presented in the statistical section is organized around five specific objectives.

- **Provide information on financial trends.** Information is needed to help users understand how a government's financial position has changed over time.
- **Provide information on revenue capacity.** Information is needed to help the users understand and assess a government's ability to generate revenues.
- **Provide information on debt capacity.** Information is needed to help users understand and assess a government's debt burden.
- **Provide demographic and economic information.** Information is needed to help users understand the government's socioeconomic environment and to facilitate comparisons of financial statement information over time and among governments.
- **Provide operating information.** Information is needed to help users understand a government's operations and resources as well as to provide a context for understanding and assessing its economic condition.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

The government-wide statements include the Statement of Net Assets and the Statement of Activities, the Proprietary Fund Statements and the Statement of Cash Flows. The Statement of Net Assets presents information on all assets and liabilities, with the difference between the two reported as net assets. The government-wide statements and Proprietary Fund Statements use the economic resources measurement focus and accrual basis of accounting, similar to private enterprises. The governmental fund statements include a Balance Sheet, Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual. The governmental fund uses the current financial resources measurement focus and the modified accrual basis of accounting. When evaluated over a period of time, increases or decreases in net assets and fund balance may serve as an indicator of whether the financial position of the District is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Revenues, Expenditures and Changes in Fund Balance reflect the revenues and expenses for the fiscal year ended. The Statement of Cash Flows shows the sources and uses of cash in the operating, non-capital, capital and related financing, and investing activities. The notes provide in depth information that is vital to gaining a full understanding of the data provided in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT

**STATEMENT OF NET ASSETS – GOVERNMENT-WIDE TOTALS
AS OF JUNE 30, 2010**

	Governmental activities		Business-type activities		Total
	2011	2010	2011	2010	
Current assets	\$ 80,760	\$ 69,903	\$ 11,559,136	\$ 9,829,920	\$ 11,639,896
Capital assets			49,145,391	49,532,214	49,145,391
Other assets			6,250,310	7,361,249	6,250,310
Total Assets	80,760	69,903	66,954,837	66,723,383	67,035,597
Current liabilities			4,487,209	4,075,773	4,487,209
Long-term liabilities outstanding			66,008,322	67,311,408	66,008,322
Total liabilities			70,495,531	71,387,181	70,495,531
Net assets:					
Invested in capital assets, net of related debt			(18,033,071)	(17,738,507)	(18,033,071)
Restricted			2,967,929	3,952,031	2,967,929
Unrestricted	80,760	69,903	11,524,448	9,122,678	11,605,208
Total net assets	80,760	\$ 69,903	\$(3,540,694)	\$ (4,663,798)	\$(3,459,934)
					\$ (4,593,895)

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENTAL ACTIVITIES FINANCIAL ANALYSIS

There an increase of \$10,857 in current assets and unrestricted net assets for the governmental fund during the period. There was a reduction in total revenue of \$8,947 from the previous year due to the receipt of \$8,936 in grant revenues. There was also a reduction of expenditures of \$17,763 from the previous year due to not having expenses associated with the grant revenue and a reduction of insurance, association dues and supplies for the District's governmental fund.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

This was the 4th year of the 5 year rate plan that was adopted by the Board at the end of the 2006-07 fiscal year. The rate plan had called for a three percent (3%) increase for the 2010-11 fiscal year, but the increase was not implemented by the Board.

Capital assets (net of depreciation) decreased by \$0.4 million due primarily the depreciation expense of \$1,763,514 exceeding the additions in capital assets of \$1,376,691 for the meter program, information technology purchases, the Elk Grove Boulevard West – Phase II Project, and School Street Well Site Improvements.

Current liabilities increased by \$411,436, primarily due to the increase of accounts payable to vendors, due to other government for water purchases and principle amounts on the certificates of participation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – GOVERNMENT-WIDE TOTALS FOR THE YEARS ENDED JUNE 30, 2011

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for services:						
General government	\$ 12,000	\$ 12,000			\$12,000	\$ 12,000
Water services			\$13,981,562	\$ 13,642,267	\$13,981,562	13,642,267
Office Building			1,532,453	1,414,572	1,532,453	1,414,572
Operating Grants		8,936		3,834		12,770
General Revenues:						-
Interest earnings	55	66	36,642	42,170	36,697	42,236
Other			91,758	28,217	91,758	28,217
Total Revenues	12,055	21,002	15,642,415	15,131,060	15,654,470	15,152,062
Expenses:						
General Government	1,198	18,961			1,198	18,961
Water Service			12,869,274	12,442,411	12,869,274	12,442,411
Office Building			1,650,037	1,377,430	1,650,037	1,377,430
Total Expenses	1,198	18,961	14,519,311	13,819,841	14,520,509	13,838,802
Change in net assets before transfers	10,857	2,041	1,123,104	1,311,219	1,133,961	1,313,260
Transfers						
Change in net assets	10,857	2,041	1,123,104	1,311,219	1,133,961	1,313,260
Net assets, beginning of year	69,903	67,862	(4,663,798)	(5,975,017)	(4,593,895)	\$ (5,907,155)
NET ASSETS, END OF YEAR	\$ 80,760	\$ 69,903	(3,540,694)	\$ (4,663,798)	(3,459,934)	\$ (4,593,895)

GOVERNMENTAL ACTIVITIES HIGHLIGHTS

There was a \$10,857 increase in governmental activities net assets for the year, primarily due to a reduction of governmental expenses due to grant related expenses, and association dues and supplies from the previous period.

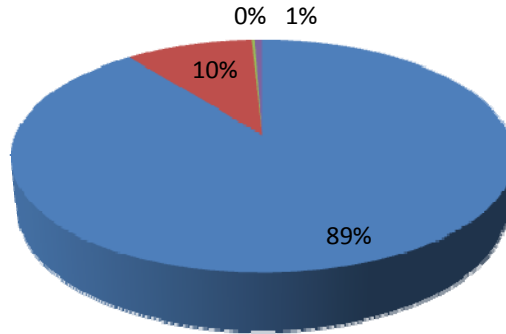
BUSINESS-TYPE ACTIVITIES HIGHLIGHTS

As explained above, this was the 4th year of the 5 year rate plan for the Water Service that was adopted by the Board at the end of the 2006-07 fiscal year. For the 2010-11 fiscal year, the rates were not increased by the Board. Due to the sluggish economy, gross revenues from water service increased by less than two and one-half percent (2.5%).

MANAGEMENT'S DISCUSSION AND ANALYSIS

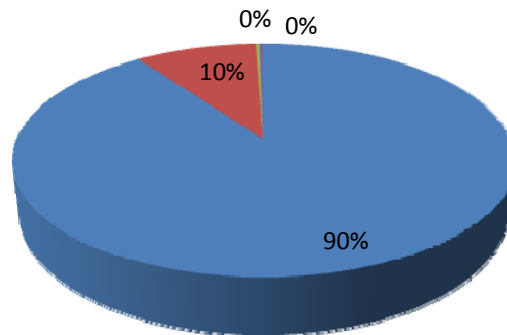
2011 Program Revenue

■ Water Services ■ Rental Income ■ Interest Income ■ Other Income



2010 Program Revenue

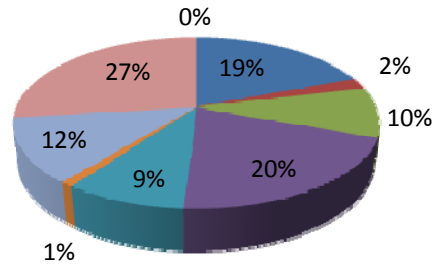
■ Water Services ■ Rental Income ■ Interest Income ■ Other Income



MANAGEMENT'S DISCUSSION AND ANALYSIS

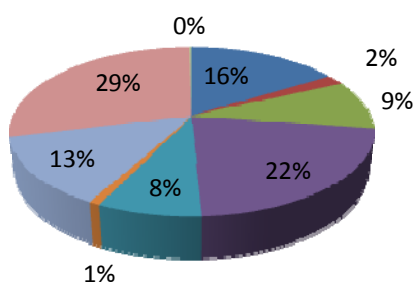
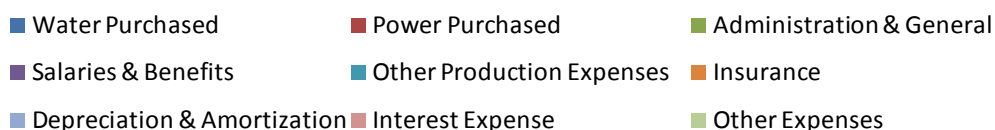
2011 Program Expenses

- Water Purchased
- Power Purchased
- Administration & General
- Salaries & Benefits
- Other Production Expenses
- Insurance
- Depreciation & Amortization
- Interest Expense
- Other Expenses



MANAGEMENT'S DISCUSSION AND ANALYSIS

2010 Program Expenses



General Fund Budgetary Highlights

The General Fund's rental revenues were budgeted based on the District's share of the rent payments due from the building owned jointly by Florin Resource Conservation District, Sloughouse Resource Conservation District, and Lower Cosumnes Resource Conservation District. Association dues, meeting expenses, and various sponsorship were budgeted based upon those expected revenues.

Capital Asset and Debt Administration

Capital assets decreased by \$.04 million (net of annual depreciation) during the current year.

Major capital asset projects during the current fiscal year included the following:

- Meter Retrofit Program
- Information Technology Purchases
- Elk Grove Boulevard West – Phase 2
- School Street Well Site Improvements

See additional information on capital assets in Note C at page 29.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OUTSTANDING DEBT ISSUES AS OF JUNE 30, 2011

	2011	2010
2003 Refunding – Office Building	\$12,021,994	\$12,666,994
2002/3/5 Refunding and Capital Improvements – EGWS	<u>57,327,890</u>	<u>58,226,740</u>
Total	<u>\$69,349,884</u>	<u>\$70,893,734</u>

The Florin Resource Conservation District did not issue any additional debt during the year. See additional information on debt in Note D at page 31.

On October 26, 2011, The Florin Resource Conservation District issued a Notice of Listed Event to the Electronic Municipal Marketplace Access (EMMA) regarding the 2003 Refunding Bond Issue for the Susan B. Gaines Office Building. The Notice of Listed Event disclosed the possibility that the District would use administrative expense funds to pay debt service on February 1, 2012. See additional information on Note H at page 40.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the County of Sacramento area surrounding the Florin Resource Conservation District is 11.1 percent as of November 1, 2011.
- The downturn of the economy has caused a great many foreclosures in the area. While this does not reduce the number of connections for the water service, the vacant homes reduce the overall volume of water sales.
- The rates for the water service for Fiscal Year (FY) 2011-12 were not increased.

All of these factors were considered in preparing the Florin Resource Conservation District's budget for the fiscal year ending June 30, 2012. The District believes that the rates are sufficient to meet the operational, debt service and capital needs for FY 2011-12. The District will continue its Meter Retrofit Program which is budgeted at \$505,200, excluding labor. In addition the District will continue to spend bond proceeds for water system improvements during the fiscal year.

The District will hire a firm to conduct a five-year water rate study to recommend water rates needed to cover the expenditures of the District as well as updating the District's connection fee.

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning the information provided in this report or for requests for additional financial information should be addressed to Dennis M. Coleman, Finance Manager, 9257 Elk Grove Blvd, Elk Grove, CA 95624 or please call (916) 685-3556.

FLORIN RESOURCE CONSERVATION DISTRICT

STATEMENTS OF NET ASSETS

June 30, 2011 and 2010

	2011			2010		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 78,760	\$ 9,951,793	\$ 10,030,553	\$ 67,903	\$ 8,328,485	\$ 8,396,388
Receivables:						
Accounts receivable	2,000	1,544,636	1,546,636	2,000	1,362,107	1,364,107
Interest receivable		4,928	4,928		5,193	5,193
Inventories		19,709	19,709		71,510	71,510
Prepaid expenses		38,070	38,070		62,625	62,625
TOTAL CURRENT ASSETS	80,760	11,559,136	11,639,896	69,903	9,829,920	9,899,823
NONCURRENT ASSETS						
Restricted cash and investments		2,967,929	2,967,929		3,952,031	3,952,031
OPEB asset		555,922	555,922		548,815	548,815
Deferred charges		2,726,459	2,726,459		2,860,403	2,860,403
Capital assets:						
Not being depreciated		7,642,163	7,642,163		11,234,726	11,234,726
Being depreciated, net		41,503,228	41,503,228		38,297,488	38,297,488
TOTAL NONCURRENT ASSETS		55,395,701	55,395,701		56,893,463	56,893,463
TOTAL ASSETS	80,760	66,954,837	67,035,597	69,903	66,723,383	66,793,286
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable		734,858	734,858		667,477	667,477
Due to other governments		784,819	784,819		496,864	496,864
Interest payable		1,135,743	1,135,743		1,155,549	1,155,549
Deferred revenue		3,188	3,188		121,069	121,069
Noncurrent liabilities, due within one year		1,828,601	1,828,601		1,634,814	1,634,814
TOTAL CURRENT LIABILITIES		4,487,209	4,487,209		4,075,773	4,075,773
NONCURRENT LIABILITIES						
Noncurrent liabilities, due in more than one year		66,008,322	66,008,322		67,311,408	67,311,408
TOTAL NONCURRENT LIABILITIES		66,008,322	66,008,322		67,311,408	67,311,408
TOTAL LIABILITIES		70,495,531	70,495,531		71,387,181	71,387,181
NET ASSETS (DEFICIT)						
Invested in capital assets, net of related debt		(18,033,071)	(18,033,071)		(17,738,507)	(17,738,507)
Restricted for debt service		2,434,238	2,434,238		2,383,125	2,383,125
Restricted for capital projects		533,691	533,691		1,568,906	1,568,906
Unrestricted	80,760	11,524,448	11,605,208	69,903	9,122,678	9,192,581
TOTAL NET ASSETS (DEFICIT)	\$ 80,760	\$ (3,540,694)	\$ (3,459,934)	\$ 69,903	\$ (4,663,798)	\$ (4,593,895)

