

**EL TORO WATER DISTRICT**  
**BASIC FINANCIAL STATEMENTS**  
**WITH REPORT ON AUDIT**  
**BY INDEPENDENT**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**JUNE 30, 2011**

EL TORO WATER DISTRICT

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
El Toro Water District  
Lake Forest, California

We have audited the accompanying statements of net assets of the El Toro Water District as of and for the year ended June 30, 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year partial comparative information has been derived from financial statements of the District for the year ended June 30, 2010 and in our report dated September 27, 2010, we expressed an unqualified opinion on these statements.

We conducted our audit 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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the El Toro Water District as of June 30, 2011 and its changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as the 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 and other post-employment benefit plan - schedule of funding progress, as identified in the accompanying table of contents, 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 the 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 on them.

*White Nelson Duhl Evans LLP*

November 2, 2011  
Irvine, California

# EL TORO WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the basic financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

The financial highlights presented below, for fiscal years 2010 and 2011 are explained more fully in the body of this section.

#### Fiscal Year 2011

- The District's net assets decreased by \$746,505 or 1.12 percent.
- During the year the District's total revenues increased to \$20,790,399 or 3.72 percent, and expenses increased to \$21,642,103 or 2.46 percent from the prior year.
- Capital contributions to the District increased to \$105,199 or 37.70 percent.

#### Fiscal Year 2010

- The District's net assets decreased by \$1,001,472 or 1.49 percent.
- During the year the District's total revenues increased to \$20,045,603 or 1.63 percent, and expenses increased to \$21,123,471 or 5.92 percent from the prior year.
- Capital contributions to the District decreased to \$76,396 or 79.27 percent.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: Management's Discussion and Analysis and the Basic Financial Statements. The Basic Financial Statements also include notes that explain in more detail some of the information in the basic financial statements.

### REQUIRED FINANCIAL STATEMENTS

The Basic Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also 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. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The Statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

See independent auditors' report.

# EL TORO WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

### **FINANCIAL ANALYSIS OF THE DISTRICT**

Management's analysis of the District begins on page 12 of the Basic Financial Statements. One of the most important questions asked about the District's finances is "Is the District operating as planned (budgeted) and is the plan representative of prudent fiscal management and meeting the goals of the governing board?" The Statement of Net Assets, and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District's activities in a way that will help answer this question. These two statements report the net assets of the District and changes in them. You can think of the District's net assets, the difference between assets and liabilities, as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in economic conditions, population growth, zoning and new or changed governmental legislation.

See independent auditors' report.

EL TORO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**NET ASSETS**

To begin our analysis, a summary of the District's Statements of Net Assets is presented in Table 1.

TABLE 1  
Condensed Statements of Net Assets

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change	Fiscal Year 2009	Dollar Change
<b>Assets:</b>					
Current and other assets	\$ 25,659,869	\$ 27,794,418	\$ (2,134,549)	\$ 27,707,830	\$ 86,588
Capital assets	53,136,209	52,209,195	927,014	53,145,530	(936,335)
Total Assets	<u>78,796,078</u>	<u>80,003,613</u>	<u>(1,207,535)</u>	<u>80,853,360</u>	<u>(849,747)</u>
<b>Liabilities:</b>					
Noncurrent liabilities	9,601,166	9,451,644	149,522	9,038,078	413,566
Other liabilities	3,530,089	4,140,641	(610,552)	4,443,791	(303,150)
Total Liabilities	<u>13,131,255</u>	<u>13,592,285</u>	<u>(461,030)</u>	<u>13,481,869</u>	<u>110,416</u>
<b>Net Assets:</b>					
Invested in capital assets, net of related debt	44,623,580	43,164,937	1,458,643	42,688,205	476,732
Restricted	4,657,372	4,399,089	258,283	4,181,462	217,627
Unrestricted	16,383,871	18,847,302	(2,463,431)	20,501,824	(1,654,522)
Total Net Assets	<u>\$ 65,664,823</u>	<u>\$ 66,411,328</u>	<u>\$ (746,505)</u>	<u>\$ 67,371,491</u>	<u>\$ (960,163)</u>

As can be seen from Table 1, net assets decreased by \$(746,505) from fiscal year 2010 to 2011. Looking more carefully at the table you can see that the three components of the change consisted of net assets invested in capital assets, net of related debt, restricted net assets and unrestricted net assets in fiscal year 2011.

A further review of net assets shows that net assets invested in capital assets, net of related debt increased by \$1,458,643 due to a continued investment in infrastructure and net decrease in related debt as a result of annual principal payments. Restricted net assets (those established by debt covenants, enabling legislation, or other legal requirements), experienced an increase of \$258,283 in fiscal year 2011 due to an increase in collections of the Standby Fee in excess of designated current year expenditures. Finally, unrestricted net assets decreased by \$2,463,431, anticipated as part of the District's plan to prudently utilize District reserves.

See independent auditors' report.

