CARPINTERIA VALLEY

WATER DISTRICT

JUNE 30, 2012 AND 2011

FINANCIAL STATEMENTS

BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

CARPINTERIA VALLEY
WATER DISTRICT

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BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Carpinteria Valley Water District:

We have audited the accompanying general purpose financial statements of the Carpinteria Valley Water District (the "District") as of June 30, 2012 and 2011 and for the fiscal years then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 12 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to this required supplementary information in accordance with auditing standards general accepted in the United States of America, which consisted of inquires 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.

Bartlett, Pringle & Wolf, LLP

Santa Barbara, California
November 20, 2012

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Management's discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2012. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL STATEMENTS

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The District's financial statements include four components:

- Balance Sheet
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

The balance sheet includes all the District's assets and liabilities, with the difference between the two reported as net assets. Net assets may be displayed in the categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted Net Assets
- Unrestricted Net Assets

The balance sheet provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses and changes in net assets presents information which shows how the District's net assets changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net assets measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operations
- Noncapital financing
- Capital and related financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net assets because the statement accounts only for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

FINANCIAL HIGHLIGHTS

During the year ended June 30, 2012, the District's total net assets increased by $768,424. The District's operating revenues increased by $914,894 (or 8.9%) and operating expenses increased by $21,481 (or 0.2%). Net non-operating income decreased in the current year by $1,810,061 (or -152.6%).

FINANCIAL ANALYSIS OF THE FINANCIAL STATEMENTS

Balance Sheet

The District's net assets at June 30, 2012 totaled $27,173,002 compared with $26,404,578 at June 30, 2011. The change in net assets can be attributed primarily to operating income of $1,380,835, non-operating expense of $623,685 and capital contributions of $11,274. The following is a summary of the District's balance sheet:

	June 30, 2012	June 30, 2011	June 30, 2010	% Change FYE 2012 and 2011	% Change FYE 2011 and 2010
Assets:					
Current assets	$ 13,945,223	$ 12,648,657	$ 14,464,987	$1,296,566	$(1,816,330)
Noncurrent assets:					
Restricted assets	5,504,542	6,082,156	6,351,172	(577,614)	(269,016)
Capital assets, net of depreciation	37,396,931	37,368,751	34,682,544	28,180	2,686,207
Capacity rights, net of amortization	5,698,872	3,914,783	4,200,233	1,784,089	(285,450)
Intangible assets, net of amortization	762,129	802,919	845,798	(40,790)	(42,879)
Total Assets	$ 63,307,697	$ 60,817,266	$ 60,544,734	$2,490,431	$ 272,532
Liabilities:					
Current liabilities	$ 4,364,787	$ 2,082,187	$ 2,885,576	$2,282,600	$ (803,389)
Long term liabilities	64,123	41,819	20,790	22,304	21,029
Long term debt	31,705,785	32,288,682	32,938,683	(582,897)	(650,001)
Total Liabilities	$ 36,134,695	$ 34,412,688	$ 35,845,049	$1,722,007	$(1,432,361)

The increase in current assets of $1,296,566 is primarily related to increases in cash and accounts receivable at June 30, 2012. The decrease in restricted assets of (577,614) is due to the use of restricted funds for Cater improvement in FY 11/12. The increase in capital assets, net of related depreciation expense of 28,180 is due primarily to capital improvements made on the El Carro Well Rehabilitation Project as well as the Ortega Reservoir Project during the year.

The decrease in long term debt of $582,897 is the result of principal repayments made during the year.

Balance Sheet (Continued)

	June 30, 2012	June 30, 2011	June 30, 2010	% Change FYE 2012 and 2011	% Change FYE 2011 and 2010
Invested in capital assets, net of related debt	$ 11,124,566	$ 11,656,723	$ 9,095,340	$ (532,157)	$ 2,561,383
Restricted net assets	2,109,456	1,632,053	1,405,686	477,403	226,367
Unrestricted	13,938,980	13,115,802	14,198,659	823,178	(1,082,857)
Total Net Assets	$ 27,173,002	$ 26,404,578	$ 24,699,685	$ 768,424	$ 1,704,893

The decrease in net assets invested in capital assets, net of related debt consisted of changes in capital assets, related payments on debt and depreciation expense during the year. The increase in restricted net assets is due to the District paying down the related debt more quickly than the restricted cash is being used. The increase in the current year unrestricted net assets of $823,178 is comprised of all the other changes on the Statement of Revenues, Expenses and Changes in Net Assets.

Statement of Revenues, Expenses and Changes in Net Assets

The District reported a change in net assets of $768,424 for the year ended June 30, 2012, a decrease of $936,469 when compared to the year ended June 30, 2011.

As required by GASB 34, capital contributions are presented as a component of Change in Net Assets on the Statement of Revenues, Expenses and Changes in Net Assets.

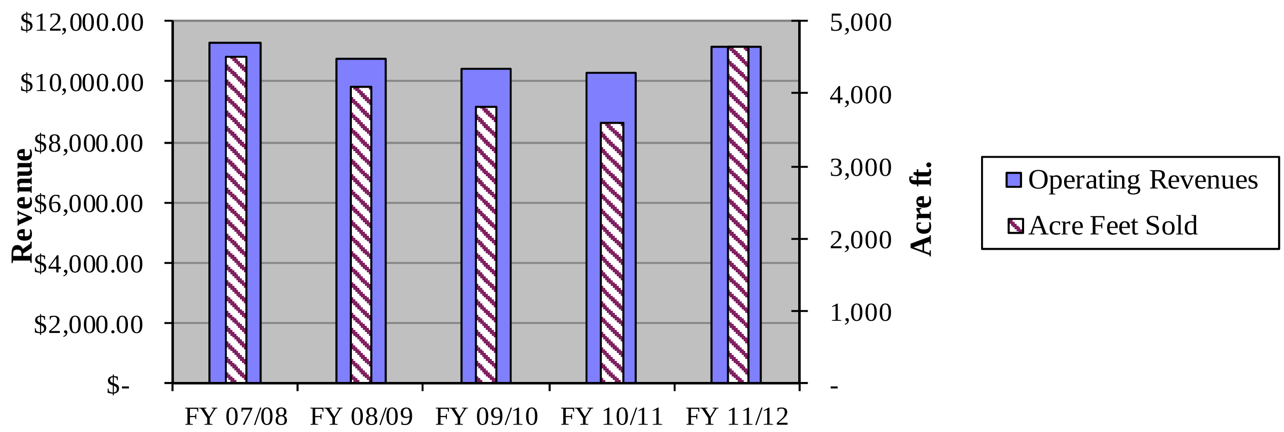
Detailed schedules of operating revenues, operating expenses, and non-operating revenues and expenses, for the last five years including discussion of the significant trends and variances are as follows:

Operating Revenues

	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12
Water Sales	$10,529,619	$10,393,602	$10,089,936	$ 9,840,891	$10,353,227
Capital Recovery Fees	523,952	111,880	112,454	77,787	496,558
Fire Protection	200,322	227,403	184,838	224,061	221,989
Other Operating Revenues	21,064	45,225	43,959	123,361	109,220
Total Operating Revenues	$11,274,957	$10,778,110	$10,431,187	$10,266,100	$11,180,994
Percent Increase	11.49%	-4.41%	-3.22%	-1.58%	8.91%

Statement of Revenues, Expenses and Changes in Net Assets (Continued)

Operating Revenues (in thousands) and Acre Feet Sold



Operating revenues increased by $914,894 in the fiscal year 11/12 primarily due to an increase in water sold of approximately 260 acre feet as well as an increase in Capital Cost Recovery Fee revenue, primarily for the Dahlia Court Project. The District also sold a combined total of 800 AF of water to neighboring water agencies for $120,000.

Operating Expenses

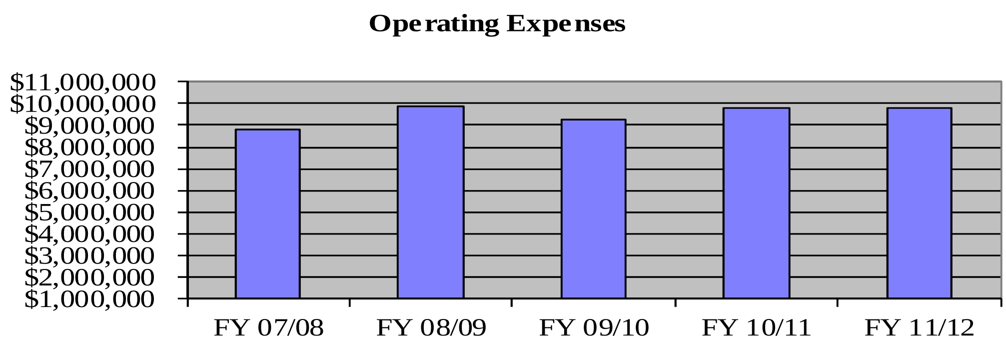
DEFINITIONS:

- Cost of Purchased Water: Water purchased from the Cachuma Project as well as Central Coast Water Authority (CCWA) and Department of Water Resources variable costs.
- CCWA Source of Supply: CCWA bond principal & interest, operating expenses and Department of Water Resources costs.
- Cachuma Operating Expense: COMB Operating, special projects, storm damage, and safety of dams (SOD).
- Pumping Expense: Maintenance of wells and pumping equipment as well as power and telephone for pumping.
- Water Treatment: Cater Treatment Plant, chlorination, AB3030, water quality and water tests.
- Transmission & Distribution: Maintenance of mains, hydrants and meters, engineering expenses, vehicle expenses, cross connection expenses and other miscellaneous.
- Customer Accounting and Service: Meter reading and customer orders, uncollectible accounts.
- General & Administrative: Salaries and benefits, legal expenses, administration utilities, water conservation, Cachuma Conservation Release Board cost share, auditor fees, public information.
- Depreciation and Amortization: Depreciation and amortization of District capital and intangible assets.
- Overhead charged to Customers: Overhead on work orders.