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

FLORIN RESOURCE CONSERVATION DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Change in Net Assets		
		Charges for Services	Operating Grants	Governmental Activities	Business-type Activities	Total
GOVERNMENTAL ACTIVITIES:						
General government	\$ 1,198	\$ 12,000	\$ -	\$ 10,802		\$ 10,802
TOTAL GOVERNMENTAL ACTIVITIES	1,198	12,000		10,802		10,802
BUSINESS-TYPE ACTIVITIES:						
Water District	12,869,274	13,981,562			\$ 1,112,288	1,112,288
Office Building	1,650,037	1,532,453			(117,584)	(117,584)
TOTAL BUSINESS-TYPE ACTIVITIES	14,519,311	15,514,015			994,704	994,704
TOTAL PRIMARY GOVERNMENT	\$ 14,520,509	\$ 15,526,015	\$ -	10,802	994,704	1,005,506
GENERAL REVENUES:						
Interest and investment earnings				55	36,642	36,697
Other revenues					91,758	91,758
Total general revenues				55	128,400	128,455
Change in net assets				10,857	1,123,104	1,133,961
Net assets (deficit), beginning of year				69,903	(4,663,798)	(4,593,895)
NET ASSETS (DEFICIT), END OF YEAR				\$ 80,760	\$ (3,540,694)	\$ (3,459,934)

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

FLORIN RESOURCE CONSERVATION DISTRICT

STATEMENT OF ACTIVITIES (Continued)

For the Year Ended June 30, 2010

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Change in Net Assets		
		Charges for Services	Operating Grants	Governmental Activities	Business-type Activities	Total
GOVERNMENTAL ACTIVITIES:						
General government	\$ 18,961	\$ 12,000	\$ 8,936	\$ 1,975		\$ 1,975
TOTAL GOVERNMENTAL ACTIVITIES	18,961	12,000	8,936	1,975		1,975
BUSINESS-TYPE ACTIVITIES:						
Water District	12,442,411	13,642,267	3,834		\$ 1,203,690	1,203,690
Office Building	1,377,430	1,414,572			37,142	37,142
TOTAL BUSINESS-TYPE ACTIVITIES	13,819,841	15,056,839	3,834		1,240,832	1,240,832
TOTAL PRIMARY GOVERNMENT	\$ 13,838,802	\$ 15,068,839	\$ 12,770	1,975	1,240,832	1,242,807
GENERAL REVENUES:						
Interest and investment earnings				66	42,170	42,236
Other revenues					28,217	28,217
Total general revenues				66	70,387	70,453
Change in net assets				2,041	1,311,219	1,313,260
Net assets (deficit), beginning of year				67,862	(5,975,017)	(5,907,155)
NET ASSETS (DEFICIT), END OF YEAR				\$ 69,903	\$(4,663,798)	\$(4,593,895)

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

FLORIN RESOURCE CONSERVATION DISTRICT

BALANCE SHEETS – GOVERNMENTAL FUND

June 30, 2011 and 2010

	<u>General Fund</u>	
	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and investments	\$ 78,760	\$ 67,903
Receivables:		
Accounts receivable	<u>2,000</u>	<u>2,000</u>
TOTAL ASSETS	<u>\$ 80,760</u>	<u>\$ 69,903</u>
 LIABILITIES AND FUND BALANCE		
 FUND BALANCE		
Uncommitted	<u>\$ 80,760</u>	<u>\$ 69,903</u>
TOTAL FUND BALANCE	<u>80,760</u>	<u>69,903</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 80,760</u>	<u>\$ 69,903</u>

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

FLORIN RESOURCE CONSERVATION DISTRICT
 STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE – GOVERNMENTAL FUND

For the Years Ended June 30, 2011 and 2010

		General Fund	
		2011	2010
REVENUES			
Use of money and property		\$ 12,055	\$ 12,066
Grant revenue			8,936
	TOTAL REVENUES	12,055	21,002
EXPENDITURES			
General government		1,198	18,961
	TOTAL EXPENDITURES	1,198	18,961
	NET CHANGE IN FUND BALANCE	10,857	2,041
Fund balance, beginning of year		69,903	67,862
	FUND BALANCE, END OF YEAR	\$ 80,760	\$ 69,903

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

FLORIN RESOURCE CONSERVATION DISTRICT

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Years Ended June 30, 2011 and 2010

	2011				2010			
	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Use of money and property	\$ 12,050	\$ 12,050	\$ 12,055	\$ 5	\$ 12,000	\$ 12,000	\$ 12,066	\$ 66
Grant revenue							8,936	8,936
TOTAL REVENUES	<u>12,050</u>	<u>12,050</u>	<u>12,055</u>	<u>5</u>	<u>12,000</u>	<u>12,000</u>	<u>21,002</u>	<u>9,002</u>
EXPENDITURES								
General government	<u>16,500</u>	<u>16,500</u>	<u>1,198</u>	<u>15,302</u>	<u>10,125</u>	<u>10,675</u>	<u>18,961</u>	<u>(8,286)</u>
TOTAL EXPENDITURES	<u>16,500</u>	<u>16,500</u>	<u>1,198</u>	<u>15,302</u>	<u>10,125</u>	<u>10,675</u>	<u>18,961</u>	<u>(8,286)</u>
NET CHANGE IN FUND BALANCE	<u>(4,450)</u>	<u>(4,450)</u>	<u>10,857</u>	<u>15,307</u>	<u>1,875</u>	<u>1,325</u>	<u>2,041</u>	<u>716</u>
Fund balance, beginning of year	<u>69,187</u>	<u>69,187</u>	<u>69,903</u>		<u>67,862</u>	<u>67,862</u>	<u>67,862</u>	
FUND BALANCE, END OF YEAR	<u>\$ 64,737</u>	<u>\$ 64,737</u>	<u>\$ 80,760</u>	<u>\$ 16,023</u>	<u>\$ 69,737</u>	<u>\$ 69,187</u>	<u>\$ 69,903</u>	<u>\$ 716</u>

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

FLORIN RESOURCE CONSERVATION DISTRICT

STATEMENTS OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2011 and 2010

	Enterprise Funds			Enterprise Funds		
	2011			2010		
	Water District	Office Building	Total Proprietary Funds	Water District	Office Building	Total Proprietary Funds
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 9,951,793		\$ 9,951,793	\$ 8,328,485		\$ 8,328,485
Receivables:						
Accounts receivable	1,544,636		1,544,636	1,362,107		1,362,107
Interest receivable	4,928		4,928	5,193		5,193
Inventories	19,709		19,709	71,510		71,510
Prepaid expenses	38,070		38,070	41,070	\$ 21,555	62,625
TOTAL CURRENT ASSETS	11,559,136		11,559,136	9,808,365	21,555	9,829,920
NONCURRENT ASSETS						
Restricted cash and investments	1,505,474	\$ 1,462,455	2,967,929	2,540,691	1,411,340	3,952,031
OPEB asset	555,922		555,922	548,815		548,815
Deferred charges	2,504,111	222,348	2,726,459	2,607,587	252,816	2,860,403
Capital assets:						
Not being depreciated	7,036,356	605,807	7,642,163	10,628,919	605,807	11,234,726
Being depreciated, net	33,487,548	8,015,680	41,503,228	29,973,516	8,323,972	38,297,488
TOTAL NONCURRENT ASSETS	45,089,411	10,306,290	55,395,701	46,299,528	10,593,935	56,893,463
TOTAL ASSETS	56,648,547	10,306,290	66,954,837	56,107,893	10,615,490	66,723,383
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	432,774	302,084	734,858	667,477		667,477
Due to other governments	784,819		784,819	496,864		496,864
Interest payable	894,760	240,983	1,135,743	903,679	251,870	1,155,549
Deferred revenue	3,188		3,188	3,188	117,881	121,069
Noncurrent liabilities, due within one year	1,163,601	665,000	1,828,601	989,814	645,000	1,634,814
TOTAL CURRENT LIABILITIES	3,279,142	1,208,067	4,487,209	3,061,022	1,014,751	4,075,773
NONCURRENT LIABILITIES						
Noncurrent liabilities, due in more than one year	55,481,499	10,526,823	66,008,322	56,399,653	10,911,755	67,311,408
TOTAL NONCURRENT LIABILITIES	55,481,499	10,526,823	66,008,322	56,399,653	10,911,755	67,311,408
TOTAL LIABILITIES	58,760,641	11,734,890	70,495,531	59,460,675	11,926,506	71,387,181
NET ASSETS (DEFICIT)						
Invested in capital assets, net of related debt	(15,462,735)	(2,570,336)	(18,033,071)	(15,111,531)	(2,626,976)	(17,738,507)
Restricted for debt service	971,783	1,462,455	2,434,238	971,785	1,411,340	2,383,125
Restricted for capital projects	533,691		533,691	1,568,906		1,568,906
Unrestricted (Deficit)	11,845,167	(320,719)	11,524,448	9,218,058	(95,380)	9,122,678
TOTAL NET ASSETS (DEFICIT)	\$ (2,112,094)	\$ (1,428,600)	\$ (3,540,694)	\$ (3,352,782)	\$ (1,311,016)	\$ (4,663,798)

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

FLORIN RESOURCE CONSERVATION DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - PROPRIETARY FUNDS

For the Years Ended June 30, 2011 and 2010

	Enterprise Funds			Enterprise Funds		
	2011			2010		
	Water District	Office Building	Total Proprietary Funds	Water District	Office Building	Total Proprietary Funds
OPERATING REVENUES						
Charges for services	\$ 13,981,562		\$ 13,981,562	\$ 13,642,267		\$ 13,642,267
Rental income		\$ 1,532,453	1,532,453		\$ 1,414,572	1,414,572
TOTAL OPERATING REVENUES	13,981,562	1,532,453	15,514,015	13,642,267	1,414,572	15,056,839
OPERATING EXPENSES						
Water purchased	2,788,561		2,788,561	2,225,161		2,225,161
Power purchased	304,650		304,650	262,800		262,800
Administration and general	1,113,405	253,056	1,366,461	1,207,200	78,820	1,286,020
Salaries and benefits	2,927,357		2,927,357	3,024,955		3,024,955
Other production expenses	1,160,949	164,640	1,325,589	1,018,492	61,998	1,080,490
Insurance	117,247	26,152	143,399	111,455	5,174	116,629
Depreciation and amortization	1,455,222	308,292	1,763,514	1,533,295	308,292	1,841,587
Miscellaneous expenses				29,053		29,053
TOTAL OPERATING EXPENSES	9,867,391	752,140	10,619,531	9,412,411	454,284	9,866,695
OPERATING INCOME	4,114,171	780,313	4,894,484	4,229,856	960,288	5,190,144
NONOPERATING REVENUES (EXPENSES)						
Interest revenue	36,642		36,642	42,170		42,170
Interest expense	(3,001,883)	(897,897)	(3,899,780)	(3,030,000)	(923,146)	(3,953,146)
Reimbursements and other	91,758		91,758	28,217		28,217
Grant revenue				3,834		3,834
TOTAL NONOPERATING REVENUES (EXPENSES)	(2,873,483)	(897,897)	(3,771,380)	(2,955,779)	(923,146)	(3,878,925)
CHANGE IN NET ASSETS	1,240,688	(117,584)	1,123,104	1,274,077	37,142	1,311,219
Deficit, beginning of year	(3,352,782)	(1,311,016)	(4,663,798)	(4,626,859)	(1,348,158)	(5,975,017)
DEFICIT, END OF YEAR	\$ (2,112,094)	\$ (1,428,600)	\$ (3,540,694)	\$ (3,352,782)	\$ (1,311,016)	\$ (4,663,798)

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

FLORIN RESOURCE CONSERVATION DISTRICT

STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS

For the Years Ended June 30, 2011 and 2010

	Enterprise Funds			Enterprise Funds		
	2011			2010		
	Water District	Office Building	Total Proprietary Funds	Water District	Office Building	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 13,799,033	\$ 1,532,453	\$ 15,331,486	\$ 13,680,455	\$ 1,414,572	\$ 15,095,027
Payments to suppliers	(5,383,866)	(238,090)	(5,621,956)	(4,568,815)	(8,910)	(4,577,725)
Payments to employees	(2,909,182)		(2,909,182)	(2,998,172)		(2,998,172)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,505,985	1,294,363	6,800,348	6,113,468	1,405,662	7,519,130
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Operating grants and reimbursements	91,758		91,758	32,051		32,051
NONCAPITAL FINANCING ACTIVITIES	91,758		91,758	32,051		32,051
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Principal paid on noncurrent liabilities	(898,850)	(645,000)	(1,543,850)	(680,791)	(625,000)	(1,305,791)
Interest paid on noncurrent liabilities	(2,771,018)	(598,248)	(3,369,266)	(2,796,235)	(622,508)	(3,418,743)
Purchase of capital assets	(1,376,691)		(1,376,691)	(2,896,969)		(2,896,969)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(5,046,559)	(1,243,248)	(6,289,807)	(6,373,995)	(1,247,508)	(7,621,503)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	36,907		36,907	49,916		49,916
NET CASH PROVIDED BY INVESTING ACTIVITIES	36,907		36,907	49,916		49,916
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	588,091	51,115	639,206	(178,560)	158,154	(20,406)
Cash and cash equivalents, beginning of year	10,869,176	1,411,340	12,280,516	11,047,736	1,253,186	12,300,922
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 11,457,267	\$ 1,462,455	\$ 12,919,722	\$ 10,869,176	\$ 1,411,340	\$ 12,280,516
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS						
Cash and cash equivalents	\$ 9,951,793		\$ 9,951,793	\$ 8,328,485		\$ 8,328,485
Restricted cash and investments	1,505,474	\$ 1,462,455	2,967,929	2,540,691	\$ 1,411,340	3,952,031
CASH AND CASH EQUIVALENTS	\$ 11,457,267	\$ 1,462,455	\$ 12,919,722	\$ 10,869,176	\$ 1,411,340	\$ 12,280,516