EL TORO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

NET ASSETS (CONTINUED)

TABLE 2  
Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change	Fiscal Year 2009	Dollar Change
Revenues:					
Operating revenues	\$ 19,483,679	\$ 18,619,690	\$ 863,989	\$ 17,899,450	\$ 720,240
Nonoperating revenues	1,306,720	1,425,913	(119,193)	1,824,449	(398,536)
Total Revenues	20,790,399	20,045,603	744,796	19,723,899	321,704
Expenses:					
Depreciation expense	2,773,965	2,740,893	33,072	2,567,483	173,410
Operating expenses	18,346,669	17,735,567	611,102	16,626,139	1,109,428
Nonoperating expenses	521,469	647,011	(125,542)	748,153	(101,142)
Total Expenses	21,642,103	21,123,471	518,632	19,941,775	1,181,696
Income (loss) before Capital Contributions	(851,704)	(1,077,868)	226,164	(217,876)	(859,992)
Capital contributions	105,199	76,396	28,803	368,603	(292,207)
Change in Net Assets	(746,505)	(1,001,472)	226,164	150,727	(859,992)
Beginning Net Assets	66,411,328	67,412,800	(1,001,472)	67,262,073	150,727
Ending Net Assets	\$ 65,664,823	\$ 66,411,328	\$ (775,308)	\$ 67,412,800	\$ (709,265)

While the Statements of Net Assets show the change in financial position, the Statements of Revenues, Expenses and Changes in Net Assets provides answers as to the nature and source of these changes. As can be seen in Table 2, loss before capital contributions of \$(851,704) and capital contributions of \$105,199 resulted in a decrease in net assets of \$(746,505) in fiscal year 2011.

A closer examination of the source of changes in net assets reveals that the District's operating revenues increased by \$863,989 in fiscal year 2011 due to an increase in the Capital Facilities charge along with an increase in the water commodity rate. In addition, nonoperating revenues decreased by \$(119,193) in fiscal year 2011 due to a further decline in interest rates resulting in a decline in interest income earned on District reserves and a reduction of the District's share of property taxes. Capital contributions increased by \$28,803 due to a slight increase in redevelopment activity in the District. Total costs increased by \$518,632 in fiscal year 2011 driven by an increase in personnel cost and offset by a reduction in the utilization of consultants a decline in interest expense.

See independent auditors' report.



EL TORO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**BUDGETARY HIGHLIGHTS**

TABLE 3  
Budget vs. Actual

	Fiscal Year 2011		
	Actual	Budget (1)	Variance
Revenues:			
Operating revenues	\$ 19,483,679	\$ 19,514,413	\$ (30,734)
Nonoperating revenues	1,306,720	1,315,000	(8,280)
Total Revenues	20,790,399	20,829,413	(39,014)
Expenses:			
Operating Expenses:			
Sources of supply	209,807	169,791	(40,016)
Purchased water	6,783,894	7,367,506	583,612
Pumping	1,076,206	1,013,577	(62,629)
Treatment	2,813,771	2,597,328	(216,443)
Transmission and distribution	3,658,325	3,407,386	(250,939)
Customer accounts	423,521	377,900	(45,621)
General and administrative	3,381,145	2,946,066	(435,079)
Depreciation	2,773,965	2,506,000	(267,965)
Nonoperating expenses	521,469	579,214	57,745
Total Expenses	21,642,103	20,964,768	(677,335)
Loss Before Capital Contributions	(851,704)	(135,355)	(716,349)
Capital Contributions	105,199	-	105,199
Change in Net Assets	\$ (746,505)	\$ (135,355)	\$ (611,150)

(1) 2011 budget amounts include certain reclassifications to conform to fiscal year 2011 actual.

The variances on the budget to actual comparison within operating expenses are due to personnel costs that are allocated to the functional activity on a pre-determined allocation. However, actual costs for the personnel costs are allocated based on actual time charges to the functional activity. The overall variance can be attributed to current year OPEB costs (see Note 9) which were excluded from the budget.

See independent auditors' report.

# EL TORO WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### CAPITAL ASSETS

At the end of fiscal year 2011 the District had invested \$53,136,209 in a broad range of infrastructure as shown in Table 4.

TABLE 4  
Capital Assets

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change	Fiscal Year 2009	Dollar Change
Capital assets, not being depreciated:					
Land and easements	\$ 7,451,586	\$ 7,451,586	\$ -	\$ 7,451,586	\$ -
Construction in progress	3,887,618	2,157,465	1,730,153	1,860,888	296,577
Total capital assets, not being depreciated	11,339,204	9,609,051	1,730,153	9,312,474	296,577
Capital assets, being depreciated:					
Capacity rights	342,382	342,382	-	342,382	-
Sources of supply	19,632,044	19,605,382	26,662	19,503,760	101,622
Pumping	11,457,469	11,284,899	172,570	11,184,279	100,620
Treatment	30,516,176	30,117,006	399,170	29,019,407	1,097,599
Transmission and collection	18,574,156	17,919,012	655,144	17,868,180	50,832
General plant facilities	12,574,780	11,857,500	717,280	11,861,630	(4,130)
Total capital assets, being depreciated	93,097,007	91,126,181	1,970,826	89,779,638	1,346,543
Less accumulated depreciation	(51,300,002)	(48,526,037)	(2,773,965)	(45,946,582)	(2,579,455)
Total capital assets, being depreciated, net	41,797,005	42,600,144	(803,139)	43,833,056	(1,232,912)
Total capital assets, net	\$ 53,136,209	\$ 52,209,195	\$ 927,014	\$ 53,145,530	\$ (936,335)

The capital assets additions for fiscal year 2011 included scheduled capital replacements in accordance with the District's long-term capital plan.

Additional detail about capital assets is shown in Note 6 to the basic financial statements.

See independent auditors' report.