Statement of Revenues, Expenses and Changes in Net Assets (Continued)

Operating Expenses

	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12
Cost of Purchased Water	$ 470,031	$ 412,956	$ 275,957	$ 414,717	$ 323,548
CCWA Source of Supply	2,752,258	2,684,059	2,840,261	2,971,245	2,978,486
Cachuma Operating Expense	546,163	506,290	250,930	304,882	409,972
Pumping Expense	179,678	286,038	265,566	249,027	285,050
Water Treatment	801,557	942,202	670,103	935,478	944,251
Transmission and Distribution	770,925	974,516	838,921	833,022	927,733
Customer Accounting and Service	105,617	105,292	80,866	61,542	67,025
General and Administrative	1,839,926	2,168,137	2,102,918	2,172,510	2,093,291
Depreciation and Amortization	1,368,855	1,839,537	1,976,396	1,865,458	1,804,646
Overhead Charged to Customers	(38,983)	(26,250)	(21,429)	(29,203)	(33,843)
Total Operating Expenses	$8,796,027	$9,892,777	$9,280,489	$9,778,678	$9,800,159
Percent Increase	8.66%	12.47%	-6.19%	5.37%	0.22%



Overall operating expenses increased by $21,481 in 11/12 fiscal year as follows:

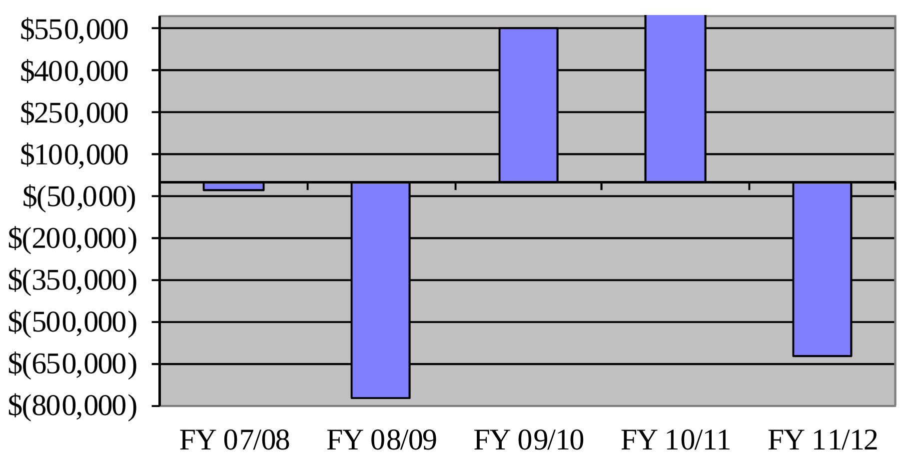
- A decrease in Cost of Purchased Water of $91,169 related to CCWA credits to offset billing leading to a decrease in Department of Water Resources (DWR) variable costs.
- An increase in Cachuma Operating Expense of $105,090 related to an increase in COMB Operating expenses.
- The increase in Water Treatment Expense is primarily due to increased costs related to District wells treatment costs which also causes an increase to Pumping Expense due to the higher use of groundwater.
- A decrease in depreciation and amortization expense of $60,812 was primarily due to older assets becoming fully depreciated.
- A decrease in general and administrative expenses of $79,219 related to various employee leaves of absence as well as not filling a vacant position.

Statement of Revenues, Expenses and Changes in Net Assets (Continued)

Non-operating Income

Non-operating revenues consist of investment income and grant revenue. Non-operating expenses consist of interest expense.

	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12
Non-operating Revenues:					
Investment income	$ 369,155	$ 200,654	$ 47,334	$ 55,294	$ 52,416
Grant revenue				1,913,241	54,761
Gain from litigation settlement			1,450,000		
Total Non-operating Revenues	369,155	200,654	1,497,334	1,968,535	107,177
Non-operating Expenses:					
Interest Expense	397,807	978,503	943,470	782,159	730,862
Total Non-operating Expenses	397,807	978,503	943,470	782,159	730,862
Net Non-operating Income	$ (28,652)	$ (777,849)	$ 553,864	$ 1,186,376	$ (623,685)
Percent Increase (Decrease)	-377.42%	2614.82%	-171.20%	114.20%	-152.57%



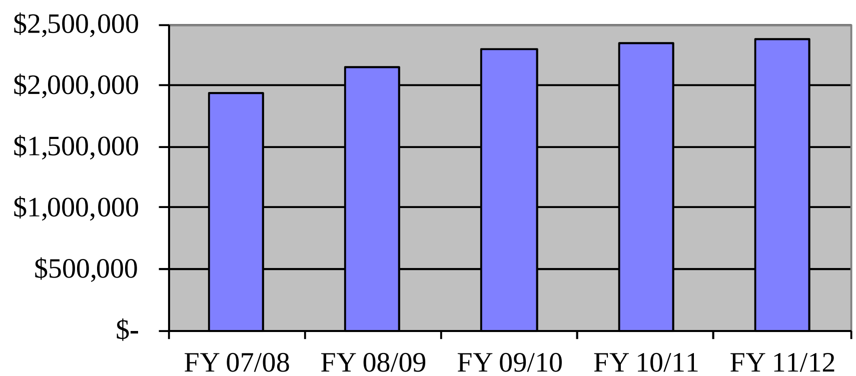
Interest expense increased dramatically in FY 08/09 due to the cessation of interest capitalization with the completion of the District's major construction projects. Interest expense decreased from FY 08/09 to FY 09/10 primarily as a result of the refinancing of a portion of the 2006A bonds. Interest expense decreased from FY 09/10 to FY 10/11 as a result of the issuance of 2010 Capital Appreciation Bonds. Interest expense decreased from FY 10/11 to FY 11/12 as a result of the debt restructuring part of the 2010 Capital Appreciation Bonds.

SALARIES AND BENEFITS

The following table summarizes the amounts expended for salaries and benefits for the last five years:

	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12
Salaries	$ 1,275,997	$ 1,372,124	$ 1,464,792	$ 1,452,182	$ 1,490,543
Social Security	93,798	101,247	110,589	105,768	108,716
Employee Retirement-PERS	279,701	334,073	367,575	369,332	364,177
Employee Group Insurance	264,774	311,107	319,273	393,344	385,181
Deferred Compensation	22,396	26,840	26,217	23,951	25,510
Total	$ 1,936,666	$ 2,145,391	$ 2,288,446	$ 2,344,577	$ 2,374,127
Percent Increase	3.14%	10.78%	6.67%	2.45%	1.26%

Salaries and Benefits



In FY 11/12 salaries and benefits expenses increased by $29,550 from the prior year. Employee Retirement-PERS costs decreased $5,155 during the year due to the creation of a second tier plan. Employee Group Insurance decreased by $8,163 as a result of employee plan changes. The salary increase of $38,361 includes payouts for employees leaving the District, an increase in field crew overtime/doubletime, and salary cost of living increases.

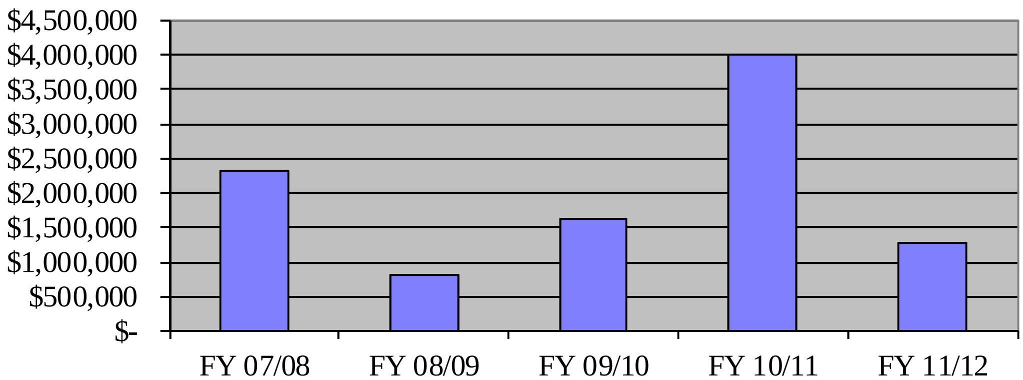
CAPITAL ASSETS

At June 30, 2012 the District had $37,396,931 invested in net capital assets, including construction in progress. This amount represents an increase of 28,180 (or) over the prior year. See Note 5 for a summary of the capital assets by asset type.