(Continued)

FLORIN RESOURCE CONSERVATION DISTRICT

STATEMENTS OF CASH FLOWS
 PROPRIETARY FUNDS (Continued)

For the Years Ended June 30, 2011 and 2010

	Enterprise Funds			Enterprise Funds		
	2011			2010		
	Water District	Office Building	Total Proprietary Funds	Water District	Office Building	Total Proprietary Funds
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 4,114,171	\$ 780,313	\$ 4,894,484	\$ 4,229,856	\$ 960,288	\$ 5,190,144
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	1,455,222	308,292	1,763,514	1,533,295	308,292	1,841,587
Changes in operating assets and liabilities:						
Accounts receivable	(182,529)		(182,529)	38,188		38,188
Inventories	51,801		51,801	(54,090)		(54,090)
Prepaid expenses	3,000	21,555	24,555	(27,429)	(10,731)	(38,160)
OPEB asset	(7,107)		(7,107)	(7,541)		(7,541)
Accounts payable	(234,703)	302,084	67,381	312,683	(7,175)	305,508
Due to other governments	287,955		287,955	89,302	37,107	126,409
Deferred revenue		(117,881)	(117,881)	(27,579)	117,881	90,302
Compensated absences	18,175		18,175	26,783		26,783
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 5,505,985	\$ 1,294,363	\$ 6,800,348	\$ 6,113,468	\$ 1,405,662	\$ 7,519,130

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

FLORIN RESOURCE CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background: The Florin Resource Conservation District (the District) was formed in 1953, pursuant to Section 9000 et seq. of the Public Resources Code of the State of California. The District, which is located approximately six miles southeast of the City of Sacramento in the west central portion of unincorporated Sacramento County, was formed to address soil degradation issues resulting from poor irrigation and drainage. There currently are approximately 100,000 acres within the District.

The District provides technical assistance and conservation education to farmers dealing with natural resource management issues, and views education as one of its primary objectives. The District additionally serves as a clearinghouse for soil and water conservation measures, such as administering the local water hyacinth eradication program. The United States Department of Agriculture, through its Soil Conservation Services, provides staffing and technical assistance to the District and the two adjacent soil conservation districts. The District has provided water service within its 13-mile water service area since it acquired the Elk Grove Water Service in 1999, which was merged into and is a department of the District. In 2010, the name of the Elk Grove Water Service was changed to the Elk Grove Water District (EGWD). In 1998, the District acquired a building which houses the Sacramento County Department of Human Assistance and is leased by the District to the County of Sacramento.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In addition, the District applies all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

Reporting Entity: The financial reporting entity consists of (a) the primary government, the District, (b) organizations for which the District is financially accountable, and (c) other organizations for which the District is not accountable, but for which the nature and significance of their relationship with the District are such that would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (a) the District has the ability to impose its will on the organization or (b) there is a potential for the organization to provide a financial benefit to or impose a financial burden on the District.

As required by GAAP, these financial statements present the District and its only component unit, the Florin Resource Conservation District Economic Development Corporation (the Corporation). The Corporation is reported in these financial statements on a blended basis due to the District's Board of Directors serving as the Corporation's governing body, the District's Board having the ability to impose its will on the Corporation and the fact that the sole purpose of the Corporation is to provide financing to the District under the District's debt issuance documents. The Corporation does not issue separate financial statements.

Basis of Presentation – Government-wide financial statements: The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and other items not properly included among program revenues are reported instead as general revenues.

FLORIN RESOURCE CONSERVATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues when all eligibility requirements are met. Water lines are constructed by private developers and are contributed to the District, which then become the responsibility of the District to maintain. These assets are recorded as capital contributions when they are accepted by the District and are included as part of the water system.

Basis of Presentation – Fund Financial Statements: The accounts of the District are organized on the basis of funds. A fund is a separate self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues of the current fiscal period. All other items are considered to be measurable and available only when cash is received by the District.

The District reports the following major fund types:

GOVERNMENTAL FUNDS

General Fund – This fund is used to account for all financial resources not accounted for in other funds. Soil conservation activities that are not paid though other funds are paid from the General Fund.

PROPRIETARY FUNDS

Water District Fund – The Water District Fund is used to account for all activities related to the Elk Grove Water District, which provides water to commercial and residential customers in the District’s service area.

Building Fund – The Building Fund is used to account for activities related to a building owned by the District on Florin Road and leased to the County of Sacramento Department of Human Assistance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the District’s enterprise funds are charges to customers for sales and services and rent revenues. 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 nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents, including restricted assets and the District’s investment in the State of California Local Agency Investment Fund (LAIF).

FLORIN RESOURCE CONSERVATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash and Investments: Certain proceeds of the District’s long-term debt are classified as restricted cash and investments on the statement of net assets because their use is limited by applicable bond covenants. The “reserve” account is used to report resources set aside to make up potential future deficiencies in the bond’s debt service. Certain unspent debt proceeds are also restricted to specific capital projects by the debt covenant.

Accounts Receivable: Accounts receivable arise from billings to customers for water usage and include an estimate for unbilled revenues earned from the dates the customers were last billed to the end of the year. An allowance for uncollectible accounts of \$50,227 and \$208,775 was recorded in the Water Fund by the District as of June 30, 2011 and 2010, respectively.

Inventory: Inventory consists primarily of materials used in the construction and maintenance of the water system and is valued at weighted average cost. The cost of inventory is recorded as an expense when consumed, rather than when purchased.

Capital Assets: Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Property and equipment owned by the proprietary funds are recorded at cost. 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. Capital assets are depreciated using the straight-line method over the following useful lives:

Description	Estimated Life
Buildings	35 – 39 years
Improvements	25 years
Equipment	5 – 20 years
Water treatment and distribution system	25 – 50 years

It is the District’s policy to capitalize all capital assets with a useful life of more than one year, regardless of amount. Costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the statement of net assets in the year of sale or retirement, and the resulting gain or loss is recognized in operations.

Bond Discounts, Premiums, Deferred Amount on Refunding and Deferred Charges: In the government-wide financial statements and in proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums, discounts, the deferred amount on refunding and issuance costs were deferred and amortized over the life of the bonds using the straight line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums, discounts and deferred amount on refunding. Issuance costs are reported as deferred charges and are amortized over the life of the related debt.

Due to Other Governments: Due to other governments consisted of amounts payable to the County of Sacramento for water purchases of \$734,836 and \$482,136 at June 30, 2011 and 2010, respectively, and amounts due to other governments for various other activities.

Compensated Absences: The District’s policy allows employees to accumulate earned, but unused personal leave time at the rate of twelve days per year and vacation time at the rate of five days per year after six months of service, ten days per year after two years of service and fifteen days per year after five years of service. The liability for these compensated absences is recorded as a long-term liability in the proprietary fund and government-wide statements. The current portion of this long-term liability is estimated based on historical trends. In the fund financial statements, governmental funds only report the compensated absence liability that have matured, such as for employee resignations or retirements, while the proprietary funds report the liability as it is incurred. The General Fund has no employees assigned to it and, thus, reports no compensated absences.

FLORIN RESOURCE CONSERVATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue: Deferred revenue consists of exchange revenue received from private developers prior to the exchange taking place. Deferred revenue consisted of deferred plan check and meter installation fees at June 30, 2011 and 2010.

Net Assets and Fund Balance: The government-wide financial statements present net assets. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The purpose of the restriction is reported on the face of the statement of net assets.

Unrestricted Net Assets – This category represents net assets of the District not restricted for any project or other purpose.

The fund balance of the General Fund is reported as uncommitted according to GASB Statement No. 54 because the Board of Directors has approved no constraints on its use.

Deficit Net Assets Balances: The deficit net assets balance of the Water District fund is expected to be eliminated with future water sales. It is uncertain whether the deficit net assets balance of the Building Fund will be eliminated due to the shortfall in rents from the building discussed in the Immanent Default of Debt section of Note H.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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.

Risk Management: The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The commercial insurance is subject to a deductible. No significant claims resulting in the need for a claims liability for insurance deductibles occurred during the years ended June 30, 2011 and 2010. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from the prior year.

Budgetary Information: The District adopts an annual budget for the General Fund each year by June 30 on a basis consistent with generally accepted accounting principles. The legal level of budgetary control is maintained at the fund level. Annual appropriations lapse each year. All supplemental appropriations are approved by the Board of Directors. No significant supplemental appropriations were approved during the years ended June 30, 2011 and 2010.

New Pronouncements: GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reporting in governmental funds. This statement was implemented during the year ended June 30, 2011 and did not have a significant impact on the District's financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, establishes financial reporting guidance for deferred outflows of resources and deferred inflows of resources, which are a consumption or acquisition of net assets by the government applicable to a future reporting period, and defines net position as the residual of all other elements presented in a statement of position. The District is currently analyzing the impact of the required implementation of this new statement.

FLORIN RESOURCE CONSERVATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE B – CASH AND INVESTMENTS

Cash and investments are classified in the accompanying financial statements as follows, as of June 30:

	<u>2011</u>	<u>2010</u>
Government-wide Statement of Net Assets		
Governmental Activities		
Cash and investments	\$ 78,760	\$ 67,903
Business-type Activities		
Cash and cash equivalents	9,951,793	8,328,485
Restricted cash and investments	<u>2,967,929</u>	<u>3,952,031</u>
Total cash and investments	<u>\$ 12,998,482</u>	<u>\$ 12,348,419</u>

Cash and investments consisted of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Cash on hand	\$ 1,000	\$ 500
Deposits with financial institutions	<u>7,229,770</u>	<u>6,603,373</u>
Total cash and deposits	7,230,770	6,603,873
Money market mutual funds	2,967,929	3,952,031
Investment in Local Agency Investment Fund (LAIF)	<u>2,799,783</u>	<u>1,789,515</u>
Total investments	<u>5,767,712</u>	<u>5,741,546</u>
Total cash and investments	<u>\$ 12,998,482</u>	<u>\$ 12,345,419</u>

Investment policy: Investments are reported at fair value. California statutes authorize special districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the 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. The District's permissible investments include the following instruments:

FLORIN RESOURCE CONSERVATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE B – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local agency bonds	5 years	None	None
U.S. Treasury obligations	5 years	None	None
U.S. Agency securities	5 years	None	None
California local agency debt	5 years	None	None
Bankers acceptances	180 days	40%	30%
Commercial paper	270 days	25%	10%
Negotiable certificates and time deposits	5 years	None	None
Repurchase agreements	1 year	None	None
Reverse repurchase agreements	92 days	20%	None
Medium term corporate notes	5 years	30%	None
Mutual funds	N/A	20%	10%
Money market mutual funds	N/A	20%	10%
Mortgage pass-through securities	5 years	20%	None
Financial futures and option contracts	1	1	1
Investment pools, including LAIF	N/A	None	None

1 - The District may invest in financial futures and option contracts of any of the above authorized categories, subject to the same overall portfolio limitations.

The District complied with the provisions of the California Government Code and its investment policy pertaining to the types of investments held, the institutions in which deposits were made and the security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

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 market interest rates. One of the ways 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 close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District’s investment policy does not contain any provisions limiting interest rate risk that are more restrictive than what is specified in the California Government Code.

Information about the sensitivity of the fair values of the District’s investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District’s investments by maturity as of June 30, 2011:

	Remaining Maturity (in Months)	
	Total	12 Months Or less
LAIF	\$ 2,799,783	\$ 2,799,783
Held by bond trustee:		
Money market mutual funds	2,967,929	2,967,929
	\$ 5,767,712	\$ 5,767,712

FLORIN RESOURCE CONSERVATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE B – CASH AND INVESTMENTS (Continued)

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 a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or debt agreements and the actual rating for each investment type at June 30, 2011.

	Minimum Legal Rating	Total	Ratings as of Year End	
			Aaa/AAA	Unrated
LAIF	Unrated	\$ 2,799,783		\$ 2,799,783
Held by bond trustee:				
Money market mutual funds	AAA	<u>2,967,929</u>	<u>\$ 2,967,929</u>	
Total		<u>\$ 5,767,712</u>	<u>\$ 2,967,929</u>	<u>\$ 2,799,783</u>

Concentration of Credit Risk: The California Government Code limits the amount the District may invest in any one issuer, with the exception of U.S. Treasury obligations, U.S. Agency securities and LAIF. The District has no investments in any one issuer (other than money market mutual funds and external investment pools) that represent 5% or more of total District investments.

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 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 does 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 market 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2011 and 2010, the carrying amount of the District's deposits was \$7,229,770 and \$6,606,373 and the balance in financial institutions was \$7,401,195 and \$6,732,317. Of the balance in financial institutions, \$4,500,000 and \$3,500,000 was covered by federal depository insurance and \$2,901,195 and \$3,232,317 at June 30, 2011 and 2010, respectively, was collateralized as required by State law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the District and other governmental agencies, but not in the name of the District. As of June 30, 2011 and 2010, District's investment in money market mutual funds were held by the same broker-dealer (counterparty) that was used by the District to buy the securities. Money market mutual funds are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is \$66,384,617,119 managed by the State Treasurer. Of that amount, 5.01% is invested in structured notes and asset backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at 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.

FLORIN RESOURCE CONSERVATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE C – CAPITAL ASSETS

There were no governmental capital assets for the years ended June 30, 2011 and 2010.