# EL TORO WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

### CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

#### DEBT ADMINISTRATION

At year-end, the District had \$8,512,629 in long-term liabilities down from \$9,044,258 in fiscal year 2010 for a decrease of \$(531,629) or 5.88 percent, which was the amount of fiscal year 2011 principal payments on outstanding debt net of additional borrowings on the State Revolving Fund loan. The District plans on increasing its obligation under the State Revolving Fund loan by \$3.5 million and issuing new debt in fiscal year 2012 to finance its participation in a regional water treatment facility in the amount of approximately \$7.5 million.

TABLE 5  
Long-Term Liabilities

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change	Fiscal Year 2009	Dollar Change
Certificates of participation	\$ -	\$ 240,000	\$ (240,000)	\$ 310,000	\$ (70,000)
Bonds payable	843,270	906,270	(63,000)	964,270	(58,000)
Installment payment agreements	2,772,316	3,671,225	(898,909)	4,469,892	(798,667)
Main extension contracts	6,180	6,180	-	6,180	-
State revolving fund loans	4,890,863	4,220,583	670,280	4,706,983	(486,400)
	<u>\$ 8,512,629</u>	<u>\$ 9,044,258</u>	<u>\$ (531,629)</u>	<u>\$ 10,457,325</u>	<u>\$(1,413,067)</u>

Additional detail on long-term liabilities is shown in Note 7 to the basic financial statements.

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Board of Directors and management considered many factors when setting the fiscal year 2011 budget, user fees, and charges. One of those factors is the economy. The District's customer base has not changed significantly.

Inflation in the area continues to be somewhat higher than the National Consumer Price Index (CPI) increase. The District uses the Regional All Urban Consumer Index when considering employment cost increases. It also considers the index when passing along increases in user fees.

These indicators along with the balance in existing cash reserves were taken into consideration when adopting the District's budget for fiscal year 2012.

See independent auditors' report.

# EL TORO WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2011

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (CONTINUED)

TABLE 6  
Fiscal Year 2011 Actual vs. Fiscal Year 2012 Budget

	Fiscal Year 2011 Actual	Fiscal Year 2012 Budget (1)	Variance
Revenues:			
Operating revenues	\$ 19,483,679	\$ 21,648,273	\$ 2,164,594
Nonoperating revenues	1,306,720	1,315,000	8,280
Total Revenues	<u>20,790,399</u>	<u>22,963,273</u>	<u>2,172,874</u>
Expenses:			
Operating Expenses:			
Sources of supply	209,807	195,282	14,525
Purchased water	6,783,894	7,838,775	(1,054,881)
Pumping	1,076,206	1,037,576	38,630
Treatment	2,813,771	2,598,112	215,659
Transmission and distribution	3,658,325	3,550,276	108,049
Customer accounts	423,521	397,012	26,509
General and administrative	3,381,145	3,009,902	371,243
Depreciation	2,773,965	2,506,000	267,965
Nonoperating expenses	521,469	585,000	(63,531)
Total Expenses	<u>21,642,103</u>	<u>21,717,935</u>	<u>(75,832)</u>
Loss Before Capital Contributions	(851,704)	1,245,338	2,097,042
Capital Contributions	<u>105,199</u>	<u>-</u>	<u>(105,199)</u>
Change in Net Assets	<u>\$ (746,505)</u>	<u>\$ 1,245,338</u>	<u>\$ 1,991,843</u>

(1) 2012 budget amounts include certain reclassifications to conform to fiscal year 2011 actual.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Michael P. Grandy, Assistant General Manager/CFO at El Toro Water District.

See independent auditors' report.

## **BASIC FINANCIAL STATEMENTS**

EL TORO WATER DISTRICT  
STATEMENTS OF NET ASSETS

June 30, 2011  
(With comparative totals as of June 30, 2010)

ASSETS	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS:</b>		
Unrestricted:		
Cash and cash equivalents (Note 3)	\$ 10,952,491	\$ 13,514,910
Cash and investments (Note 3)	4,541,546	3,058,792
Receivables, net:		
Customer accounts	1,699,107	1,867,444
Taxes	70,932	75,467
Interest	32,889	24,960
Notes (Note 5)	1,252,374	1,202,289
Other	172,580	273,151
Inventories (Note 4)	530,131	339,747
Prepaid expenses	102,986	100,411
Restricted:		
Cash and cash equivalents (Note 3)	<u>4,713,150</u>	<u>4,455,281</u>
<b>TOTAL CURRENT ASSETS</b>	<u>24,068,186</u>	<u>24,912,452</u>
<b>NONCURRENT ASSETS:</b>		
Notes receivable (Note 5)	1,567,342	2,854,148
Bond issuance costs, net	24,341	27,818
Capital assets (Note 6):		
Non-depreciable	11,339,204	9,609,051
Depreciable, net of accumulated depreciation	<u>41,797,005</u>	<u>42,600,144</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>54,727,892</u>	<u>55,091,161</u>
<b>TOTAL ASSETS</b>	<u>78,796,078</u>	<u>80,003,613</u>

(Continued)

See independent auditors' report and notes to basic financial statements.