Capital expenditures for the last five fiscal years were as follows:

	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12
Capital Expenditures	$ 2,314,251	$ 812,981	$ 1,622,782	$ 3,998,369	$ 1,289,799

Capital Expenditures



The decrease in capital expenditures in FY 08/09 was due to the completion of the Storage Tank Project. In FY 09/10 capital expenditures increased in part related to expenditures related to the Ortega Reservoir Cover Project as well as the El Carro Rehabilitation Project. The increase in capital expenditures in FY 10/11 was related to the El Carro Well Rehabilitation project, Central Zone Main project, land purchase, and litigation costs associated with the Ortega Reservoir Cover Project. The decrease in capital expenditures in FY 11/12 was due to the El Carro Well Rehabilitation project and the Central Zone Main project winding down.

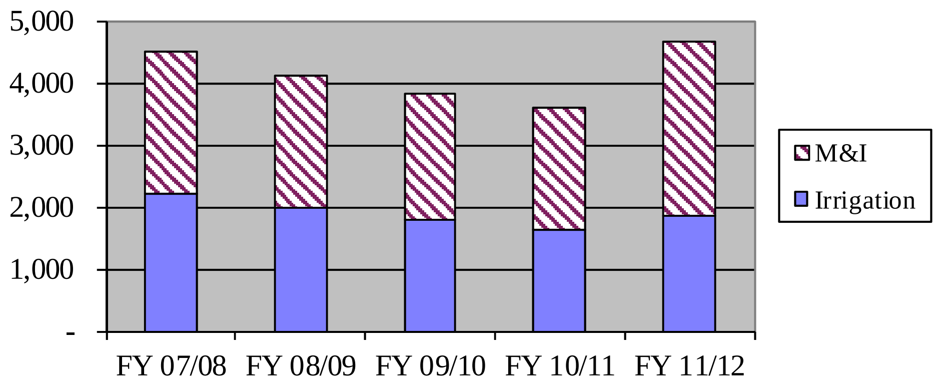
WATER SOLD AND SOURCE OF WATER SUPPLY

The following tables show how much water the District has sold over the past five fiscal years, and provides information regarding the source of the District's water. One acre foot (AF) is equal to 325,900 gallons.

WATER SOLD AND SOURCE OF WATER SUPPLY (Continued)

Water Sold (AF)

Fiscal Year	Residential	Commercial	Public Authority	Industrial	Irrigation	Total
FY 07/08	1,614	398	160	128	2,206	4,506
FY 08/09	1,506	369	145	110	1,968	4,098
FY 09/10	1,452	349	149	79	1,796	3,825
FY 10/11	1,407	356	135	71	1,633	3,602
FY 11/12	2,213	354	144	86	1,865	4,662



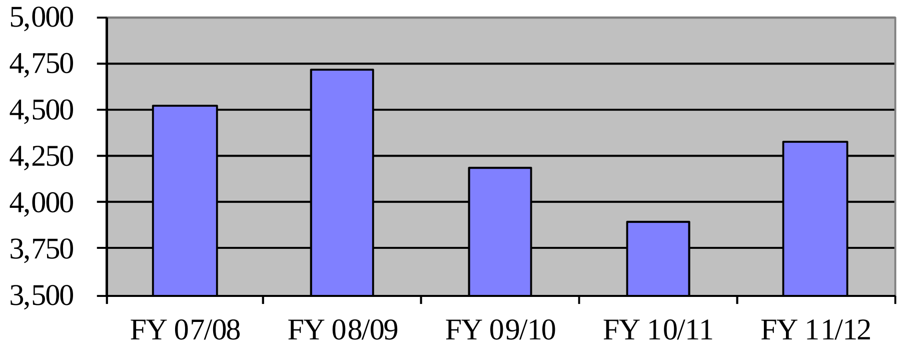
The decrease in FY 08/09 is attributed to wet conditions in the first half of the year and cold weather throughout the year. Cooler conditions in FY 09/10 contributed to the decrease in water sales. A combination of conservation and cooler conditions throughout the year contributed to the decrease in water sales in FY 10/11. The increase in FY 11/12 is attributed to dryer conditions which resulted in increased irrigation demand as well as the sale of 800 AF of water to neighboring water agencies.

Source of Water Supply (AF)

Fiscal Year	Groundwater	State Water	Cachuma Project	Total
FY 07/08	813	665	3,037	4,515
FY 08/09	1,828	717	2,167	4,712
FY 09/10	1,307	-	2,876	4,183
FY 10/11	797	-	3,100	3,897
FY 11/12	1,174	-	3,149	4,323

WATER SOLD AND SOURCE OF WATER SUPPLY (Continued)

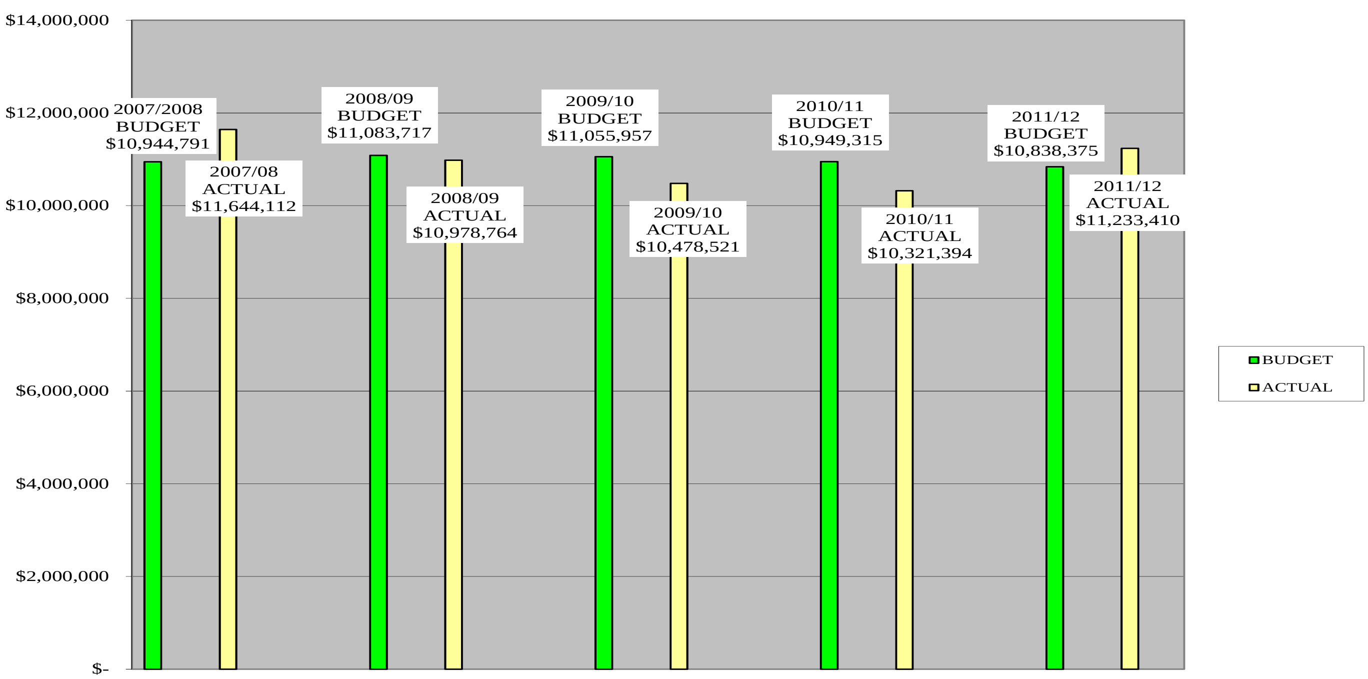
Source of Water Supply (AF)



The FY 08/09 State Water figures include 600 AF of State Water sold to Montecito Water District.