Business-type capital asset activity for the years ended June 30, 2011 and 2010 was as follows:

	Balance at July 1, 2010	Additions	Deletions	Transfers	Balance at June 30, 2011
Capital assets not being depreciated:					
Land	\$ 1,118,402				\$ 1,118,402
Construction in progress	10,116,324	\$ 683,672		\$ (4,276,235)	6,523,761
Total capital assets not being depreciated	<u>11,234,726</u>	<u>683,672</u>		<u>(4,276,235)</u>	<u>7,642,163</u>
Capital assets being depreciated:					
Buildings	15,358,668			1,103,484	16,462,152
Improvements	19,424,620			895,360	20,319,980
Equipment	3,680,458	186,045			3,866,503
Water treatment and distribution system	<u>13,733,029</u>	<u>506,974</u>		<u>2,277,391</u>	<u>16,517,394</u>
Total capital assets being depreciated	52,196,775	693,019		4,276,235	57,166,029
Less accumulated depreciation for:					
Buildings	(4,415,587)	(423,317)			(4,838,904)
Improvements	(4,008,401)	(776,985)			(4,785,386)
Equipment	(1,964,261)	(225,214)			(2,189,475)
Water treatment and distribution system	<u>(3,511,038)</u>	<u>(337,998)</u>			<u>(3,849,036)</u>
Total accumulated depreciation	<u>(13,899,287)</u>	<u>(1,763,514)</u>			<u>(15,662,801)</u>
Total capital assets being depreciated	<u>38,297,488</u>	<u>(1,070,495)</u>		<u>4,276,235</u>	<u>41,503,228</u>
Capital assets, net	<u>\$ 49,532,214</u>	<u>\$ (386,823)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,145,391</u>

FLORIN RESOURCE CONSERVATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE C – CAPITAL ASSETS (Continued)

	Balance at July 1, 2009	Additions	Deletions	Transfers	Balance at June 30, 2010
Capital assets not being depreciated:					
Land	\$ 1,100,519	\$ 17,883			\$ 1,118,402
Construction in progress	7,795,615	2,320,709			10,116,324
Total capital assets not being depreciated	<u>8,896,134</u>	<u>2,338,592</u>			<u>11,234,726</u>
Capital assets being depreciated:					
Buildings	15,352,493	6,175			15,358,668
Improvements	19,424,620				19,424,620
Equipment	3,205,488	474,970			3,680,458
Water treatment and distribution system	<u>13,655,797</u>	<u>77,232</u>			<u>13,733,029</u>
Total capital assets being depreciated	51,638,398	558,377			52,196,775
Less accumulated depreciation for:					
Buildings	(3,992,417)	(423,170)			(4,415,587)
Improvements	(3,231,416)	(776,985)			(4,008,401)
Equipment	(1,659,174)	(305,087)			(1,964,261)
Water treatment and distribution system	<u>(3,174,693)</u>	<u>(336,345)</u>			<u>(3,511,038)</u>
Total accumulated depreciation	<u>(12,057,700)</u>	<u>(1,841,587)</u>			<u>(13,899,287)</u>
Total capital assets being depreciated	<u>39,580,698</u>	<u>(1,283,210)</u>			<u>38,297,488</u>
Capital assets, net	<u>\$ 48,476,832</u>	<u>\$ 1,055,382</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,532,214</u>

Depreciation expense of \$1,455,222 and \$1,533,295 was allocated to the Water District activities and \$308,292 was allocated to the Office Building activities during the years ended June 30, 2011 and 2010, respectively.

FLORIN RESOURCE CONSERVATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE D – LONG-TERM LIABILITIES

The following is a summary of long-term liability activity for the year ended June 30, 2011:

	Balance at July 1, 2010	Incurred	Retired	Balance at June 30, 2011	Due within One Year
Business-type activities:					
Certificates of Participation:					
2002 Refunding, Series A	\$ 22,725,000		\$ (375,000)	\$ 22,350,000	\$ 490,000
2002 Capital Improvement, Series B	9,570,000		(235,000)	9,335,000	255,000
2003 Capital Improvement, Series A	11,805,000		(150,000)	11,655,000	190,000
2005 Capital Improvement, Series A	13,087,145		(90,000)	12,997,145	70,000
Note Payable - Administration Building	1,039,595		(48,850)	990,745	52,122
Total Water District debt	<u>58,226,740</u>		<u>(898,850)</u>	<u>57,327,890</u>	<u>1,057,122</u>
Certificates of Participation:					
2003 Senior Lien Refunding, Series A	2,000,000		(645,000)	1,355,000	665,000
2003 Subordinate Lien Refunding, Series B	10,666,994			10,666,994	
Total Building debt	<u>12,666,994</u>		<u>(645,000)</u>	<u>12,021,994</u>	<u>665,000</u>
Total debt	70,893,734		(1,543,850)	69,349,884	1,722,122
Compensated absences	106,595	\$ 165,172	(146,997)	124,770	106,479
Total long-term liabilities	71,000,329	<u>\$ 165,172</u>	<u>\$ (1,690,847)</u>	69,474,654	<u>\$ 1,828,601</u>
Unamortized bond discounts	(946,243)			(897,295)	
Deferred amount on refunding	(1,107,864)			(740,436)	
Less: Due within one year	<u>(1,634,814)</u>			<u>(1,828,601)</u>	
Due in more than one year	<u>\$ 67,311,408</u>			<u>\$ 66,008,322</u>	

FLORIN RESOURCE CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE D – LONG-TERM LIABILITIES (Continued)

The following is a summary of long-term liability activity for the year ended June 30, 2010:

	Balance at July 1, 2009	Incurred	Retired	Balance at June 30, 2010	Due within One Year
Business-type activities:					
Certificates of Participation:					
2002 Refunding, Series A	\$ 22,990,000		\$ (265,000)	\$ 22,725,000	\$ 375,000
2002 Capital Improvement, Series B	9,770,000		(200,000)	9,570,000	235,000
2003 Capital Improvement, Series A	11,885,000		(80,000)	11,805,000	150,000
2005 Capital Improvement, Series A	13,177,145		(90,000)	13,087,145	90,000
Note Payable-Administration Building	1,085,386		(45,791)	1,039,595	48,850
Total Water District debt	<u>58,907,531</u>		<u>(680,791)</u>	<u>58,226,740</u>	<u>898,850</u>
Certificates of Participation:					
2003 Senior Lien Refunding, Series A	2,625,000		(625,000)	2,000,000	645,000
2003 Subordinate Lien Refunding, Series B	<u>10,666,994</u>			<u>10,666,994</u>	
Total Building debt	<u>13,291,994</u>		<u>(625,000)</u>	<u>12,666,994</u>	<u>645,000</u>
Total debt	<u>72,199,525</u>		<u>(1,305,791)</u>	<u>70,893,734</u>	<u>1,543,850</u>
Compensated absences	<u>79,812</u>	<u>\$ 161,880</u>	<u>(135,097)</u>	<u>106,595</u>	<u>90,964</u>
Total long-term liabilities	<u>72,279,337</u>	<u>\$ 161,880</u>	<u>\$ (1,440,888)</u>	<u>71,000,329</u>	<u>\$ 1,634,814</u>
Unamortized bond discounts	(995,191)			(946,243)	
Deferred amount on refunding	(1,475,292)			(1,107,864)	
Less: Due within one year	<u>(1,374,137)</u>			<u>(1,634,814)</u>	
Due in more than one year	<u>\$ 68,434,717</u>			<u>\$ 67,311,408</u>	

FLORIN RESOURCE CONSERVATION DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE D – LONG-TERM LIABILITIES (Continued)

Long-term debt related to business-type activities consisted of the following at June 30:

<u>Water District Fund:</u>	2011	2010
 <u>2002 Refunding Certificates of Participation, Elk Grove Water Service, Series A:</u>		
<p>On August 16, 2002, the District issued the 2002 Refunding Certificates of Participation, Elk Grove Water Service, Series A in the amount of \$23,675,000. The proceeds were used to refund the 1999 Certificates of Participation, Elk Grove Water Service Acquisition, Series A and B and 1999 Subordinate Lien Capital Appreciation Certificates of Participation, Elk Grove Water Service Acquisition, Series C. The Certificates are secured by a lien on the net water system revenues. Semi-annual principal payments of \$245,000 to \$825,000 are due on March 1 and September 1 through March 1, 2033. Semi-annual interest payments of \$20,625 to \$534,996 are due on March 1 and September 1 through March 1, 2033. Interest rates range from 3.65% to 5.00%.</p>	\$22,350,000	\$22,725,000
 <u>2002 Capital Improvement Certificates of Participation, Elk Grove Water Service, Series B:</u>		
<p>On August 16, 2002, the District issued the 2002 Capital Improvement Certificates of Participation, Elk Grove Water Service, Series B in the amount of \$10,170,000. The proceeds were used for certain improvements to the water system. The Certificates are secured by a lien on the net water system revenues. Semi-annual principal payments of \$125,000 to \$340,000 are due on March 1 and September 1 through March 1, 2033. Semi-annual interest payments of \$8,500 to \$222,911 are due on March 1 and September 1 through March 1, 2033. Interest rates range from 3.65% to 5.00%.</p>	9,335,000	9,570,000
 <u>2003 Capital Improvement Certificates of Participation, Elk Grove Water Service, Series A:</u>		
<p>On October 9, 2003, the District issued the 2003 Capital Improvement Certificates of Participation, Elk Grove Water Service, Series A in the amount of \$11,910,000. The proceeds were used for certain improvements to the water system. The net revenues of the water system are pledged under the installment sale agreement. The Certificates are secured by a lien on the net water system revenues. Semi-annual principal payments of \$95,000 to \$470,000 are due on March 1 and September 1 through September 1, 2033. Semi-annual interest payments of \$11,750 to \$280,266 are due March 1 and September 1 through September 1, 2033. Interest rates range from 3.40% to 5.00%.</p>	11,655,000	11,805,000

FLORIN RESOURCE CONSERVATION DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE D – LONG-TERM LIABILITIES (Continued)

	2011	2010
<u>2005 Capital Improvement Certificates of Participation, Elk Grove Water Service, Series A (Current Interest Certificates and Capital Appreciation Certificates):</u>		
On March 8, 2005, the District issued the 2005 Capital Improvement Certificates of Participation, Elk Grove Water Service, Series A (Current Interest Certificates and Capital Appreciation Certificates) in the amount of \$13,267,145. The proceeds were used for certain improvements to the water system. The Certificates are secured by a lien on the net water system revenues. Semi-annual principal payments of \$25,000 to \$400,000 are due on March 1 and September 1 through September 1, 2045. Semi-annual interest payments of \$9,500 to \$303,966 are due March 1 and September 1 through September 1, 2045. Interest rates range from 3.65% to 4.75%.	\$12,997,145	\$13,087,145
<u>Note Payable – Administration Building:</u>		
On February 13, 2009 the District issued a note payable in the amount of \$1,100,000, which bears an interest rate of 6.5%. The proceeds were used for the purchase of the District’s administration building and the loan is secured by a lien on the building. Combined monthly principal and interest payments of \$9,582 are due on the first day of each month through March 1, 2024.	990,745	1,039,595
<u>Office Building Fund:</u>		
<u>2003 Senior Lien Refunding Certificates of Participation, Office Building, Series A:</u>		
On March 13, 2003, the Florin Resource Conservation District Economic Development Corporation issued the 2003 Senior Lien Refunding Certificates of Participation, Office Building, Series A in the amount of \$5,700,000. Proceeds were used to refund the 1998 Certificates of Participation Senior Lien and Subordinate Lien Current Interest Certificates and the 1998 Certificates of Participation Subordinate Lien Capital Appreciation Certificates originally issued to finance the purchase of an office building. The Certificates are secured by the gross rental revenues of the building financed under a lease agreement with the County of Sacramento Department of Human Assistance. Semi-annual principal payments of \$330,000 to \$350,000 are due on February 1 and August 1 through February 1, 2013. Semi-annual interest payments of \$7,875 to \$29,655 are due February 1 and August 1 through February 1, 2013. Interest rates range from 4.20% to 4.50%.	1,355,000	2,000,000

FLORIN RESOURCE CONSERVATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE D – LONG-TERM LIABILITIES (Continued)

2011 2010

2003 Subordinate Lien Refunding Certificates of Participation, Office Building, Series B (Current Interest Certificates and Capital Appreciation Certificates):

On March 13, 2003, the Florin Resource Conservation District Economic Development Corporation issued the 2003 Subordinate Lien Refunding Certificates of Participation, Office Building, Series B (Current Interest Certificates and Capital Appreciation Certificates) in the amount of \$10,666,994. Proceeds were used to refund the 1998 Certificates of Participation Senior Lien and Subordinate Lien Current Interest Certificates and the 1998 Certificates of Participation Subordinate Lien Capital Appreciation Certificates originally issued to finance the purchase of an office building. The Certificates are secured by the gross rental revenues of the building financed under a lease agreement with the County of Sacramento Department of Human Assistance. Semi-annual principal payments of \$205,000 to \$523,608 are due on February 1 and August 1 beginning August 1, 2013 through February 1, 2029. Semi-annual interest payments of \$13,200 to \$699,570 are due February 1 and August 1 through February 1, 2029. Interest rates range from 5.00% to 7.50%.