EL TORO WATER DISTRICT

STATEMENTS OF NET ASSETS  
(CONTINUED)

June 30, 2011  
(With comparative totals as of June 30, 2010)

	2011	2010
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,775,817	\$ 2,337,291
Accrued payroll liabilities	73,386	176,685
Deposits	35,102	32,193
Current portion of long-term debt (Note 7)	1,590,006	1,538,280
TOTAL CURRENT LIABILITIES	3,474,311	4,084,449
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Interest payable	55,778	56,192
NON-CURRENT LIABILITIES:		
Compensated absences	1,197,516	1,060,310
Accrued other post-employment benefits (OPEB) liability (Note 9)	1,481,027	885,356
Non-current portion of long-term debt (Note 7)	6,922,623	7,505,978
TOTAL NON-CURRENT LIABILITIES	9,601,166	9,451,644
TOTAL LIABILITIES	13,131,255	13,592,285
NET ASSETS		
Invested in capital assets, net of related debt (Note 11)	44,623,580	43,164,937
Restricted (Note 11):		
Debt service	3,646,427	3,438,994
Capital projects	1,010,945	960,095
Unrestricted	16,383,871	18,847,302
TOTAL NET ASSETS	\$ 65,664,823	\$ 66,411,328

See independent auditors' report and notes to basic financial statements.

# EL TORO WATER DISTRICT

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the year ended June 30, 2011  
(With comparative totals for the year ended June 30, 2010)

	2011	2010
OPERATING REVENUES:		
Water sales	\$ 12,247,255	\$ 11,279,626
Waste water sales	5,848,958	5,780,108
Standby charges	983,895	993,161
Reimbursements from others	125,860	102,061
Other revenues	277,711	464,734
TOTAL OPERATING REVENUES	19,483,679	18,619,690
OPERATING EXPENSES:		
Source of supply	209,807	150,394
Purchased water	6,783,894	6,774,293
Pumping	1,076,206	1,038,275
Treatment	2,813,771	2,673,452
Transmission and distribution	3,658,325	2,922,913
Customer accounts	423,521	442,574
General and administrative	3,381,145	3,733,666
Depreciation and amortization	2,773,965	2,740,893
TOTAL OPERATING EXPENSES	21,120,634	20,476,460
OPERATING LOSS	(1,636,955)	(1,856,770)
NONOPERATING REVENUES (EXPENSES):		
Investment income	268,749	335,679
Property taxes	690,711	715,968
Other revenue	347,260	374,266
Interest expenses and fiscal agent charges	(521,469)	(647,011)
TOTAL NONOPERATING REVENUES (EXPENSES)	785,251	778,902
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(851,704)	(1,077,868)
CAPITAL CONTRIBUTIONS	105,199	76,396
CHANGES IN NET ASSETS	(746,505)	(1,001,472)
NET ASSETS - BEGINNING OF YEAR	66,411,328	67,412,800
NET ASSETS - END OF YEAR	\$ 65,664,823	\$ 66,411,328

See independent auditors' report and notes to basic financial statements.



EL TORO WATER DISTRICT  
STATEMENTS OF CASH FLOWS

For the year ended June 30, 2011  
(With comparative totals for the year ended June 30, 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 18,264,550	\$ 16,820,135
Payments to suppliers for operations	(15,714,474)	(12,850,944)
Payments for general and administrative expenses	(2,751,567)	(3,265,961)
Receipts from/(payments to) others	1,485,462	1,304,017
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,283,971</u>	<u>2,007,247</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Property taxes collected	695,246	668,125
Other revenue	347,260	374,266
NET CASH PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>1,042,506</u>	<u>1,042,391</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets, net	(3,700,978)	(1,804,558)
Proceeds from long-term debt	1,165,471	-
Repayment of long-term debt	(1,697,099)	(1,413,067)
Interest payments	(518,407)	(652,359)
Capital contributions	105,199	76,396
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(4,645,814)</u>	<u>(3,793,588)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale/purchase of investments, net	(1,482,754)	(1,559,333)
Interest received	260,820	350,127
Payment received from notes receivable	1,236,721	1,409,334
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>14,787</u>	<u>200,128</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,304,550)	(543,822)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>17,970,191</u>	<u>18,514,013</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 15,665,641</u>	<u>\$ 17,970,191</u>
FINANCIAL STATEMENT PRESENTATION:		
Unrestricted	\$ 10,952,491	\$ 13,514,910
Restricted	4,713,150	4,455,281
TOTAL CASH AND INVESTMENTS	<u>\$ 15,665,641</u>	<u>\$ 17,970,191</u>

See independent auditors' report and notes to basic financial statements.

(Continued)

EL TORO WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
(CONTINUED)

For the year ended June 30, 2011  
(With comparative totals for the year ended June 30, 2010)

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING LOSS TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,636,955)	\$ (1,856,770)
Adjustment to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	2,773,965	2,740,893
Changes in assets and liabilities:		
(Increase) decrease in customer accounts receivable	168,337	(239,599)
(Increase) decrease in other receivables	100,571	(251,059)
(Increase) decrease in inventories	(190,384)	86,354
(Increase) decrease in prepaid expenses	(2,575)	(4,880)
Increase (decrease) in accounts payables	(561,475)	1,066,419
Increase (decrease) in accrued payroll liabilities	(103,299)	(1,521)
Increase (decrease) in accrued OPEB liability	595,671	435,915
Increase (decrease) in deposits	2,909	(1,816)
Increase (decrease) in compensated absences	137,206	33,311
Total adjustments	<u>2,920,926</u>	<u>3,864,017</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,283,971</u>	<u>\$ 2,007,247</u>

See independent auditors' report and notes to basic financial statements.

# EL TORO WATER DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

### 1. ORGANIZATION AND DESCRIPTION OF THE REPORTING ENTITY:

The El Toro Water District (the District) was organized under the provisions of the California Water District Law (Division 13, Sections 34000 et. seq. of the Water Code of the State of California) in September of 1960. The District is governed by a Board of Directors made up of five members elected by the qualified voters in the District. The District was formed to finance, construct, operate, and maintain a water and wastewater system to serve properties within the District's boundaries. Metropolitan Water District, through the Municipal Water District of Orange County, is the sole supplier of water to the District.