BUDGET TO ACTUAL INFORMATION

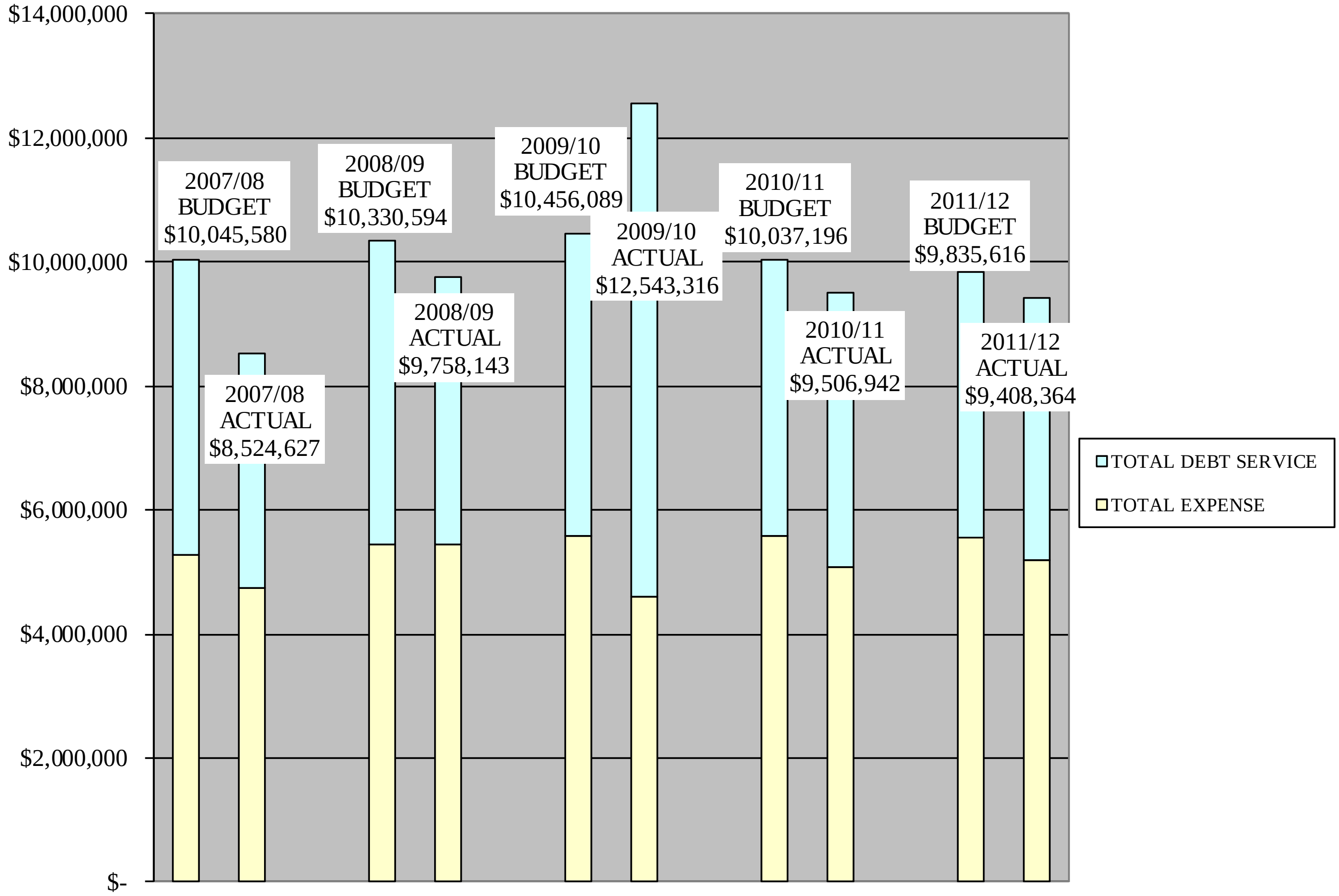
The following table compares total annual revenues to budgeted amounts for the last five fiscal years:



The FY 10/11 Actual figures do not include the $1,913,241 of grant revenues.
The FY 11/12 Actual figures do not include the $54,761 of grant revenues.

BUDGET TO ACTUAL INFORMATION (Continued)

The following table compares total annual expenses and debt service payments to budgeted amounts for the last five fiscal years:



CARPINTERIA VALLEY WATER DISTRICT
BALANCE SHEET
June 30, 2012 and 2011

ASSETS

	2012	2011
Current Assets:		
Cash and cash equivalents	$ 8,213,056	$ 6,331,658
Accounts receivable:		
Water sales	1,132,589	1,074,484
Other	476,508	286,916
Grant receivable	-	590,300
Annexation fees receivable	2,552	12,903
Inventories:		
Materials and meters	89,349	65,773
Water in storage	173,164	226,137
Prepaid expenses	2,932,776	3,138,044
Deposits with CCWA	925,229	922,442
Total current assets	13,945,223	12,648,657
Restricted Assets:		
Cash with fiscal agent:		
Restricted for debt service	2,109,456	1,632,053
Restricted for capital improvements	794	794
Certificates of Participation	197,447	196,883
Restricted for capital improvements	3,196,845	4,252,426
Total restricted assets	5,504,542	6,082,156
Long-term Assets:		
Property and equipment	49,783,646	49,226,416
Less: accumulated depreciation	(16,636,086)	(15,293,414)
Construction in progress	4,249,371	3,435,749
Capacity rights, net of amortization	5,698,872	3,914,783
Intangible assets, net of amortization	762,129	802,919
Net long-term assets	43,857,932	42,086,453
Total assets	$ 63,307,697	$ 60,817,266

See accompanying notes

CARPINTERIA VALLEY WATER DISTRICT
BALANCE SHEET
June 30, 2012 and 2011

LIABILITIES AND NET ASSETS

	2012	2011
Current Liabilities:		
Accounts payable	$ 2,258,720	$ 736,234
Customer deposits	96,482	164,118
Interest payable	357,968	369,444
Advances for construction	833,365	-
Compensated absences payable	253,387	252,077
Current portion of long term debt	564,865	560,314
Total current liabilities	4,364,787	2,082,187
Long-term Liabilities:		
Revenue Certificates of Participation Series 2006A	8,115,102	8,191,919
Revenue Certificates of Participation Series 2010A	8,402,576	8,399,505
Revenue bonds payable	-	41,680
Department of Water Resources loan contracts	12,670,371	13,049,372
Cater Treatment Plant Expansion Project financing agreement	2,517,736	2,606,206
Non-current portion of post-retirement health benefits payable	64,123	41,819
Total long-term liabilities	31,769,908	32,330,501
Total liabilities	36,134,695	34,412,688
Net Assets:		
Invested in capital assets, net of related debt	11,124,566	11,656,723
Restricted net assets	2,109,456	1,632,053
Unrestricted	13,938,980	13,115,802
Total net assets	27,173,002	26,404,578
Total liabilities and net assets	$ 63,307,697	$ 60,817,266

See accompanying notes

CARPINTERIA VALLEY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the years ended June 30, 2012 and 2011

	2012	2011
Operating Revenues:		
Water sales	$ 10,353,227	$ 9,840,891
Capital recovery fees	496,558	77,787
Fire protection	221,989	224,061
Other revenue	109,220	123,361
Total operating revenues	11,180,994	10,266,100
Operating Expenses:		
CCWA source of supply	2,978,486	2,971,245
Cost of purchased water	323,548	414,717
Cachuma operating expense	409,972	304,882
Pumping expense	285,050	249,027
Water treatment	944,251	935,478
Transmission and distribution	927,733	833,022
Customer accounting and service	67,025	61,542
General and administrative	2,093,291	2,172,510
Amortization	461,974	542,009
Depreciation	1,342,672	1,323,449
Overhead charged to customers	(33,843)	(29,203)
Total operating expenses	9,800,159	9,778,678
Operating income	1,380,835	487,422
Non-operating Revenues (Expenses):		
Grant revenue	54,761	1,913,241
Investment income	52,416	55,294
Interest expense	(730,862)	(782,159)
Net non-operating income (expense)	(623,685)	1,186,376
Income before contributions	757,150	1,673,798
Capital Contributions	11,274	31,095
Change in net assets	768,424	1,704,893
Net assets at beginning of year	26,404,578	24,699,685
Net assets at end of year	$ 27,173,002	$ 26,404,578

See accompanying notes

CARPINTERIA VALLEY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the years ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Cash received from customers	$ 11,774,228	$ 10,307,438
Cash payments to suppliers for goods and services	(4,833,032)	(6,841,877)
Cash payments to employees for services	(1,381,716)	(1,297,428)
Net cash and cash equivalents provided by operating activities	5,559,480	2,168,133
Cash Flows from Noncapital Financing Activities:		
Net decrease in customer deposits	(67,636)	(11,838)
Bank overdraft	-	(276,180)
Proceeds from litigation settlement	-	1,450,000
Net cash and cash equivalents provided (used) by noncapital financing activities	(67,636)	1,161,982
Cash Flows from Capital and Related Financing Activities:		
Proceeds from issuance of long term debt	79,070	-
Repayments of long-term debt	(681,989)	(811,562)
Interest payments	(797,136)	(887,374)
Capital assets purchased	(1,278,526)	(3,926,038)
Investment in water facilities	(2,205,276)	(213,681)
Grant revenue	645,061	1,322,941
Net cash and cash equivalents used by capital and related financing activities	(4,238,796)	(4,515,714)
Cash Flows from Investing Activities:		
Interest received	50,736	53,616
Net cash and cash equivalents provided by investing activities	50,736	53,616
Increase (decrease) in cash and cash equivalents	1,303,784	(1,131,983)
Cash and cash equivalents, beginning of year	12,413,814	13,545,797
Cash and cash equivalents, end of year	$ 13,717,598	$ 12,413,814

See accompanying notes

CARPINTERIA VALLEY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the years ended June 30, 2012 and 2011

Cash and cash equivalents are reported in the balance sheet as follows:

	2012	2011
Unrestricted cash and cash equivalents	$ 8,213,056	$ 6,331,658
Cash with fiscal agent, restricted for debt service	2,109,456	1,632,053
Cash with fiscal agent, restricted for capital improvements	794	794
Restricted for capital improvements	3,196,845	4,252,426
Certificates of Participation	197,447	196,883
	$ 13,717,598	$ 12,413,814

Supplemental Schedule of Noncash Investing and Financing Activities:

Property in the amount of $11,274 and $31,095 was contributed by developers during the years ended June 30, 2012 and 2011, respectively.