\$10,666,994 \$10,666,994

The annual requirements to amortize the outstanding business-type activities debt as of June 30, 2011 are as follows:

Year Ending June 30,	Water District					
	2002 Series A and B, 2003 Series A and 2005 Series A Certificates		Note Payable - Administration Building		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 1,005,000	\$ 2,675,911	\$ 52,122	\$ 62,864	\$ 1,057,122	\$ 2,738,775
2013	1,080,000	2,638,678	55,613	59,374	1,135,613	2,698,052
2014	1,175,000	2,595,984	59,337	55,649	1,234,337	2,651,633
2015	1,290,000	2,546,800	63,311	51,675	1,353,311	2,598,475
2016	1,430,000	2,491,218	67,551	47,435	1,497,551	2,538,653
2017-2021	8,680,000	11,400,763	411,988	162,943	9,091,988	11,563,706
2022-2026	11,410,000	9,047,545	280,823	25,799	11,690,823	9,073,344
2027-2031	15,040,000	5,835,788			15,040,000	5,835,788
2032-2036	9,050,000	2,246,182			9,050,000	2,246,182
2037-2041	2,930,000	1,178,476			2,930,000	1,178,476
2042-2046	3,247,145	403,156			3,247,145	403,156
	<u>\$ 56,337,145</u>	<u>\$ 43,060,501</u>	<u>\$ 990,745</u>	<u>\$ 465,739</u>	<u>\$ 57,327,890</u>	<u>\$ 43,526,240</u>

FLORIN RESOURCE CONSERVATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE D – LONG-TERM LIABILITIES (Continued)

Year Ending June 30,	Office Building 2003 Series A and B Certificates	
	Principal	Interest
2012	\$ 665,000	\$ 571,428
2013	690,000	542,281
2014	415,000	513,923
2015	435,000	492,923
2016	450,000	470,717
2017-2021	2,580,000	1,967,457
2022-2026	3,871,233	4,505,732
2027-2029	2,915,761	2,808,290
	<u>\$ 12,021,994</u>	<u>\$ 11,872,751</u>

Pledged Revenues: The District has pledged future water system revenues, net of specified operating expenses, to repay its 2002 Series A and B, 2003 Series A and 2005 Series A Certificates of Participation, Elk Grove Water Service, in the original amount of \$23,675,000, \$10,170,000, \$11,910,000 and \$13,267,145, respectively. Proceeds of the Certificates were used to refund certain debt issuances as described above and to fund improvements to the water system. The Certificates are payable solely from water system revenues and are payable through September 2045. Annual principal and interest payments on the Certificates are expected to require approximately 85% of net revenues. Total principal and interest remaining to be paid on the Certificates was \$99,397,646 and \$102,952,669 at June 30, 2011 and 2010 respectively. Cash basis principal and interest paid on the Certificates were \$3,557,252 and \$3,362,040 and cash basis total water system net revenues were \$5,505,985 and \$6,113,468 at June 30, 2011 and 2010, respectively.

The Certificates of Participation above contain the requirement to collect rates and charges from its water system that will be sufficient to yield net revenues equal to a minimum ratio under two separate debt covenants.

Covenant 1: The net revenues (as defined) plus the rate stabilization fund are required to be at least 1.25 times the sum of the installment payments of interest and principal on the outstanding Certificates and any parity debt. The note payable for the administration building is not considered parity debt, resulting in the interest and principal payments on the note payable not being included as interest and principal payments in the calculation of this covenant.

Covenant 2: The net revenues (as defined) are required to be at least 1.15 times the sum of the installment principal and interest payments on the outstanding Certificates and any other obligation payable from water system revenues. The prefunded interest on the Series B Certificates was excluded from the calculation through June 30, 2009 as defined in the agreement. According to the terms of the Certificates of Participation, the District must retain an independent rate consultant to advise the District on the operation of the water system and the adjustment of rates and charges in order to achieve compliance with the foregoing covenants for the current and subsequent fiscal years. In addition, if the rate covenant is not attained, all net revenues remaining after paying the current principal and interest with respect to the Certificates will be held in the rate stabilization fund until such time that an independent Certified Public Accountant certifies that the rate covenant has been met on an audited basis.

FLORIN RESOURCE CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE D – LONG-TERM LIABILITIES (Continued)

The following is a calculation of the required coverage ratios for the Water District Fund as of June 30:

	2011	2010
Covenant 1:		
Net revenues before adjustments (operating income plus interest)	\$ 4,150,813	\$ 4,272,026
Add: Depreciation and amortization	1,455,222	1,533,295
Add: Rate stabilization fund	971,782	971,782
Net revenues plus rate stabilization fund, cash basis	6,577,817	6,777,103
Interest and principal payments, cash basis (as defined)	3,557,252	3,362,040
Coverage ratio computed	1.85	2.02
Required ratio	1.25	1.25
Covenant 2:		
Net revenues before adjustments (operating income plus interest)	\$ 4,150,813	\$ 4,272,026
Add: Depreciation and amortization	1,455,222	1,533,295
Net revenues	5,606,035	5,805,321
Interest and principal payments, cash basis (as defined)	3,669,868	3,477,026
Coverage ratio computed	1.53	1.67
Required ratio	1.15	1.15

The District appears to be in compliance with the required debt coverage ratios at June 30, 2011 and 2010.

Arbitrage: The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax exempt bonds after August 31, 1986. Arbitrage regulations deal with investments of all tax-exempt bond proceeds at an interest yield greater than the interest paid to the bondholders. Generally, all interest paid to bond holders can be retroactive if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years. The District performed calculations of excess investments earnings on various investments and financings and determined there was no arbitrage liability at June 30, 2011 or 2010.

NOTE E – NET ASSET DESIGNATIONS

The District's Board of Directors approved a reserve policy during the year ended June 30, 2010 that authorized designations of unrestricted net assets in the Water District Fund of certain percentages of the change in net assets reported in the audited financial statements up to a specified dollar amount as follows as of June 30:

	Specified Percentage of Change in Net Assets	Specified Limit	2011 Actual Amount	2010 Actual Amount
Capital asset replacement reserve fund	40%	\$ 30,000,000	\$ 1,005,906	\$ 509,631
Building construction fund	15%	5,000,000	377,215	191,112
Special projects reserve fund	5%	200,000	125,738	63,704
Total net asset designations			\$ 1,508,859	\$ 764,447

FLORIN RESOURCE CONSERVATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE F – DEFINED BENEFIT PENSION PLAN

Plan Description: The District contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and 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 employers within the State of California. All permanent full and part-time District employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor multiplied by their highest average monthly salary over twelve consecutive months of employment. Benefit provisions as well as other requirements is established by State statutes. The Plan selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through District resolution. PERS requires agencies with less than 100 active members in the plan to participate in the risk pool. The District is a member of the Miscellaneous 2% at 55 risk pool. Copies of the PERS annual financial report and pertinent past trend information may be obtained from the PERS Executive Offices at 400 P Street, Sacramento, California 95814.

Funding Policy: Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. Contributions made by the District on behalf of the employees were \$130,050 and \$115,794 for the years ended June 30, 2011 and 2010, respectively. The District is required to contribute at an actuarially determined rate, which was 13.014% and 15.021% for the years ended June 30, 2011 and 2010, respectively. The contribution requirements of the plan members and the District are established and may be amended by PERS. The District's contributions for the years ended June 30, 2011, 2010, and 2009 were \$374,162, \$364,976, and \$326,907, respectively, which were equal to the required contributions each year.

NOTE G – OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description: The District's other postemployment benefits plan (the Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides lifetime healthcare insurance coverage for eligible retirees and their dependents through the District's group medical insurance plan, which covers both active and retired participants. Employees are eligible to participate in the Plan if they are enrolled in the District's health plan, have five years of continuous service, attain age 55 and retire directly from the District under CalPERS. Since premiums are determined for active employees and retirees on a combined basis, an implied subsidy must be reflected under GASB 45. Benefit provisions are established and may be amended through agreements and memorandums of understanding between the District and its employees. The Plan does not issue a financial report.

Funding Policy: The contribution requirements of the Plan participants and the District are established by and may be amended by the District. The District elected to pre-fund benefits during the year ended June 30, 2009.

Annual OPEB Cost and Net OPEB Obligation/Asset: The District's annual other postemployment benefits cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's Net OPEB obligation for the year ended June 30, 2011 and 2010.

FLORIN RESOURCE CONSERVATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE G – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

	2011	2010
Annual required contribution (ARC)	\$ 141,747	\$ 118,021
Interest on net OPEB obligation	(42,533)	(41,949)
Adjustment to annual required contribution	35,426	34,408
Annual OPEB cost (expense)	134,640	110,480
Contributions made	(141,747)	(118,021)
(Increase) decrease in net asset	(7,107)	(7,541)
Net OPEB obligation (asset) - beginning of year	(548,815)	(541,274)
Net OPEB obligation (asset) - end of year	<u>\$ (555,922)</u>	<u>\$ (548,815)</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2009	\$ 146,141	470%	\$ (541,274)
6/30/2010	110,480	107%	(548,815)
6/30/2011	134,640	105%	(555,922)

Funded Status and Funding Progress: As of July 1, 2010, the Plan's most recent actuarial valuation date, the Plan was fully funded. The actuarial value of assets exceeded the actuarially accrued liability of \$180,596. The covered payroll (annual payroll of active employees covered by the plan) was \$2,900,000.

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost 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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) 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 participants 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.

FLORIN RESOURCE CONSERVATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE G – OTHER POSTEMPLOYMENT BENEFITS (Continued)

For the July 1, 2010 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 7.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.9% initially, reduced by decrements to an annual rate of 5.5% after eight years, 3.25% annual payroll increases and a 5.00% general inflation assumption. The initial UAAL was amortized as a level percentage of projected payroll over a closed 30-year period. The remaining amortization period at June 30, 2011 was 28 years.

NOTE H – COMMITMENTS AND CONTINGENCIES

Immanent Default of Debt: The 2003 Senior Lien Refunding Certificates of Participation, Office Building, Series 2003 A and Subordinate Lien Refunding Certificates of Participation, Office Building, Series 2003 B (Current Interest Certificates and Capital Appreciation Certificates) (the Certificates) are collateralized by an office building at 2450 Florin Road, Sacramento owned by the District and leased by the County of Sacramento Department of Human Assistance (the County). The lease payments received from the County that are the sole source of repayment of the Certificates are not adequate to make the scheduled debt service payments as well as to maintain an operations and maintenance reserve fund required to pay operating and maintenances costs, property taxes and insurance. Although the District believes sufficient funds will be available to make debt service payments on the Senior Lien Certificates, the District believes a portion of the operations and maintenance reserve fund will need to be used to make the February 2012 scheduled payment on the Subordinate Lien Certificates. The use of reserve funds to make debt service payments on the Subordinate Lien Certificates resulted in the requirement to file a Notice of Listed Event with the Trustee under the Trust Agreement. The District filed a Notice of Listed Event with the Bank of New York Mellon Trust Company, N.A. on October 26, 2011. The Notice may be accessed on the continuing disclosures tab of the Electronic Municipal Market Access Website at www.emma.mrsb.org by searching for Florin Resource Conservation District and the Certificates above.

In addition to the shortfall of available funds to make the February 2012 debt service payments, the District was unable to make certain property tax payments to the County of Sacramento totaling approximately \$300,000 as of June 30, 2011 due to the lack of available funds. The property taxes are delinquent and are subject to penalties and interest. Another property tax payment of approximately \$118,000 due in December 2011 was not paid and is subject to additional penalties and interest. Payment of the delinquent taxes, penalties and interest could result in the District not having sufficient funds to make the debt service payments of the Subordinate Lien Certificates, even if reserve funds were used.

The District is waiting for notification from the Trustee of the remedies that will be pursued on behalf of the Certificate Owners under the Installment Sale Agreement and Trust Agreement for the Certificates.

Claims: The District is a party to various claims, legal actions and complaints that arise in the normal operation of business. Management and the District's legal counsel believe that there are no loss contingencies that would have a material adverse impact on the financial position of the District.

Lease Commitments: On May 1, 1998, the District entered into a lease agreement effective January 16, 1998 with the County of Sacramento Department of Human Assistance for the lease of the building owned by the District located at 2450 Florin Road, Sacramento. The lease payments are paid in arrears and were subject to scheduled rent increases every five years for the fifteen-year term of the lease agreement. The County had two successive five-year options to renew the lease at \$93,450 per month for each of the two option periods beginning January 2013, which were exercised in October 2011.

FLORIN RESOURCE CONSERVATION DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE H – COMMITMENTS AND CONTINGENCIES (Continued)

The future minimum lease payment revenues under the lease agreement were as follows as of June 30, 2011:

Year Ending June 30:	Florin Road Lease
2012	\$ 1,414,572
2013	1,267,986
2014	1,121,400
2015	1,121,400
2016	1,121,400
2017-2021	5,607,000
2022-2023	<u>1,682,100</u>
	<u><u>\$ 13,335,858</u></u>

The future minimum lease payment schedule above includes the future minimum lease payments for the two option periods exercised by the County of Sacramento in October 2011.

Missing Accounting Records: The District is unable to locate accounting records related to the purchase of the Elk Grove Water Works (EGWW) in 1999, including a valuation performed for the purpose of allocating the purchase price of the EGWW's assets recorded in the District's general ledger. The District was also unable to locate accounting records supporting the original debt proceeds, discounts and issuance costs recorded in the District's fiscal agent cash accounts and general ledger for debt issued in 1998 and 1999 as described in Note D. These transactions were recorded by the District's former management and were audited by other auditors. The District's current management has no reason to believe the amounts recorded require adjustment.

NOTE I – SUBSEQUENT EVENTS

Other Post Employment Benefits: Beginning in July, 2011, the District's Board of Directors approved a disability retirement health insurance benefit for employees who have reached 50 years of age and have retired due to a disability. Employees meeting the eligibility requirements will be provided group medical insurance coverage of 75% of the total premium for up to 15 years.

FLORIN RESOURCE CONSERVATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

SCHEDULE OF FUNDING PROGRESS OF THE
OTHER POSTEMPLOYMENT BENEFITS PLAN (UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued (Liability) Asset (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2009	\$ 541,274	\$ 541,274	\$ -	100%	\$ 2,932,000	N/A
6/30/2010	\$ 854,356	\$ 673,760	\$ 180,596	127%	\$ 3,102,000	N/A
6/30/2011	\$ 1,057,449	\$ 869,124	\$ 188,325	122%	\$ 2,900,000	N/A

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STATISTICAL SECTION

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This part of the Florin Resource Conservation District comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District’s overall financial health.