The El Toro Water District Public Facilities Corporation (the Corporation) was organized on May 21, 1993 pursuant to the Non-Profit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporation Code), solely for the purpose of providing financial assistance to the District.

The reporting entity "El Toro Water District" includes the accounts of the District and Corporation. The criteria used in determining the scope of the reporting entity are based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's Board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has accounted for the Corporation as a "blended" component unit because the services provided by the Corporation are financing services provided solely for the District and the Corporation is administered by the District who maintains financial accountability. Also, the District's Board of Directors acts as the Corporation's governing board. Despite being legally separate, this entity is so intertwined with the District that it is, in substance, part of the District's operations. Accordingly, the transactions of this component unit are reported within the District. The Corporation has one asset account (receivable) and one liability account (debt), and no operating expenses. There are no separate financial statements for the Corporation.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### a. Basic Financial Statements:

The basic financial statements are comprised of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, the Statement of Cash Flows and the notes to the basic financial statements.

See independent auditors' report.

EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Basis of Presentation:

The accounts of the District are an enterprise fund. An enterprise fund is a Proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

d. Net Assets:

In the Statement of Net Assets, net assets are classified in the following categories:

- Invested in capital assets, net of related debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- Restricted net assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net assets - This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

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.

See independent auditors’ report.

EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. Cash, Cash Equivalents and Investments:

Cash and Cash Equivalents - The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The short-term investments include the California Local Agency Investment Fund (LAIF).

Investment Valuation - Investments are stated at cost. Management believes that there is no material difference from fair market value.

State Investment Pool - The District participates in the LAIF, an investment pool managed by the State of California. LAIF has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as a result of changes in interest rates.

Restricted Cash and Investments - Amounts shown as restricted assets have been restricted by either bond indentures, law, or contractual obligations to be used for specific purposes, such as servicing bonded debt and construction of capital assets.

Deposit and Investment Risk Disclosures - In accordance with GASB Statement No. 40, "Deposit and Investment Disclosures (Amendment of GASB No. 3)", certain disclosure requirements, if applicable, are made for deposits and investment risks in the following areas:

- Interest Rate Risk
- Overall Credit Risk
- Custodial Credit Risk
- Concentrations of Credit Risk
- Foreign Currency Risk

In addition, other disclosures are specified, including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Accounts Receivable:

The District extends credit to customers in the normal course of operations. Management has evaluated the accounts and believes they are all collectible. Management evaluates all accounts receivable and if it is determined that they are uncollectible they are written off as a bad debt expense. A charge of \$18,553 and \$22,101 were made to bad debt expense for the fiscal years ended June 30, 2011 and 2010, respectively.

g. Inventories:

Inventories of materials, supplies, and water in storage are valued at historical costs and stated on a first-in, first-out basis.

h. Prepaid Expenses:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

i. Capital Assets:

Capital assets are stated at cost, net of accumulated depreciation, except for the portions acquired by contribution, which are recorded at fair value at the time received. District policy has set the capitalization threshold for reporting capital assets at \$5,000.

Depreciation is based on the estimated useful lives for those asset acquisitions that exceed the capitalization threshold as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Water Facilities:		
Reservoir	\$ 5,000	100 years
Transmission and distribution	5,000	20 to 60 years
Filtration plant	5,000	30 to 40 years
Other plant and equipment	5,000	5 to 15 years
Sanitation Facilities:		
Collection and transmission	5,000	15 to 50 years
Treatment and disposal plant	5,000	15 to 30 years
Other plant and equipment	5,000	5 to 15 years

See independent auditors' report.

EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

i. Capital Assets (Continued):

Net interest costs are capitalized on projects during the construction period. Total interest costs capitalized for fiscal years ended June 30, 2010 and 2011 amounted to \$0 and \$10,489, respectively.

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.

j. Claims and Judgments:

An estimated loss is recorded, net of insurance coverage, and inclusive of an estimate for incurred but unreported claims, when it is probable that a claim liability has been incurred and the amount of the loss can be reasonably estimated.

k. Compensated Absences:

The District has a policy whereby an employee can accumulate unused sick leave and vacation. The vacation policy allows employees hired prior to July 1, 1997 to accumulate up to a maximum of 160 hours, and up to a maximum of 240 hours if hired after July 1, 1997; any hours exceeding these maximums will be paid to the employees annually at their then current pay rate. The sick leave policy allows employees to accumulate up to a maximum of 960 hours. At the end of each calendar year, accumulated sick leave over 960 hours will be transferred to vacation time. A factor of 5% times the number of complete years of employment will be applied to the hours accumulated over 960 to determine the number of hours to be transferred. The balance at June 30, 2011 for sick leave and vacation was \$1,197,516 and was included in the accompanying Statement of Net Assets.

l. Bond Issuance Costs:

The cost of issuance on bonded debt is amortized over the respective lives of the bonded debt.

m. Property Taxes:

Property taxes in California are levied in accordance with Article XIII A of the State Constitution at 1% of countywide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local governments. In addition, the District has a standby charge in place to meet the District's future obligations under the State Water Resources Control Board State Revolving Fund loan program and Installment Purchase Agreement. Property tax revenue is recognized in the fiscal year in which taxes are levied.