See accompanying notes

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

A) Reporting Entity

The Carpinteria Valley Water District (the "District") (formerly known as Carpinteria County Water District) was incorporated on February 13, 1941 under authority of the California County Water Districts Act. By contract dated April 17, 1953, the District entered into an agreement with the U.S. Bureau of Reclamation for the construction of a distribution system to serve approximately 96% of the District, thereby creating Improvement District #1. The District is governed by a Board of Directors consisting of five members elected from voters of the District.

B) Accounting Basis

The District reports its activities as an enterprise fund, which is used to account for operations where the intent of the District is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis, as such, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

An enterprise fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with the activity are included on the balance sheet.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and the producing and delivering of goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales. Operating expenses of the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial statements of the District have been prepared in conformity with Generally Accepted Accounting Principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting financial reporting principles. Additionally the District applies all Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

C) Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity period, at purchase, of three months or less to be cash equivalents.

Note 1 - Reporting Entity and Summary of Significant Accounting Policies (Continued)

D) Basis for Recording Accounts Receivable and Allowance for Doubtful Accounts

The District grants credit to its customers, substantially all of whom are residents and businesses in Carpinteria, California. The District charges doubtful accounts arising from water receivables to bad debt expense when it is probable that the accounts will be uncollectible.

E) Inventories

The District's inventories are recorded at cost on the first-in, first-out basis.

F) Restricted Assets

These assets consist of cash and other monetary assets restricted by outside parties for various purposes.

G) Long Term Assets

Property, plant and equipment and intangible assets are valued at cost. Donated property is valued at estimated fair value on the date donated. The assets, excluding land, are depreciated using the straight line method over estimated useful lives.

Estimated useful lives are:	
Transmission and distribution lines, wells	30 years
Buildings, fire hydrants, meters and service connections, tanks and reservoirs	25 years
Water treatment facilities, general equipment and tools	20 years
Corrosion control equipment	15 years
Pumping equipment	10 years
Office and automotive equipment	5 years
Intangible assets	10-30 years

H) Interest Costs

Applicable interest charges incurred during construction of new facilities are capitalized as one of the elements of cost and are amortized over the asset's estimated useful life. All other interest costs are expensed as incurred.

I) Intangible Assets

Intangible assets consist of contract renegotiation costs and bond issuance costs. These costs are being amortized over a period ranging from 10 to 30 years.

J) Budgetary Procedures

The District prepares an annual budget which includes estimates of its principal sources of revenue to be received during the fiscal year, as well as estimated expenditures and reserves needed for operation of District facilities.

Note 1 - Reporting Entity and Summary of Significant Accounting Policies (Continued)

K) Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Cash payment of unused vacation and sick leave is available to those qualified employees when retired or terminated.

L) Concentration of Credit Risk

The District grants credit to its customers, substantially all of whom are residents and businesses of the Carpinteria Valley.

M) Construction Advances

Construction advances represent deposits received in advance of construction, which are refundable if the applicable construction does not take place. Construction advances are transferred to contributed capital when the applicable construction is completed.

N) Government Accounting Standards Board Statement No.45

During the fiscal year ended June 30, 2010, the District implemented Government Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension.”

This Statement requires that the District account for, and report, the annual cost of other postemployment benefits (OPEB) and the outstanding obligations and commitments related to OPEB in the same manner as it currently does for pensions. The Statement does not require that the District fund their OPEB plans, only that it accounts for them and reports them. OPEB generally consists of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including their beneficiaries in some cases. The District has elected to contribute on a pay-as-you-go basis for postretirement medical program for retired members and their eligible dependents. See Note 9 for further details.

O) Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.” It is the District's policy to first apply restricted resources when expenses are incurred for purposes for which both restricted and unrestricted net assets are available.

Note 1 - Reporting Entity and Summary of Significant Accounting Policies (Continued)

P) 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, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Cash and Investments

Investments are carried at fair value as determined by the external investment pool sponsor. On June 30, 2012 and 2011, the District had the following cash and investments on hand:

	2012	2011
Cash in banks and on hand	$ 2,501,059	$ 1,070,400
Cash with fiscal agent	2,110,250	1,632,847
Local Agency Investment Fund	8,908,842	9,513,684
Local Agency Investment Fund-Certificates of Participation	197,447	196,883
Total cash and investments	$ 13,717,598	$ 12,413,814

Investments Authorized by the District's Investment Policy

The District's investment policy only authorizes investment in the local government investment pool administered by the State of California (LAIF). The District's investment policy generally limits deposits to the previous FDIC determined limit of $100,000. This limitation does not apply to LAIF or amounts held with fiscal agents. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk or credit risk.

Disclosures Relating to Interest Rate Risk

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

Note 2 - Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2012:

Investment Type	Carrying Amount	12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
Investments with fiscal agent	$ 2,110,250	$ 2,110,250	$ -	$ -	$ -
Local Agency Investment Fund	8,908,842	8,908,842	-	-	-
Local Agency Investment Fund-Certificates of Participation	197,447	197,447	-	-	-
Total	$11,216,539	$11,216,539	$ -	$ -	$ -

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of June 30, 2012 for each investment type.

	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	Aa	Not Rated
Investments with fiscal agent	$ 2,110,250	N/A	$ -	$2,110,250	$ -	$ -
Local Agency Investment Fund	8,908,842	N/A	-	-	-	8,908,842
Local Agency Investment Fund-Certificates of Participation	197,447	N/A	-	-	-	197,447
Total	$11,216,539		$ -	$2,110,250	$ -	$9,106,289

Note 2 - Cash and Investments (Continued)

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments (other than investments guaranteed by the U.S. Government or investments in external investment pools).

Custodial Credit Risk

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

None of the District's deposits with financial institutions in excess of federal depository insurance limited were held in uncollateralized accounts.

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

Investment in State Investment Pool

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

Note 3 - Restricted Assets

Restricted assets consisted of the following at June 30, 2012 and 2011:

	2012	2011
Restricted for capital improvements	$ 3,197,639	$ 4,253,220
Restricted for capital improvements from the Certificates of Participation	197,447	196,883
Restricted for debt service payments	2,109,456	1,632,053
Total restricted assets	$ 5,504,542	$ 6,082,156

Note 4 - Intangible Assets

The District's intangible assets as of June 30, 2012 and 2011 consisted of:

	2012	2011
Contract renegotiation costs:		
Cachuma Project Authority, net of accumulated amortization of $158,386 and $147,003	$ 158,386	$ 169,700
Deferred expenses:		
Bureau of Reclamation Title Transfer, net of accumulated amortization of $12,761 and $10,938	32,803	34,626
Revenue Certificates of Participation, Series 2006-A, net of accumulated amortization of $66,194 and $55,298	227,602	238,906
Revenue Certificates of Participation, Series 2010-A, net of accumulated amortization of $32,698 and $16,349	343,338	359,687
	$ 762,129	$ 802,919

Estimated amortization expense is as follows for the five fiscal years ending June 30:

2013	$ 41,464
2014	41,464
2015	41,464
2016	41,464
2017	41,464
Thereafter	554,809
	$ 762,129

Note 5 - Property and Equipment

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2012, is shown below:

	Balance June 30, 2011	Additions	Disposals	Transfers	Balance June 30, 2012
Capital assets, non-depreciable:					
Land and land rights	$ 1,034,008	$ -	$ -	$ -	$ 1,034,008
Construction in progress	3,435,749	1,201,671		(388,049)	4,249,371
Total capital assets, non-depreciable	4,469,757	1,201,671	-	(388,049)	5,283,379
Capital assets, depreciable/amortizable:					
Pumping equipment	595,021				595,021
Transportation & distribution equipment	4,862,894	65,756		110,366	5,039,016
Meters & services	2,658,819			195,992	2,854,811
Hydrants	880,804				880,804
Corrosion control	45,885				45,885
Administration building	508,395	8,761		4,070	521,226
Maintenance center	272,177	5,212		4,071	281,460
Office equipment & furniture	804,271	14,636			818,907
Automotive equipment	500,812				500,812
Other equipment & tools	488,802				488,802
Wells	1,698,452				1,698,452
Tanks and reservoirs	420,713				420,713
Water treatment equipment	1,059,744	3,512			1,063,256
Facilities/grounds equipment	256,128	3,054		73,550	332,732
Distribution system	1,333,951				1,333,951
Storage tank	11,686,042				11,686,042
Headquarters well	3,108,971				3,108,971
Reservoir covers	17,010,527	68,250			17,078,777
Capacity rights	8,716,246	2,205,275			10,921,521
Total capital assets, depreciable/amortizable	56,908,654	2,374,456	-	388,049	59,671,159
Accumulated depreciation	(15,293,414)	(1,342,672)			(16,636,086)
Accumulated amortization	(4,801,463)	(421,186)			(5,222,649)
Net capital assets	$41,283,534	$ 1,812,269	$ -	$ -	$43,095,803

Note 5 - Property and Equipment (Continued)

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2011, is shown below:

	Balance June 30, 2010	Additions	Disposals	Transfers	Balance June 30, 2011
Capital assets, non-depreciable:					
Land and land rights	$ 623,223	$ 410,785	$ -	$ -	$ 1,034,008
Construction in progress	718,789	3,289,146		(572,186)	3,435,749
Total capital assets, non-depreciable	1,342,012	3,699,931	-	(572,186)	4,469,757
Capital assets, depreciable/amortizable:					
Pumping equipment	566,646			28,375	595,021
Transmission & distribution equipment	4,649,570	1,332		211,992	4,862,894
Meters & services	2,514,238	49,000		95,581	2,658,819
Hydrants	806,119	1,502		73,183	880,804
Corrosion control	40,674			5,211	45,885
Administration building	489,922	7,899		10,574	508,395
Maintenance center	272,177				272,177
Office equipment & furniture	758,858	25,371		20,042	804,271
Automotive equipment	476,778			24,034	500,812
Other equipment & tools	461,982	19,296		7,524	488,802
Wells	1,692,817	5,635			1,698,452
Tanks and reservoirs	420,713				420,713
Water treatment equipment	1,057,664			2,080	1,059,744
Facilities/grounds equipment	231,317	3,185		21,626	256,128
Distribution system	1,333,951				1,333,951
Storage tank	11,727,275		(41,233)		11,686,042
Headquarters well	3,038,642			70,329	3,108,971
Reservoir covers	16,771,157	237,735		1,635	17,010,527
Capacity rights	8,502,565	213,681			8,716,246
Total capital assets, depreciable/amortizable	55,813,065	564,636	(41,233)	572,186	56,908,654
Accumulated depreciation	(13,969,965)	(1,323,449)			(15,293,414)
Accumulated amortization	(4,302,335)	(499,128)			(4,801,463)
Net capital assets	$38,882,777	$ 2,441,990	$ (41,233)	$ -	$41,283,534

Note 6 - Long-Term Debt

Long-term debt of the District is as follows:

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
COMB Revenue Bonds	$ 40,000	$ -	$ (40,000)	$ -
Unamortized bond premium	1,680		(1,680)	-
Total COMB Revenue Bonds	41,680		(41,680)	-
Series 2006A Certificates of Participation	8,870,000		(110,000)	8,760,000
Unamortized bond discount	(84,469)		3,840	(80,629)
Unamortized loss on defeasement of Series 2000 COPs	(483,613)		19,344	(464,269)
Total Series 2006A Certificates of Participation	8,301,918		(86,816)	8,215,102
Series 2010A Certificates of Participation	8,475,844		-	8,475,844
Unamortized loss on defeasement of Series 2006A COPs	(76,339)		3,069	(73,270)
Total Series 2006A Certificates of Participation	8,399,505		3,069	8,402,574
Department of Water Resources Loan Contracts	13,419,026		(369,653)	13,049,373
Cater Treatment Plant Financing Agreement	2,686,867	79,070	(162,336)	2,603,601
Long-term debt	$ 32,848,996	$ 79,070	$ (657,416)	$ 32,270,650

A) Revenue Bonds

The Cachuma Project Authority Revenue bonds, issued October 1, 1993, maturing October 1, 2012 and bearing an average interest rate of 4.37%, were issued to refinance the District's 1978 Water Revenue Bonds and a loan from the State of California Department of Water Resources.

Note 6 - Long-Term Debt (Continued)

On August 19, 2004 the outstanding 1993 CPA Bonds were refinanced with the 2004 Cachuma Operations and Maintenance Board (COMB) Bonds, of which the District's portion was $260,000. The loan is to be repaid over the remaining 7 years at an interest rate ranging from 3.0% to 4.65%. Interest is payable semi-annually on February 1 and August 1 of each year, commencing on February 1, 2005. Principal payments are payable annually on August 1 of each year. These revenue bonds were paid off during the year ended June 30, 2012.

B) Revenue Certificates of Participation

Series 2006A:

In June 2006, the District issued the Refunding Revenue Certificates of Participation, Series 2006A ("2006A COPs") in the amount of $10,025,000 with interest rates ranging from 3.625% to 4.50%. The Certificates were executed and delivered to refund the $9,015,000 outstanding aggregate principal amount of Series 2000 Revenue Certificates of Participation, and to pay for the costs to reconstruct the existing El Carro well.

In accordance with District's refunding plan, $8,835,290 was deposited with an escrow agent to provide for payment when due of all interest with respect to the 2000 Refunded Certificates on and prior to July 1, 2010 and to pay the prepayment price on July 1, 2010 of the 2000 Refunded Certificates maturing after July 1, 2010. On July 1, 2010 the final payment from the escrow account was made. The refunding resulted in an economic gain of approximately $883,000 and decreased total debt service payments by approximately $772,000, excluding amounts related to servicing of the $1,000,000 to be applied to El Carro well.

Series 2010A:

In March 2010, the District issued the Refunding Revenue (Capital Appreciation) Certificates of Participation, Series 2010A ("2010A COPs") in the amount of $8,475,844 with interest rates ranging from 5.75% to 6.86%. The Certificates were executed and delivered 1) to refund a portion of the outstanding aggregate principal amount of the 2006A COPs, constituting a portion of the 2006A COPs maturing on July 1, 2010 and each July 1 thereafter through July 1, 2015, inclusive, 2) to refund a portion of the District's obligations under the Safe Drinking Water State Revolving Fund Contract #SRF99CX125 maturing on July 1, 2010 and each January and July 1 thereafter through July 1, 2017, inclusive, and 3) to fund certain improvements to the City of Santa Barbara's Cater Water Treatment Plant which serves the District.

In accordance with District's refunding plan, $1,079,808 was deposited with an escrow agent to provide for payment when due (through July 2015) of all principal and interest with respect to the 2006A Refunded Certificates. The total payments made on the 2006A Refunded Certificates from escrow funds will be $1,000,000 in principal and $142,800 in interest. The refunding resulted in increased total debt service payments from $1,142,800 to $3,300,000, including only amounts related to the 2006A Refunded Certificates. This increased cash flow created an economic loss of approximately $133,052 when discounted at the 2010A COPs' effective interest rate of 6.61769%. At June 30, 2012 there was $805,000 of defeased Series 2000 COPs outstanding, to be paid from escrow funds.

Note 6 - Long-Term Debt (Continued)

Total annual requirements to amortize the Series 2006A COPs are as follows:

Fiscal Year End	Principal	Interest	Total
2013	$ 100,000	$ 390,788	$ 490,788
2014	105,000	386,687	491,687
2015	115,000	382,287	497,287
2016	110,000	377,788	487,788
2017	355,000	367,600	722,600
2018-2022	2,015,000	1,585,759	3,600,759
2023-2027	2,480,000	1,092,916	3,572,916
2028-2032	2,940,000	462,500	3,402,500
2033	540,000	12,488	552,488
	$ 8,760,000	$ 5,058,813	$ 13,818,813

Total annual requirements to amortize the Series 2010A COPs are as follows:

Fiscal Year End	Principal	Interest	Total
2013	$ -	$ -	$ -
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018-2022	-	-	-
2023-2027	2,280,458	3,054,541	5,334,999
2028-2032	3,529,911	8,515,089	12,045,000
2033-2036	2,665,475	10,464,526	13,130,001
	$ 8,475,844	$ 22,034,156	$ 30,510,000

Note 6 - Long-Term Debt (Continued)

C) Safe Drinking Water State Revolving Fund Contract #SRF99CX125

The Safe Drinking Water State Revolving Fund Contract was issued February 9, 2004. The purpose of the loan was to assist in financing various capital improvements which will enable the District to meet certain safe drinking water standards. The contract provides for a 20 year loan bearing an interest rate of approximately 2.5%. The District will be required to maintain a reserve fund equal to two semi-annual loan payments during the first ten years of the repayment period. The loan requires semi annual payments of interest and principal due on January 1 and July 1 of each year commencing after the completion of the projects.