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Sources

Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports of the relevant years.

Florin Resource Conservation District
Net Assets by Component
Last Five Years

Fiscal Year ended June 30,	2007	2008	2009	2010	2011
Governmental Activities					
Invested in capital assets (net of debt)					
Restricted					
Unrestricted	\$ 168,419	\$ 170,385	\$ 67,862	\$ 69,903	\$ 80,760
Total governmental activities net assets	168,419	170,385	67,862	69,903	80,760
Business-Type					
Invested in capital assets (net of debt)	(15,919,943)	(16,229,391)	(17,480,931)	(17,738,507)	(18,033,071)
Restricted for Debt Services	2,455,387	2,348,094	2,224,971	2,383,125	2,434,238
Restricted for Capital Projects	7,989,292	6,336,442	3,771,280	1,568,906	533,691
Unrestricted	(3,457,192)	337,661	5,509,663	9,122,678	11,524,448
Total business-type net assets	\$ (8,932,456)	\$ (7,207,194)	\$ (5,975,017)	\$ (4,663,798)	\$ (3,540,694)
Primary Government					
Invested in capital assets (net of debt)	\$ (15,919,943)	\$ (16,229,391)	\$ (17,480,931)	\$ (17,738,507)	\$ (18,033,071)
Restricted	10,444,679	8,684,536	5,996,251	3,952,031	2,967,929
Unrestricted	(3,288,773)	508,046	5,577,525	9,192,581	11,605,208
Total Primary government net assets	\$ (8,764,037)	\$ (7,036,809)	\$ (5,907,155)	\$ (4,593,895)	\$ (3,459,934)

Data for periods prior to Fiscal Year 2007 were not readily available.

Source: Finance Department

Florin Resource Conservation District
Changes in Net Assets
Last Five Years

Fiscal Year ended June 30,	2007	2008	2009	2010	2011
Expenses					
Governmental Activities:					
General Government	\$ 17,030	\$ 16,253	\$ 116,712	\$ 18,961	\$ 1,198
Business-type activities:					
Water	9,561,923	10,377,324	11,741,844	12,442,411	12,869,274
Office Building	1,412,270	1,703,967	1,495,043	1,377,430	1,650,037
Total business-type activities	10,974,193	12,081,291	13,236,887	13,819,841	14,519,311
Total primary government expenses	10,991,223	12,097,544	13,353,599	13,838,802	14,520,509
Program Revenues					
Governmental Activities:					
Charges for Services	9,833	11,900	12,000	12,000	12,000
Operating Grants				8,936	
Total governmental activities	9,833	11,900	12,000	20,936	12,000
Business-type activities:					
Charges for Services					
Water	8,358,765	11,922,374	12,865,774	13,642,267	13,981,562
Office Building	1,421,381	1,346,210	1,414,636	1,414,572	1,532,453
Operating Grants	69,075	-	10,519	3,834	
Total business-type activities	9,849,221	13,268,584	14,290,929	15,060,673	15,514,015
Total primary government program revenues	9,859,054	13,280,484	14,302,929	15,081,609	15,526,015
Net revenues (expenses)					
Governmental activities	(7,197)	(4,353)	(104,712)	1,975	10,802
Business-Type	(1,124,972)	1,187,293	1,054,042	1,240,832	994,704
Total net revenues	(1,132,169)	1,182,940	949,330	1,242,807	1,005,506

Data for periods prior to Fiscal Year 2007 were not readily available.
Source: Finance Department

**General Revenues and Other
Changes in Net Assets**

Governmental Activities:

Interest and investment earnings	501	361	189	66	55
Other revenues	2,558				
Transfers	7,173				

Total governmental activities	10,232	361	189	66	55
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Business-type activities:

Interest and investment earnings	709,971	349,606	126,485	42,170	36,642
Other revenues		188,363	51,650	28,217	91,758
Transfers	(7,173)				

Total business-type activities	702,798	537,969	178,135	70,387	128,400
--------------------------------	---------	---------	---------	--------	---------

Total primary government	713,030	538,330	178,324	70,453	128,455
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Change in net assets:

Governmental activities	3,035	(3,992)	(104,523)	2,041	10,857
Business-type activities	(422,174)	1,725,262	1,232,177	1,311,219	1,123,104
Total primary government	\$ (419,139)	\$ 1,721,270	\$ 1,127,654	\$ 1,313,260	\$ 1,133,961

**Florin Resource Conservation District
Fund Balances of Governmental Funds
Last Five Years**

Fiscal Year ended June 30,	2007	2008	2009	2010	2011
General Fund					
Reserved					
Unreserved	\$ 168,419	\$ 172,385	\$ 67,862	\$ 69,903	\$ 80,760
Total General Fund	\$ 168,419	\$ 172,385	\$ 67,862	\$ 69,903	\$ 80,760

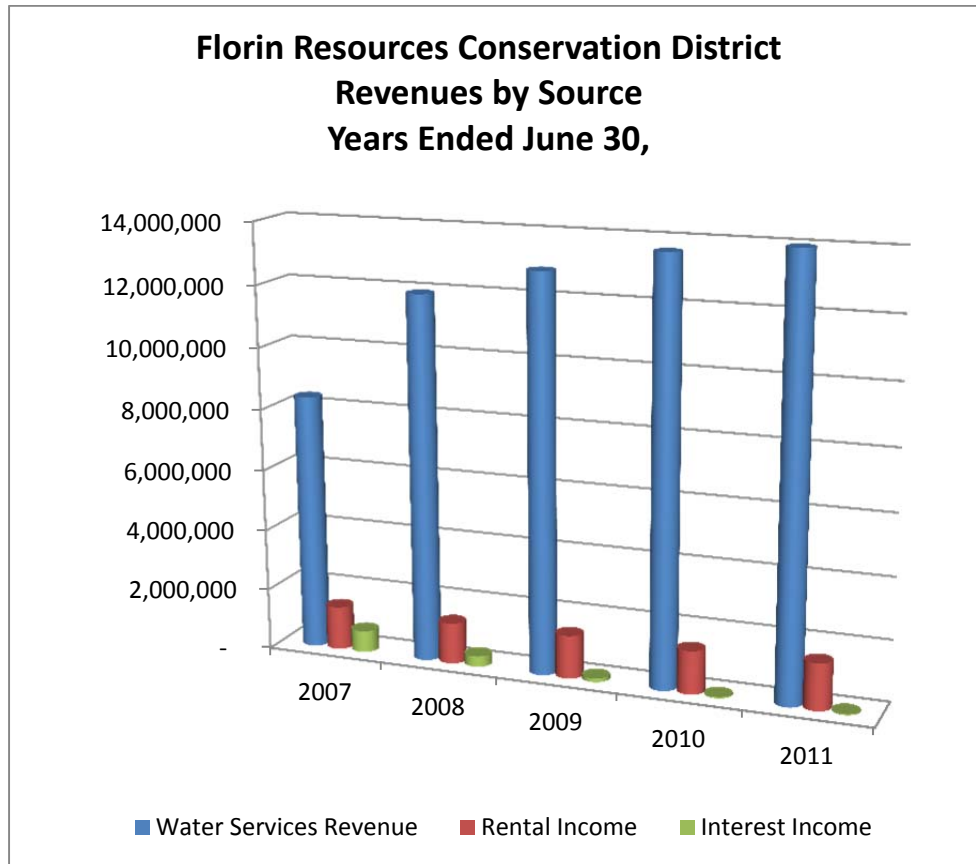
Data for periods prior to Fiscal Year 2007 were not readily available.
Source: Finance Department

Florin Resource Conservation District
Changes in Fund Balances of Governmental Funds
Last Five Years

Fiscal Year ended June 30,	2007	2008	2009	2010	2011
Revenues					
Use of money and property	\$ 10,334	\$ 10,261	\$ 14,189	12,066	12,055
Other	2,558			8,936	
Total Revenues	12,892	10,261	14,189	21,002	12,055
Expenditures					
General and administrative	17,030	8,295	116,712	18,961	1,198
Total expenditures	17,030	8,295	116,712	18,961	1,198
Other Financing Sources					
Transfers	7,173				
Total other financing sources	7,173	-	-	-	-
Net change in fund balance	3,035	1,966	(102,523)	2,041	10,857
Fund balance, beginning of the year	165,384	168,419	170,385	67,862	69,903
Fund balance, end of the year	\$ 168,419	\$ 170,385	\$ 67,862	\$ 69,903	\$ 80,760

Data for periods prior to Fiscal Year 2007 were not readily available.
Source: Finance Department

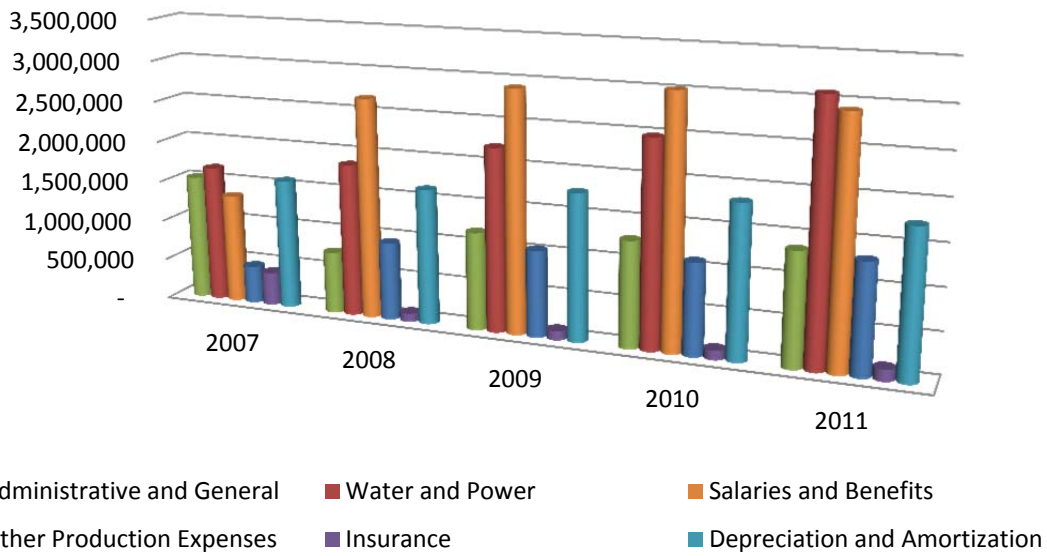
Florin Resource Conservation District Financial Trends



The majority of the District's revenues are comprised of Water District revenues, rents that are collected from the 2450 Florin Road Building, and interest earned on the various accounts.

Data for periods prior to Fiscal Year 2007 were not readily available.
Source: Finance Department

**Florin Resources Conservation District
Operating Expenses
For the Years Ended June 30,**



This graph contrasts the six largest expense groups of the District.

Revenue Capacity

Florin Resource Conservation District Elk Grove Water District Rate Analysis

Last Five Years

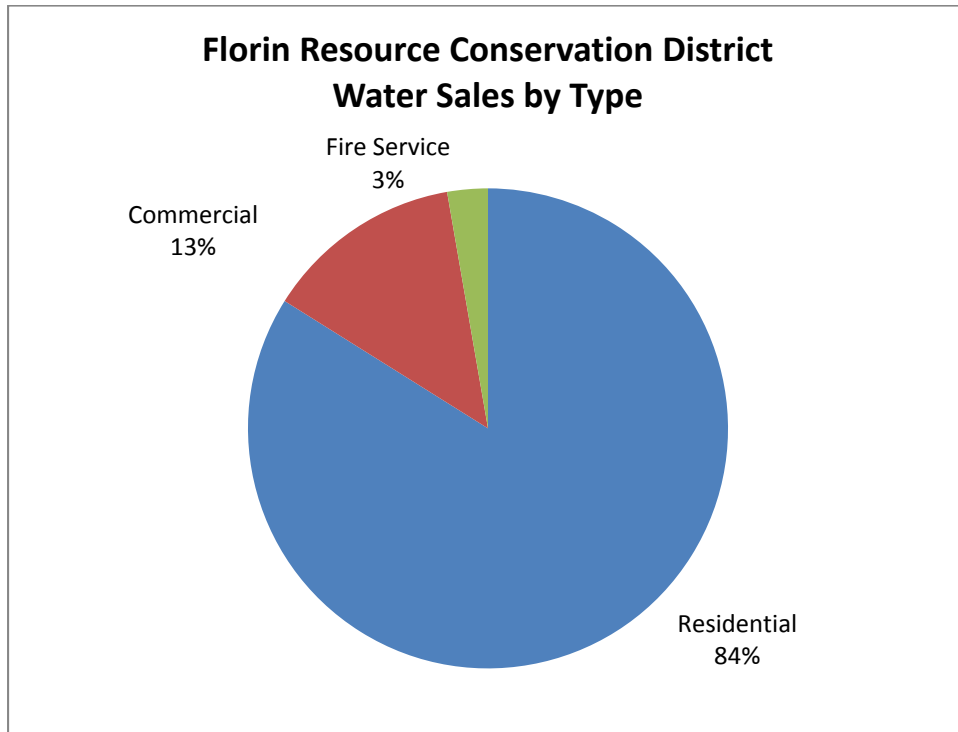
	2006/07		2007/08		2008/09		2009/10		2010/11	
	Metered Rate Area 1	Metered Rate Area 2	Flat Rate	Metered Rate ⁽¹⁾	Flat Rate	Metered Rate	Flat Rate	Metered Rate	Flat Rate	Metered Rate
Monthly Meter/Service										
1-inch meter/service	\$ 30.41	\$ 40.06	\$ 39.10	\$ 42.06	\$ 58.26	\$ 50.47	\$ 69.91	\$ 56.53	\$ 78.30	\$ 56.53
Monthly Consumption Rates										
1st tier: 0-30 ccf	0.445	1.09		1.09		1.31		1.46		1.46
2nd tier: over 30 ccf	0.445	1.34		1.34		1.61		1.80		1.80
For each sq. ft. of premises over 4000 sf			0.00122		0.00182		0.00218		0.00244	
Average Bill	50.03			66.04		79.25		88.76		88.76
Meter Charge										
For 5/8 x 3/4-inch meter	21.89	31.08		42.06		50.47		56.53		56.53
For 3/4-inch meter	24.25	34.06		42.06		50.47		56.53		56.53
For 1-inch meter	30.41	40.06		42.06		50.47		56.53		56.53
For 1-1/2 inch meter	46.25	55.07		54.68		65.61		73.48		73.48
For 2-inch meter	63.87	73.47		88.33		105.99		118.71		118.71
For 3-inch meter	106.44	115.08		332.27		398.73		446.56		446.56
For 4-inch meter	167.68	175.17		420.60		504.72		565.29		565.29
For 6-inch meter	320.21	327.25		630.90		757.08		847.93		847.93
For 8-inch meter	503.27			870.64		1,044.77		1,170.14		1,170.14