See independent auditors' report.

EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

m. Property Taxes (Continued):

The property tax calendar is as follows:

Lien date:	January 1
Levy date:	July 1
Due dates:	First installment - November 10 Second installment - February 10
Delinquent dates:	First installment - December 11 Second installment - April 11

Taxes are collected by the County of Orange and are generally remitted to the District periodically according to the following schedule (dates and percentages may vary slightly from year to year):

November 21	7% - 10%
December 13	10% - 15%
December 21	20% - 25%
January 23	10% - 15%
March 21	5% - 7%
April 19	15% - 20%
May 21	10% - 15%
July 16	1% - 2%

n. Capital Contributions:

The amounts of contributions by developers are recorded as revenues in accordance with GASB Statement No. 33, "Accounting and Financial Reporting for Non-Exchange Transactions".

o. Estimates:

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

See independent auditors' report.



EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

p. Prior Year Data:

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

3. CASH AND INVESTMENTS:

**Cash and Investments:**

Cash and investments as of June 30, 2011 are presented on the Statement of Net Assets as follows:

Unrestricted:	
Cash and cash equivalents	\$ 10,952,491
Cash and investments	4,541,546
Restricted:	
Cash and cash equivalents	<u>4,713,150</u>
	<u>\$ 20,207,187</u>

Restricted cash and cash equivalents as of June 30, 2011 consisted of the following:

Debt service	\$ 3,702,205
Capital projects	<u>1,010,945</u>
	<u>\$ 4,713,150</u>

Cash and investments as of June 30, 2011 consisted of the following:

Demand Deposits:	
Cash deposits	\$ 718,824
Escrow deposit	153,900
Petty cash	<u>700</u>
Total demand deposits	<u>873,424</u>
Investments:	
United States Government Sponsored Agency Securities	4,541,546
California Asset Management Program (CAMP)	5,187,432
California Local Agency Investment Fund (LAIF)	<u>9,604,785</u>
Total investments	<u>19,333,763</u>
Total cash and investments	<u>\$ 20,207,187</u>

See independent auditors' report.

EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

3. CASH AND INVESTMENTS (CONTINUED):

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

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

This table does not address investments of debt proceeds held by bond trustees 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of *Portfolio</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	5 years	None	None
United States Government Sponsored Agency Securities	5 years	None	None
Municipal debt	5 years	10%	None
Medium Term Notes	5 years	15%	None
Commercial paper	270 days	10%	10% of outstanding paper of issuer
Bankers Acceptance	180 days	15%	None
Negotiable Certificates of Deposit	1 year	30%	None
Money Market Funds	N/A	10%	None
California Local Agency Investment Fund (LAIF)	N/A	\$30 M	None
California Asset Management Program (CAMP)	N/A	50%	None

See independent auditors' report.

EL TORO WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

3. CASH AND INVESTMENTS (CONTINUED):

**Investments Authorized by Debt Agreements:**

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	None	None	None
United States Government Sponsored Agency Securities	None	None	None
Municipal debt	None	None	None
Bankers Acceptance	None	None	None
Certificates of Deposit	None	None	None
Money Market Funds	None	None	None
Repurchase Agreements	None	None	None
Investment Agreements	None	None	None

**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.

See independent auditors' report.

# EL TORO WATER DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

### 3. CASH AND INVESTMENTS (CONTINUED):

#### Disclosures Relating to Interest Rate Risk (Continued):

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.

Investment Type	Remaining Maturity (in Years)			Total
	Less Than 1 Year	1 to 2 Years	Over 2 Years	
United States Government Sponsored				
Agency Securities:				
Federal Home Loan Mortgage Corporation	\$ 505,757	\$ 1,076,512	\$ 999,271	\$ 2,581,540
Federal National Mortgage Association	-	956,111	1,003,895	1,960,006
CAMP	5,187,432	-	-	5,187,432
LAIF	9,604,785	-	-	9,604,785
	<u>\$ 15,297,974</u>	<u>\$ 2,032,623</u>	<u>\$ 2,003,166</u>	<u>\$ 19,333,763</u>

#### Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSROs). Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual ratings, as reported by Standard and Poor's as of year end for each investment type:

Investment Type	Minimum Legal Rating	Total June 30, 2011	AAA AA+	Unrated
United States Government Sponsored				
Agency Securities:				
Federal Home Loan Mortgage Corporation	N/A	\$ 2,581,540	\$ 2,581,540	\$ -
Federal National Mortgage Association	N/A	1,960,006	1,960,006	-
CAMP	N/A	5,187,432	5,187,432	-
LAIF	NA	9,604,785	-	9,604,785
		<u>\$ 19,333,763</u>	<u>\$ 9,728,978</u>	<u>\$ 9,604,785</u>

Subsequent to June 30, 2011, Standard and Poor's reduced the rating of the United States Government Sponsored Agency Securities from AAA to AA+.

See independent auditors' report.

# EL TORO WATER DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

### 3. 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. Investments in any one issuer that represents 5% or more of total District's investments as of June 30, 2011 are as follows:

Issuer	Investment Type	Amount	Percent
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	\$ 2,581,540	13.35 %
Federal National Mortgage Association	United States Government Sponsored Agency Securities	\$ 1,960,006	10.14 %

#### 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 and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, 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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The carrying amount of the District's cash deposits was \$718,821 at June 30, 2011. At June 30, 2011, total bank balances of deposits in the amount of \$806,627 were fully insured by the Federal Deposit Insurance Corporation.