The annual estimated requirements to amortize the Safe Drinking Water State Revolving Fund Contract are as follows:

Fiscal Year End	Principal	Interest	Total
2013	$ -	$ 114,172	$ 114,172
2014	-	114,172	114,172
2015	-	114,172	114,172
2016	-	114,172	114,172
2017	-	114,173	114,173
2018-2022	2,112,293	453,926	2,566,219
2023-2027	2,430,609	171,132	2,601,741
Total	$ 4,542,902	$ 1,195,919	$ 5,738,821

D) Safe Drinking Water State Revolving Fund Contract #SRF99CX121

The Safe Drinking Water State Revolving Fund Contract was issued March 19, 2004. The purpose of the loan was to assist in financing various capital improvements which will enable the District to meet certain safe drinking water standards. The contract provides for a 20 year loan bearing an interest rate of approximately 2.5%. This loan was issued to both this District and the Montecito Water District in order to finance the capital improvements to the Ortega Reservoir. Each District will be legally liable for half of the joint loan proceeds. Carpinteria Valley Water District's portion of the principal balance was $9,236,658, and requires semi-annual payments of interest and principal due on January 1 and July 1 of each year commencing in July 2010. Interest payments during the construction period were due semi annually based on the funds disbursed. The District will be required to maintain a reserve fund equal to two semi-annual loan payments during the first ten years of the repayment period.

Note 6 - <u>Long-Term Debt</u> (Continued)

The annual estimated requirements for the District to amortize the Safe Drinking Water State Revolving Fund Contract are as follows:

Fiscal Year End	Principal	Interest	Total
2013	$ 379,001	$ 211,418	$ 590,419
2014	388,586	201,833	590,419
2015	398,413	192,006	590,419
2016	408,489	181,930	590,419
2017	418,820	171,600	590,420
2018-2022	2,258,437	693,659	2,952,096
2023-2027	2,558,830	393,266	2,952,096
2028-2030	1,695,895	75,363	1,771,258
Total	$ 8,506,471	$ 2,121,075	$ 10,627,546

E) <u>Cater Treatment Plant Expansion Project Financing Agreement</u>

The District entered into a financing agreement with the City of Santa Barbara dated February 27, 2002, which requires the District to pay twenty percent of a loan obligation between the City of Santa Barbara and the California Drinking Water State Revolving Fund. The loan proceeds were used to finance certain improvements to the Cater Treatment Plant in order to meet new water quality standards imposed on public agencies. The loan provides for a 20 year loan amortization maturing on July 1, 2025, bearing an interest rate of approximately 2.5%. The improvements were completed in January 2005 and the District's portion of the loan in the amount of $3,580,170 was recorded on the balance sheet at June 30, 2005. The District is required to make semi annual payments of interest and principal in the amount of $114,425 payable to the City of Santa Barbara on December 15th and June 15th each year.

The annual requirements to amortize the Cater Treatment Plant Expansion financing agreement are as follows:

Fiscal Year End	Principal	Interest	Total
2013	$ 85,864	$ 64,473	$ 150,337
2014	174,859	60,316	235,175
2015	179,121	56,054	235,175
2016	183,491	51,684	235,175
2017	187,972	47,203	235,175
2018-2022	1,011,134	164,740	1,175,874
2023-2026	781,160	38,789	819,949
Total	$ 2,603,601	$ 483,259	$ 3,086,860

Note 7 - Supplemental Schedule of the Statement of Cash Flows

The following is a reconciliation of operating income to net cash provided by operating activities:

	2012	2011
Cash Flows from Operating Activities:		
Operating income	$ 1,380,835	$ 487,422
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,342,672	1,323,449
Amortization	461,974	542,009
(Increase) decrease in:		
Accounts receivable	(237,344)	59,951
Inventories	29,397	13,589
Prepaid expenses	205,268	19,136
Deposit with CCWA	(2,787)	987
Increase (decrease) in:		
Accounts payable	1,522,486	(266,749)
Annexation fees payable	-	(44,398)
Compensated absences payable	1,310	31,308
Accrued post retirement benefit	22,304	21,029
Advances for construction	833,365	(19,600)
Net cash and cash equivalents provided by operating activities	$ 5,559,480	$ 2,168,133

Note 8 - Defined Benefit Pension Plan

The District contributes to the California Public Employee's Retirement System (PERS), an agent 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 their beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and local ordinance. Copies of PERS' annual financial report may be obtained from its Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy:

Participants are required to contribute 7% of their covered salary, excluding the first $133.33 per month since the employees are also covered by Social Security. For employees with hire dates before February 2011, the District makes the required employee contribution on their behalf and for their account. The District is required to contribute at an actuarially determined rate: the rate was 18.862% of covered salaries for the year ended June 30, 2012.

Note 8 - Defined Benefit Pension Plan (Continued)

The contribution requirements of plan members and the District are established and may be amended by PERS. The District's contribution for the years ended June 30, 2012 and 2011 was $364,177 and $369,332, respectively.

Annual Pension Cost:

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	18 Years as of the Valuation Date
Asset Valuation Method	15 year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Retirement Plan – Three Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/10	$ 267,752	100%	$ -
06/30/11	269,163	100%	-
06/30/12	260,226	100%	-

Note 8 - Defined Benefit Pension Plan (Continued)

Required Supplementary Information

The schedule for funding progress below represents the recent history of the risk pool's actuarial value of assets accrued liability, their relationship, and the relationship of the unfunded liability.

Valuation Date	(A) Accrued Liability	(B) Actuarial Value of Assets	(C) Unfunded Liability (A) - (B)	(D) Funded Ratio (B)/(A)	(E) Annual Covered Payroll	(F) UL as a % of Payroll (C)/(E)
06/30/05	$2,891,460,651	$2,588,713,000	$ 302,747,651	89.5%	$755,046,679	40.1%
06/30/06	2,754,396,608	2,492,226,176	262,170,432	90.5%	699,897,835	37.5%
06/30/07	2,611,746,790	2,391,434,447	220,312,343	91.6%	665,522,859	33.1%
06/30/08	2,780,280,768	2,547,323,278	232,957,490	91.6%	688,606,681	33.8%
06/30/09	3,104,798,222	2,758,511,101	346,287,121	88.9%	742,981,488	46.6%

Note 9 - Post-Employment Health Care Benefits

Plan Description

The District provides retiree medical, dental, vision, and prescription drug coverage to current and future eligible retirees and their spouse. Under the Plan, retired employees who attain age 60 with at least 20 years of service are eligible to receive benefits. Spouses may be covered with certain limitations.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and its board of directors. The required contribution is based on projected pay-as-you-go financing requirements. The District pays 100% of the premium for pre-65 retirees, and contributes up to 5% of a retiree's PERS benefit toward the cost of medical coverage for post-65 retirees.

Annual OPEB Cost and Net OPEB Obligation

The District's OPEB cost is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation for plan benefits:

Note 9 - Post-Employment Health Care Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Annual required contribution	$	40,640
Annual OPEB cost (expense)		40,640
Contributions made		(18,336)
Increase in net OPEB		22,304
Net OPEB obligation - beginning of year		41,819
Net OPEB obligation - end of year	$	64,123

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2012 and the two preceding fiscal years were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/10	$37,664	45%	$ 20,790
06/30/11	$39,230	46%	$ 41,819
06/30/12	$40,640	45%	$ 64,123

Funded Status and Funding Progress

As of June 30, 2012, based on the last valuation performed the actuarial accrued liability for benefits was $458,476, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $4,318,708, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 11%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and 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 is presented on the following page, and 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.

Note 9 - Post-Employment Health Care Benefits (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Valuation Date	July 1, 2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Amortization Period for UAAL	Open period of 24.6 years
Actuarial Assumptions	
Rate of return on investments	4.00%
Expected rate of return on plan assets	7.75%
Payroll growth	3.25%
Inflation	3.00%
Healthcare cost trend rate	8.00%-5.00%

Required Supplementary Information

The schedule for funding progress below represents the recent history of the actuarial value of assets, accrued liability, their relationship, and the relationship of the unfunded liability.

The funded status of the plan as of June 30, 2012 was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL)- Simplified Entry Age (b)	Unfunded AAL (UAAL) (b -a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2009	0	$ 458,476	$ 458,476	0%	$ 4,318,708	11%

Note 10 - Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

On June 8, 1997 the District amended the plan in accordance with the provisions of IRC Section 457(g). On that date, assets of the plan were placed in trust for the exclusive benefit of participants and their beneficiaries. The requirements of that IRC Section prescribes that the District no longer owns the amounts deferred by employees, including the related income on those amounts. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, are not included in the District's financial statements. Contributions to the Plan for the years ended June 30, 2012 and 2011 were $25,510 and $23,951, respectively.