	2006/07		2007/08		2008/09		2009/10		2010/11		
	Metered	Metered	Flat	Metered	Flat	Metered	Flat	Metered	Flat	Metered	
	Rate Area 1	Rate Area 2	Rate	Rate ⁽¹⁾	Rate	Rate	Rate	Rate	Rate	Rate	
Flat Rate											
For 3/4-inch service			28.77		46.61		55.93		62.64		62.64
For 1-inch service			39.10		58.26		69.91		78.30		78.30
For 1-1/4 inch service			50.43		69.91		83.89		93.96		93.96
For 1-1/2 inch service			62.86		81.72		90.89		109.83		109.83
For 2-inch service			92.71		122.35		146.82		164.44		164.44
For 3-inch service			198.28		460.25		552.30		618.58		618.58
For 4-inch service					582.60		699.12		783.02		783.02
For 6-inch service					873.90		1,048.68		1,174.53		1,174.53
For 8-inch service					1,205.98		1,410.13		1,579.35		1,579.35
1 x 3/4" + 1 x 2"			106.33		168.95		202.74		227.07		227.07
2 x 3/4"			42.40		93.22		111.86		125.29		125.29
3 x 3/4"			56.04		139.82		167.79		187.93		187.93
10 x 3/4"			151.46		466.08		559.30		626.42		626.42
33 x 3/4"			465.04		1,538.06		1,845.68		2,067.17		2,067.17
68 x 3/4"			942.20		3,169.34		3,803.21		4,259.60		4,259.60
2 x 1"			63.06		116.52		139.82		156.60		156.60
6 x 1" + 1 x 2"			236.53		471.91		566.29		634.25		634.25
6 x 1"			158.97		349.56		419.47		469.81		469.81
16 x 1"			398.69		932.16		118.59		132.83		132.83
21 x 1"			518.55		1,223.46		1,468.15		1,644.33		1,644.33
49x 1"			1,189.79		2,854.74		3,425.69		3,836.78		3,836.78
72 x 1"			1,741.17		4,194.72		5,033.66		5,637.70		5,637.70
100 x 1"			2,412.39		5,826.00		6,991.20		7,830.15		7,830.15
2 x 2"			170.27		244.69		293.63		328.87		328.87

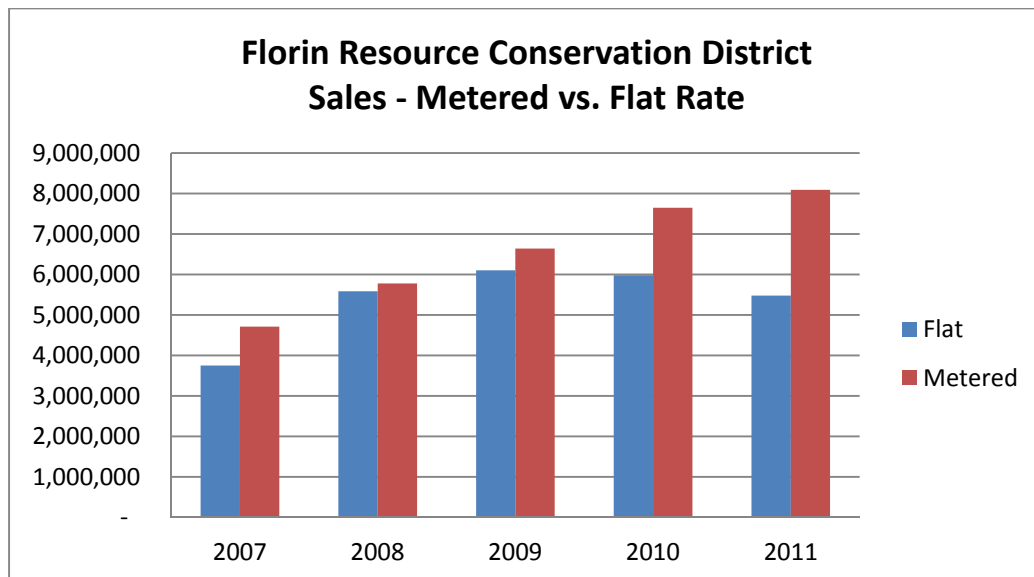
	2006/07		2007/08		2008/09		2009/10		2010/11		
	Metered	Metered	Flat	Metered	Flat	Metered	Flat	Metered	Flat	Metered	Flat
	Rate	Rate	Rate	Rate *	Rate	Rate	Rate	Rate	Rate	Rate	Rate
For each additional single family residential unit			5.09		7.58		9.10		10.20		10.2
For each sq. ft. of premises, over 4000 sq. ft.			0.00122		0.00182		0.00218		0.00244		0.00244
Fire Protection Service											
2-inch connection				44.17		21.20			23.74		23.74
3-inch connection		23.20		166.14		79.75			89.32		89.32
4-inch connection		27.22		210.30		100.94			113.05		113.05
6-inch connection		39.24		315.45		151.41			169.58		169.58
8-inch connection		50.31		435.32		208.95			234.02		234.02
Usage											
First 3000 Cu Ft. Per 100 Cu. Ft.		0.83		1.09		1.31			1.46		1.46
Over 3000 Cu. Ft.		1.02		1.34		1.61			1.80		1.80

* In April of 2007, a new 5 year Rate Plan was adopted. The discrepancy between the rates for the two areas was eliminated. Data for periods prior to Fiscal Year 2007 were not readily available.

Source: Finance Department

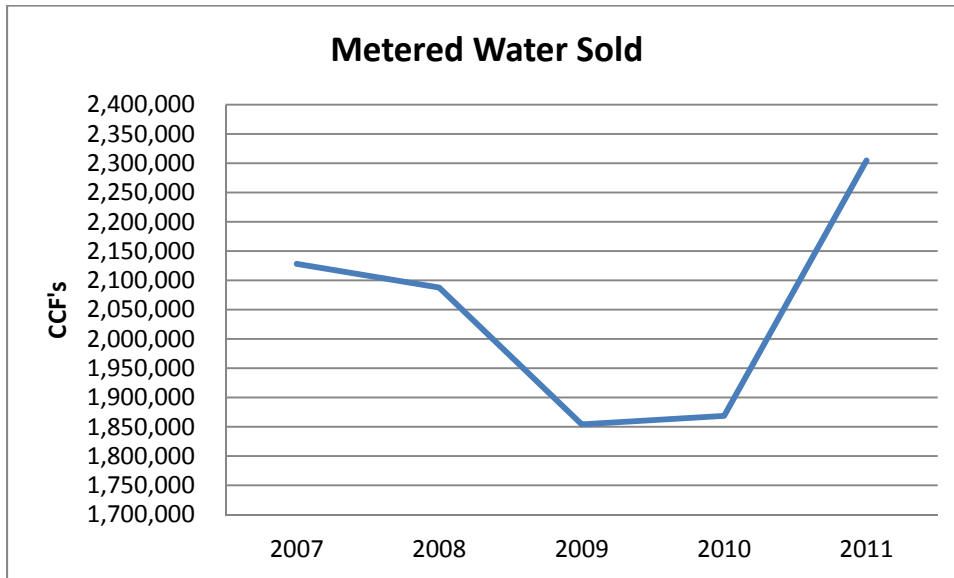


Sales by Type – This graph shows the average of the three major components of sales by the Elk Grove Water District.



Metered vs. Flat Rate Sales – This chart shows the growth in meter sales primarily due to the conversion of accounts from flat rate to meters. Overall sale increases in the first three years were due to rate increases.

Data for periods prior to Fiscal Year 2007 were not readily available.
Source: Finance Department



Metered Water Consumption – CCFs – This graph shows the consumption of metered water over the four fiscal years. One CCF is equivalent to 748 gallons.

Historical Service Connections - The following table shows the service connections broken down by Metered and Flat Rate, Residential and Commercial.

Year End	Flat Rate	Metered	Total	Residential	Commercial
6/30/02	6,059	3,415	9,474	8,974	500
6/30/03	6,029	4,363	10,392	9,942	450
6/30/04	6,047	4,930	10,977	10,508	469
6/30/05	6,028	5,341	11,369	10,866	503
6/30/06	6,028	5,688	11,716	11,167	549
6/30/07	6,033	5,855	11,888	11,327	561
6/30/08	6,020	5,999	12,019	11,453	566
6/30/09	5,849	6,272	12,121	11,530	618
6/30/10	5,328	6,834	12,162	11,509	653
6/30/11	4,681	7,409	12,090	11,474	616

Data for periods prior to Fiscal Year 2007 were not readily available.
Source: Finance Department

FLORIN RESOURCE CONSERVATION DISTRICT
Five Largest Commercial Customers
Current Year and One Year Ago

	<u>June 2011</u>	<u>June 2102</u>
Consumnes Community Service District	\$ 403,651	\$ 374,372
Elk Grove Unified School District	\$ 311,115	\$ 282,377
City of Elk Grove	\$ 60,299	\$
Emerald Vista Apartments	\$ 48,453	\$ 65,986
Oak Grove Apartments	\$ 46,021	\$ 46,041
Vintage Creek Apartments	\$	\$ 31,484

Data for periods prior to Fiscal Year 2010 were not readily available.
Source: Finance Department

Debt Capacity

Fiscal Year Ended June 30,	Principal Payments	Interest Payments *	Total	Operating Expenses	Ratio of Total Debt Service to Operating Expenses
2007	\$ 695,000	\$ 3,427,970	\$ 4,122,970	\$ 7,007,955	58.83%
2008	750,000	3,408,230	4,158,230	8,003,616	51.95%
2009	1,090,000	3,383,008	4,473,008	9,442,594	47.37%
2010	1,260,000	3,349,544	4,609,544	9,866,695	46.72%
2011	1,495,000	3,305,500	4,800,500	10,619,531	45.20%

Note: The District has no governmental activities debt.

*Interest Payments on the Cash Basis

Data for periods prior to Fiscal Year 2007 were not readily available.

Source: Finance Department

Florin Resource Conservation District
Ratios of Outstanding Debt by Type- Proprietary Funds
Last Five Years

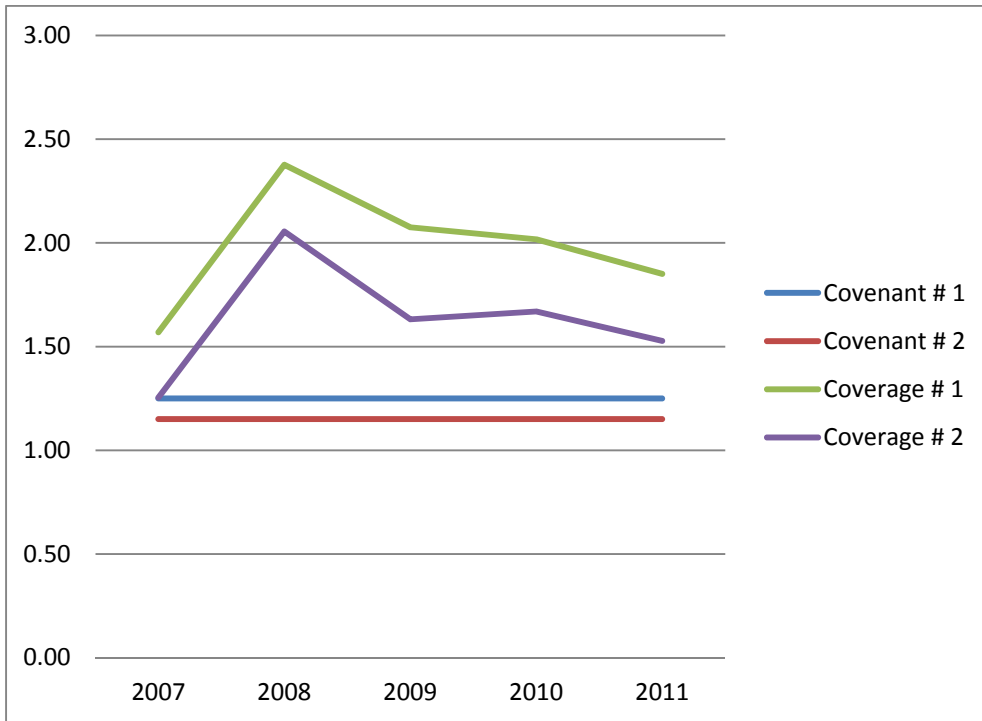
Fiscal Year Ended June 30,	COPs- Water Services	COPs- Office Building	Loans	Total	Percentage of Personal Income*	Outstanding Debt per Registered Voter**
2007	\$58,567,145	\$14,386,994		\$72,954,139	1.443%	Not Available
2008	58,307,145	13,896,994		72,204,139	1.331%	\$ 575.66
2009	57,822,145	13,291,994	1,085,386	72,199,525	1.713%	Not Available
2010	57,187,145	12,666,994	1,039,602	70,893,741	1.782%	\$ 543.46
2011	56,337,145	12,021,994	990,745	69,349,884	Not Available	Not Available

Note: Details regarding the District's outstanding debt can be found in the footnotes to the statements.