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks related to investments. At June 30, 2011, \$4,541,546 of the United States Government Sponsored Agency Securities were held by the broker-dealer (counterparty) used by the District to buy securities.

See independent auditors' report.

EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

3. CASH AND INVESTMENTS (CONTINUED):

**Investment in California Asset Management Program:**

The California Asset Management Program (the CAMP) is a public joint powers authority which provides California Public Agencies with investment management services for surplus funds and comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of tax-exempt financings. The CAMP currently offers the Cash Reserve Portfolio, a short-term investment portfolio, as a means for Public Agencies to invest these funds. Public Agencies that invest in the Pool (Participants) purchase shares of beneficial interest. Participants may also establish individual, professionally managed investment accounts (Individual Portfolios) by separate agreement with the Investment Advisor. The District has a separate account with the Investment Advisor to manage part of the CAMP portfolio which consists of \$4,541,546 of United States Government Sponsored Agency Securities.

Investments in the Pools and Individual Portfolios are made only in investments in which Public Agencies generally are permitted by California statute. The CAMP may reject any investment and may limit the size of a Participant's account. The Pool seeks to maintain, but does not guarantee, a constant net asset value of \$1.00 per share. A Participant may withdraw funds from its Pool accounts at any time by check or wire transfers. Requests for wire transfers must be made by 9:00 a.m. that day. Fair value of the Pool is determined by the fair value per share of the Pool's underlying portfolio.

**Investment in State Investment Pool:**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 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 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.

4. INVENTORIES:

Inventories consisted of the following as of June 30, 2011:

Unleaded gasoline	\$ 9,074
Diesel fuel	33,237
Material and supplies	193,992
Water in storage	293,828
Total	<u>\$ 530,131</u>

See independent auditors' report.

# EL TORO WATER DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

### 5. NOTES RECEIVABLE:

The following is a summary of notes receivable at June 30, 2011:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Current	Long-Term
Metropolitan Water District of Southern California -						
Allen-McColloch Pipeline \$	448,819	\$ -	\$ (81,026)	\$ 367,793	\$ 50,451	\$ 317,342
Santa Margarita Water District:						
Capacity sale	2,220,073	-	(711,197)	1,508,876	739,645	769,231
Option sale	<u>1,387,545</u>	<u>-</u>	<u>(444,498)</u>	<u>943,047</u>	<u>462,278</u>	<u>480,769</u>
Total	<u>\$ 4,056,437</u>	<u>\$ -</u>	<u>\$ (1,236,721)</u>	<u>\$ 2,819,716</u>	<u>\$ 1,252,374</u>	<u>\$ 1,567,342</u>

#### a. Metropolitan Water District of Southern California - Allen-McColloch Pipeline:

Effective July 1, 1994, Municipal Water District of Orange County (MWDOC) and the participants, including the District, of the Allen-McColloch Pipeline (AMP) Project and facilities sold the AMP Project and facilities to Metropolitan Water District of Southern California (Metropolitan). The terms of the overall sale consisted of three components paid by (1) an initial payment of \$11,000,000, (2) \$59,800,000 to be paid in annual installments of \$4,600,000 plus interest commencing July 1, 1994 through and including July 1, 2006, and (3) principal and interest on the 1989 Certificates of Participation issued by MWDOC.

Pursuant to the agreement, the District's portion of the annual installments is recorded as a note receivable in the amount of \$367,793 at June 30, 2011. There is no fixed payment schedule of the note receivable. Estimated future maturities in the amount of \$50,451 are anticipated for the year ending June 30, 2012.

#### b. Santa Margarita Water District:

On March 20, 2000 the District entered into an agreement to sell one half of the R6 Reservoir capacity (358 acre feet), together with such additional capacity as may be available in the future, for the sum of \$11,200,000 to the Santa Margarita Water District (SMWD). The amount to be paid by SMWD to the District in annual installments was \$800,000 beginning June 14, 2000 and continuing each June 14<sup>th</sup> until 2013. In addition to payment of annual installments, SMWD will also pay ongoing R6 Reservoir operating and maintenance expenses as set forth in the agreement. The monies generated from this sale are to be used primarily for the purpose of reducing the District's water rates within its service areas.

See independent auditors' report.

# EL TORO WATER DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

### 5. NOTES RECEIVABLE (CONTINUED):

#### b. Santa Margarita Water District (Continued):

In addition to the benefits of jointly owning capacity in the R6 Reservoir, the potential for the opportunity to secure direct deliveries of water from the Orange County groundwater basin and other potential water transfer projects was a significant consideration for entering into the agreement and establishing the consideration paid for capacity in the R6 Reservoir and the option granted by the District to SMWD.

In addition to the sale of the capacity to SMWD, the District granted an option to SMWD to purchase potable water from the District, within its system connected to SMWD in an amount equivalent to fifty percent of the water which the District actually produces for the Orange County groundwater basin each year provided that the District is not required to sell SMWD an amount greater than two thousand acre feet. As consideration for the option, the District will receive \$7,000,000 from SMWD irrespective of whether the District can produce groundwater from the Orange County groundwater basin, payable in equal annual installments of \$500,000 per year commencing June 14, 2000 and continuing on June 14<sup>th</sup> each year until paid. SMWD will also construct a connection from its facilities to the R6 Reservoir at its own expense. The District has the right to cancel the option granted to SMWD. If the option is revoked by the District, the District must pay SMWD \$7,000,000 irrespective of the number of payments made by SMWD and reimburse SMWD's actual project costs of constructing the connection from the SMWD's facilities to the R6 Reservoir.