Note 11 - Lease Obligations

The District has lease obligations for two of its well sites.

The High School Well lease, dated March 1, 1989 and amended April 23, 2008 is for a term of thirty years, terminating July 1, 2030. There are no lease payments associated with this lease. In return the District provides the School District with the Irrigation water rate for specific water accounts.

During 2011, the District purchased a permanent easement from the City for the land that contains the El Carro Well. Prior to the purchase of the easement, the District had a lease with the City, dated November 16, 1990, for the useful life of the well. As "in-lieu of rent" for the first twenty year period, the District installed, at a cost of $40,085, water line and fire hydrant facilities to accommodate future development of the property adjoining the well site.

Note 12 - Cachuma Project Authority

This joint exercise of powers authority was created by the participating agencies for the purpose of renegotiating with the United States Bureau of Reclamation (USBR) the contract for the operation of the Cachuma reservoir. Through the authority, the agencies collectively issued revenue bonds to refinance certain obligations each agency had incurred to finance its share of the expansion of the shared Water Treatment Plant. The District's share of these revenue bonds is shown as a liability on the balance sheet.

The Cachuma Project Authority successfully renegotiated a contract with the USBR. The Authority, effective September 30, 1996 merged into the Cachuma Operations and Maintenance Board (COMB), which is responsible for all operational aspects of the Cachuma reservoir. All assets and liabilities of the Authority were transferred to COMB. The District continues to contribute its share of the operating expenses. The accumulated contract renegotiation costs are being amortized over the term of the new contract, which is twenty-five years.

Note 13 - Joint Powers Insurance Authority

The District participates in the property and liability program organized by the Association of California Water Agencies/Joint Powers Insurance Authority ("ACWA/JPIA"). ACWA/JPIA is a Joint Powers Authority created to provide a self-insurance program to water agencies in the State of California. The ACWA/JPIA is not a component unit of the District for financial reporting purposes, as explained below.

ACWA/JPIA provides liability, property and workers' compensation insurance for approximately 265 water agencies for losses in excess of the member districts' specified self-insurance retention levels. Individual claims (and aggregate public liability and property claims) in excess of specified levels are covered by excess insurance policies purchased from commercial carriers. ACWA/JPIA is governed by a separate board comprised of members from participating districts. The board controls the operations of ACWA/JPIA, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member shares surpluses and deficiencies proportionately to its participation in ACWA/JPIA.

Based on financial information at September 30, 2011, ACWA/JPIA had total assets, liabilities and net assets of $126,769,966, $79,457,922 and $47,312,044, respectively. The District paid premiums of $85,959 and $86,970 to ACWA/JPIA for property and liability insurance, and $27,385 and $35,533 for workers' compensation during the years ended June 30, 2012 and 2011.

Note 14 - Commitments and Contingencies

A) Central Coast Water Authority

In 1991, the voters of the District elected to participate in the State Water Project (SWP). As a result, the District joined in the formation of the Central Coast Water Authority (CCWA) in August 1991. The purpose of the Central Coast Water Authority is to provide for the financing, construction, operation, and maintenance of certain local (non-state owned) facilities required to deliver water from the SWP to certain water purveyors and users in Santa Barbara County.

Each project participant, including the District, has entered into a Water Supply Agreement to provide for the development, financing, construction, operation and maintenance of the CCWA Project. The purpose of the Water Supply Agreement is to assist in carrying out the purposes of CCWA with respect to the CCWA Project by:

1) requiring CCWA to sell, and the project participants to buy, a specified amount of water from CCWA ("take or pay"); and
2) assigning the Santa Barbara project participant's entitlement rights in the State Water project to CCWA.

Note 14 - Commitments and Contingencies (Continued)

Although the District does have an ongoing financial interest pursuant to the Water Supply Agreement between the District and CCWA, the District does not have an equity interest as defined by GASB Code Sec. J50.105.

Each project participant is required to pay to CCWA an amount equal to its share of the total cost of "fixed project costs" and certain other costs in the proportion established in the Water Supply Agreement. This includes the project participant's share of payments to the State Department of Water Resources (DWR) under the State Water Supply Contract (including capital, operation, maintenance, power and replacement costs of the DWR facilities) debt service on CCWA bonds and all CCWA operating and administrative costs.

Each project participant is required to make payments under its Water Supply Agreement solely from the revenues of its water system. Each project participant has agreed in its Water Supply Agreement to fix, prescribe and collect rates and charges for its water system which will be at least sufficient to yield each fiscal year net revenues equal to 125% of the sum of (1) the payment required pursuant to the Water Supply Agreement, and (2) debt service on any existing participant obligation for which revenues are also pledged.

CCWA is composed of eight members, all of which are public agencies. CCWA was organized and exists under a joint exercise of power agreement among the various participating public agencies. The Board of Directors is made up of one representative from each participating entity. Votes on the Board are approximately apportioned between the entities based upon each entity’s allocation of State water entitlement. The Carpinteria Valley Water District share of the project, based upon number of acre-feet of water, is 10.487%. Operating and capital expenses are allocated among the members based upon various formulas recognizing the benefits of the various project components to each member.

On October 1, 1992, CCWA sold $177,120,000 in revenue bonds at a true interest cost of 6.64% to enable CCWA to finance a portion of the costs of constructing a water treatment plant to treat State water for use by various participating water purveyors and users within Santa Barbara and San Luis Obispo Counties, a transmission system to deliver such water to the participating water purveyors and users within Santa Barbara County, and certain local improvements to the water systems of some of the participating purveyors.

In November 1996, CCWA sold $198,015,000 of revenue bonds at a true interest cost of 5.55% to defease CCWA’s $177,120,000 1992 revenue bonds and to pay certain costs of issuing the bonds. The 1996 bonds were issued in two series: Series A of $173,015,000 and Series B of $25,000,000. The Series B bonds are subject to mandatory redemption from amounts transferred from the Construction Fund and the Reserve Fund upon completion of the construction of CCWA facilities.

Note 14 - Commitments and Contingencies (Continued)

CCWA issued the Series 2006A Refunding Revenue Bonds for $123,190,000 at a true interest cost of 4.24% to defease the 1996 Revenue Bonds. A portion of the bond proceeds together with other funds were placed into an escrow account invested in securities which will provide sufficient funds to pay the regularly scheduled principal of and interest on the refunded bonds on October 1, 2006, and to pay on October 3, 2006 the principal of and accrued interest to the date of redemption, and redemption premium, if any, on the refunded bonds maturing on and after October 1, 2006.

The Carpinteria Valley Water District estimated minimum State water payments for the next five fiscal years are summarized below:

Fiscal Year Ending June 30,	Fixed Costs	Variable Costs	Debt Service	Total
2013	$ 1,624,498	$ 49,779	$ 1,123,730	$ 2,798,007
2014	1,915,908	59,791	1,163,021	3,138,720
2015	1,967,244	58,665	1,162,429	3,188,338
2016	2,014,283	60,059	1,160,877	3,235,219
2017	1,968,752	-	1,159,792	3,128,544
Thereafter (through 2035)	35,719,809	-	5,788,398	41,508,207
Total	$ 45,210,494	$ 228,294	$ 11,558,247	$ 56,997,035

B) Bradbury Dam

The District, as a member of the Cachuma Operations and Maintenance Board (COMB), is responsible for a portion of costs associated with certain capital improvements to the Bradbury Dam. The improvements are required to meet certain earthquake and seismic safety standards imposed by public agencies. Pursuant the “Bradbury Dam SOD ACT Repayment Agreement”, between COMB and the Bureau of Reclamation, the District will be required to make annual payments of $18,037 commencing October 2002 through 2015, annual payments of $28,649 commencing October 2016 through 2026 and annual payments of $10,612 commencing October 2027 through 2051 to finance the project.

The Districts future obligations are as follows:

2013	$ 18,037
2014	18,037
2015	18,037
2016	28,649
2017	28,649
Thereafter	559,215

Note 14 - Commitments and Contingencies (Continued)

C) Cater Advanced Treatment Project

The City of Santa Barbara is making improvements to the Cater Treatment Plant with a total estimated cost of approximately $20,000,000. The project is expected to be completed by mid-year 2013. The District's portion of the project is estimated to be approximately $4,000,000. As of the date of these financial statements, the District's portion of the expenditures incurred amounted to approximately $2,333,000.

D) Ortega Reservoir

The Ortega Reservoir has construction defects to its basin. Although the reservoir is not a capital asset of the District, the District, along with Montecito Water District, will be required to pay for the repairs, which may be significant. The total cost of the repairs cannot be estimated.

Note 15 - Subsequent Events

Subsequent events have been evaluated through November 20, 2012, the date that the financial statements were available to be issued.