*See the Per Capita Income schedule in the Statistical Section, Demographic and Economic Information.

**Sacramento County Voter Registration.

**Florin Resource Conservation District
Bond Covenant Ratio Analysis – Water District Fund
Last Five Years**



Data for periods prior to Fiscal Year 2007 were not readily available.
Source: Finance Department

Florin Resource Conservation District
Pledged-Revenue Coverage - Water Service Fund
Last Five Years

	2006-07	2007-08	2008-09	2009-10	2010-11
Operating Revenues:					
Charges for Services	\$ 8,358,765	\$ 11,922,374	\$ 12,865,774	\$ 13,642,267	\$ 13,981,562
Operating Expenses:					
Water & Power	\$ 1,670,825	\$ 1,864,314	\$ 2,221,925	\$ 2,487,961	3,093,211
Other Production Expenses	\$ 460,657	\$ 896,218	\$ 984,362	\$ 1,047,545	1,160,949
Payroll & Related Taxes	\$ 1,331,705	\$ 2,679,183	\$ 2,923,030	\$ 3,024,955	2,927,357
Insurance	\$ 404,737	\$ 102,585	\$ 97,418	\$ 111,455	117,247
Administration & General	\$ 1,413,691	\$ 511,054	\$ 1,042,542	\$ 1,207,200	1,113,405
Depreciation & Amortization	\$ 1,282,640	\$ 1,339,001	\$ 1,471,072	\$ 1,533,295	1,455,222
Total Operating Expenses	\$ 6,564,255	\$ 7,392,355	\$ 8,740,349	\$ 9,412,411	\$ 9,867,391
Income From Operations	\$ 1,794,510	\$ 4,530,019	\$ 4,125,425	\$ 4,229,856	\$ 4,114,171
Covenant Number 1					
Income From Operations	\$ 1,794,510	\$ 4,530,019	\$ 4,125,425	\$ 4,229,856	\$ 4,114,171
Add: Interest Income	\$ 645,856	\$ 311,768	\$ 122,221	\$ 42,170	\$ 36,642
Add: Depreciation & Amortization Expenses	\$ 1,282,640	\$ 1,339,001	\$ 1,471,072	\$ 1,533,295	\$ 1,455,222
Add: Rate Stabilization Fund	\$ 934,853	\$ 966,824	\$ 971,782	\$ 971,782	\$ 971,782
Total	\$ 4,657,859	\$ 7,147,612	\$ 6,690,500	\$ 6,777,103	\$ 6,577,817
Interest & Principal Payments	\$ 3,209,484	\$ 3,247,444	\$ 3,466,851	\$ 3,362,040	3,557,252
Coverage Ratio (1.25 Minimum Req.)	1.45	2.20	1.93	2.02	1.85

Data for periods prior to Fiscal Year 2007 were not readily available.
Source: Finance Department

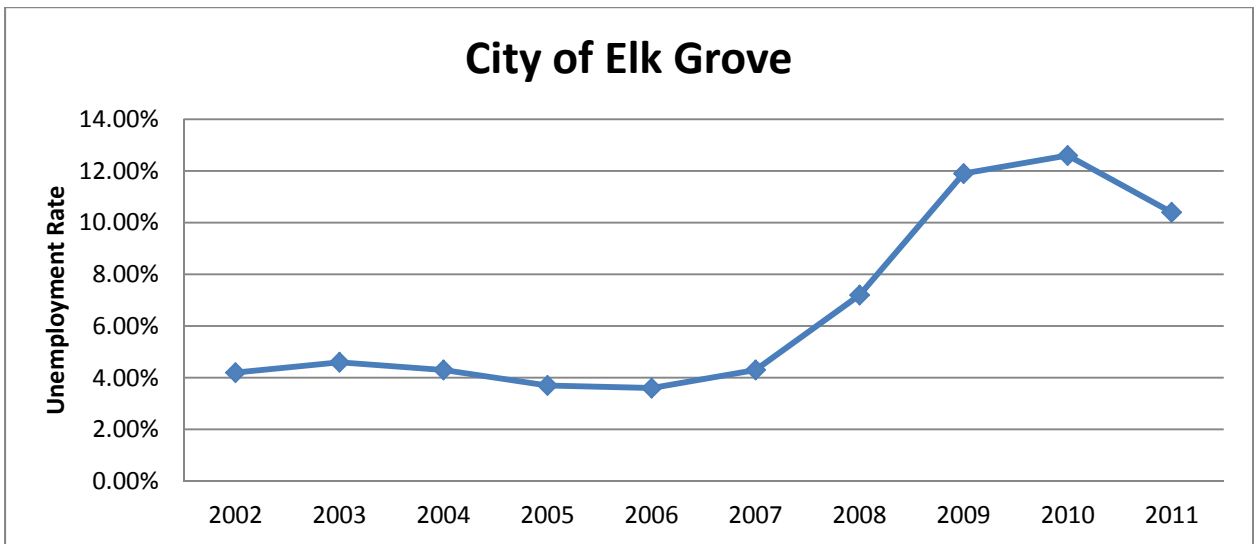
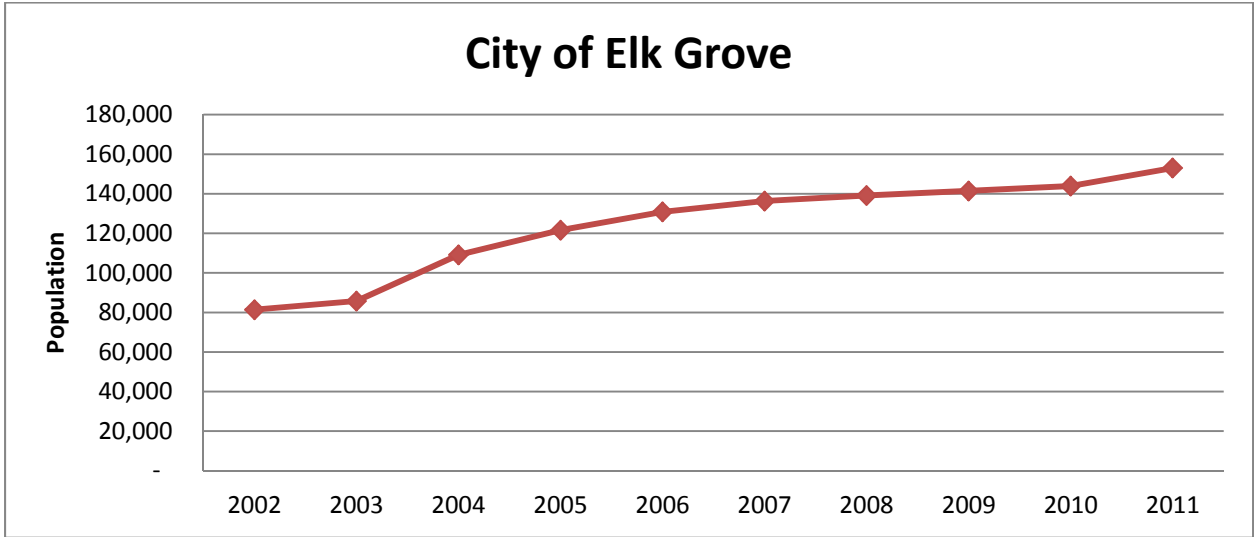
Covenant Number 2

Income From Operations	\$ 1,794,510	\$ 4,530,019	\$ 4,125,425	\$ 4,229,856	\$ 4,114,171
Add: Interest Income	\$ 645,856	\$ 311,768	\$ 122,221	\$ 42,170	\$ 36,642
Add: Depreciation & Amortization Expenses	\$ 1,282,640	\$ 1,339,001	\$ 1,471,072	\$ 1,533,295	\$ 1,455,222
Total	\$ 3,723,006	\$ 6,180,788	\$ 5,718,718	\$ 5,805,321	\$ 5,606,035
Interest & Principal Payments	\$ 3,209,484	\$ 3,247,444	\$ 3,505,180	\$ 3,477,026	\$ 3,669,868
Coverage Ratio (1.15 Minimum Req.)	1.16	1.90	1.63	1.67	1.53

Note: Details regarding the requires of the two covenants can be found in Note E of the financial statements.

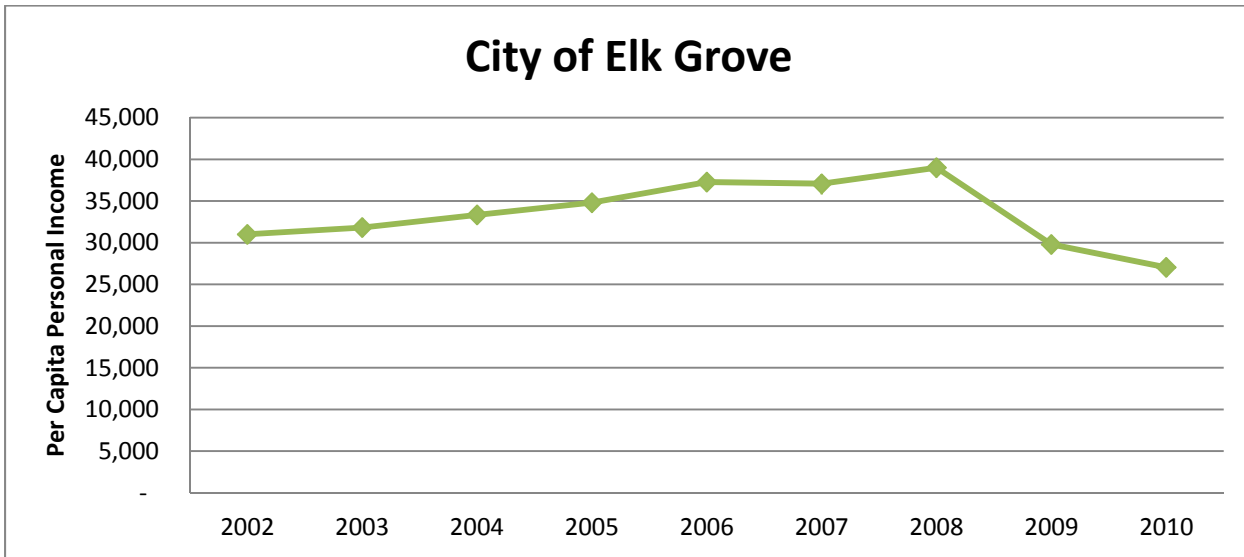
Data for periods prior to Fiscal Year 2007 were not readily available.
Source: Finance Department

**Demographic and Economic Information
Florin Resource Conservation District**



Data for periods prior to Fiscal Year 2007 were not readily available.
Source: Finance Department

City of Elk Grove



Year	Population*	Personal Income (in thousands)	Per Capita Personal Income**	Unemployment Rate***
2002	81,400	2,524,214	31,010	4.20%
2003	85,786	2,730,483	31,829	4.60%
2004	109,116	3,637,709	33,338	4.30%
2005	121,609	4,232,601	34,805	3.70%
2006	130,874	4,878,590	37,277	3.60%
2007	136,318	5,054,399	37,078	4.30%
2008	139,119	5,425,919	39,002	7.20%
2009	141,430	4,214,190	29,797	11.90%
2010	143,885	3,891,082	27,043	12.60%
2011	153,015		unavailable	10.40%

Source: * California Department of Finance
 ** Bureau of Economic Analysis – Sacramento Area
 *** www.labormarketinfo.edd.ca.gov

The largest employers in the District’s service area are not known.

Data for periods prior to Fiscal Year 2007 were not readily available.
 Source: Finance Department

**Florin Resource Conservation District
Operating Indicators for the Water Service
Last Five Years**

Fiscal Year ended June 30,	2007	2008	2009	2010	2011
Acre-feet water sold:					
Purchased water (CCFs)	2,128,280	2,087,803	1,854,139	1,868,738	2,304,632
Treated water (CCFs)	2,973,199	2,781,990	2,114,031	2,079,311	1,471,518
Total	5,101,479	4,869,793	3,968,170	3,948,049	3,776,150
Number of Accounts					
Non-metered	6,033	6,020	5,849	5,328	4,681
Metered	5,855	5,999	6,272	6,834	7,409
Total	11,888	12,019	12,121	12,162	12,090
Average annual CCFs used per account					
Average annual CCFs used per account	429.13	405.17	327.38	324.62	312.34
Average daily consumption per account (CCFs)					
Average daily consumption per account (CCFs)	1.1757	1.1101	0.8969	0.8894	0.8557
Number of Employees:					
General Government	-	-	-	-	-
Water District	23	24	24	32	32
Office Building	-	-	-	-	-

Note: Each one hundred cubic foot (1 CCF) equals 748 gallons

Data for periods prior to Fiscal Year 2007 were not readily available.
Source: Finance Department

**Florin Resource Conservation District
Capital Assets Statistics by Function
Last Five Years**

Fiscal Year ended June 30,	2007	2008	2009	2010	2011
Capital Asset Statistics					
Water:					
Water main miles	121.0	121.0	124.0	124.0	124.0
Maximum daily capacity (thousands of gallons)	14,000	14,000	14,000	14,000	14,000
Maximum treatment capacity (thousands of gallons)	7,000	7,000	7,000	7,000	7,000
Building:					
Buildings owned	1	1	1	1	1

Data for periods prior to Fiscal Year 2007 were not readily available.
Source: Finance Department