The annual remaining payment requirements from the SMWD are as follows:

#### Capacity Sale

Year Ending June 30,	Principal	Interest	Total
2012	\$ 739,645	\$ 60,355	\$ 800,000
2013	769,231	30,769	800,000
Totals	<u>\$ 1,508,876</u>	<u>\$ 91,124</u>	<u>\$ 1,600,000</u>

#### Option Sale

Year Ending June 30,	Principal	Interest	Total
2012	\$ 462,278	\$ 37,722	\$ 500,000
2013	480,769	19,231	500,000
Totals	<u>\$ 943,047</u>	<u>\$ 56,953</u>	<u>\$ 1,000,000</u>

See independent auditors' report.



# EL TORO WATER DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

### 6. CAPITAL ASSETS:

Changes in capital assets and accumulated depreciation as of June 30, 2011 were as follows:

	Balance July 1, 2010	Additions	Deletions or Reclassification	Balance June 30, 2011
Capital assets, not being depreciated:				
Land and easements	\$ 7,451,586	\$ -	\$ -	\$ 7,451,586
Construction in progress	2,157,465	2,943,498	(1,213,345)	3,887,618
Total capital assets, not being depreciated	9,609,051	2,943,498	(1,213,345)	11,339,204
Capital assets, being depreciated:				
Capacity rights	342,382	-	-	342,382
Sources of supply	19,605,382	26,662	-	19,632,044
Pumping	11,284,899	172,570	-	11,457,469
Treatment	30,117,006	399,170	-	30,516,176
Transmission and collection	17,919,012	655,144	-	18,574,156
General plant facilities	11,857,500	717,280	-	12,574,780
Total capital assets, being depreciated	91,126,181	1,970,826	-	93,097,007
Less accumulated depreciation/amortization:				
Capacity rights	(178,082)	(6,846)	-	(184,928)
Sources of supply	(7,848,755)	(364,870)	-	(8,213,625)
Pumping	(6,704,774)	(363,994)	-	(7,068,768)
Treatment	(16,814,723)	(1,094,008)	-	(17,908,731)
Transmission and collection	(8,129,444)	(359,219)	-	(8,488,663)
General plant facilities	(8,850,259)	(585,028)	-	(9,435,287)
Total accumulated depreciation/amortization	(48,526,037)	(2,773,965)	-	(51,300,002)
Total capital assets being depreciated, net	42,600,144	(803,139)	-	41,797,005
Total capital assets, net	\$ 52,209,195	\$ 2,140,359	\$ (1,213,345)	\$ 53,136,209

Depreciation/amortization expense for the depreciable capital assets was \$2,773,965 for the year ended June 30, 2011.

See independent auditors' report.

EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

7. LONG-TERM LIABILITIES:

The following is a summary of long-term liabilities at June 30, 2011:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Current	Long-Term
1993 Certificates of Participation Refunding Series A	\$ 240,000	\$ -	\$ (240,000)	\$ -	\$ -	\$ -
2002 Installment Purchase Agreement	906,270	-	(63,000)	843,270	68,000	775,270
Installment Payment Agreements	3,671,225	-	(898,909)	2,772,316	1,011,728	1,760,588
Main Extension Contracts	6,180	-	-	6,180	6,180	-
State Revolving Fund Loans	4,220,583	1,165,471	(495,191)	4,890,863	504,098	4,386,765
Compensated absences	1,060,310	137,206	-	1,197,516	-	1,197,516
OPEB (see Note 9)	885,356	709,936	(114,265)	1,481,027	-	1,481,027
Total	<u>\$ 10,989,924</u>	<u>\$ 2,012,613</u>	<u>\$ (1,811,365)</u>	<u>\$ 11,191,172</u>	<u>\$ 1,590,006</u>	<u>\$ 9,601,166</u>

a. 1993 Certificates of Participation Refunding Series A - Original Issue \$1,060,000:

The District issued the Certificates of Participation Refunding Series A (1993A Certificates) dated June 15, 1993 for \$1,060,000. The purpose of the 1993A Certificates was to refinance the \$1,130,000 aggregate outstanding principal amount of the California Pollution Control Financing Authority, Pollution Control Revenue Bonds, (Laguna Hills Sanitation, Inc. Project), Series 1980A.

The 1993A Certificates were payable solely from net revenues of the District. The District had covenanted to set rates and charges to its customers, which would ensure net revenues to at least 125% of the annual principal and interest payments on the 1993A Certificates.

Principal was payable annually beginning May 15, 1994 through May 15, 2013. Interest was payable semiannually on May 15 and November 15, beginning May 15, 1993. The interest rates of the 1993A Certificates range from 3.25% to 6.10%. The Certificates were subject to optional, mandatory and extraordinary mandatory redemption prior to maturity. The final payment on the Certificates was made in fiscal year 2010-2011.

See independent auditors' report.

EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

7. LONG-TERM LIABILITIES (CONTINUED):

- b. 2002 Installment Purchase Agreement (Modification of 1993 Certificates of Participation Series B) - Refinanced Issue \$1,310,270:

In April 2002, the Installment Purchase Agreement was made for modification of the 1993 Certificates of Participation Series B in the amount of \$1,310,270. Principal is payable annually each May 15 at amounts of \$11,270 to \$188,000 through April 11, 2018. Interest of 4.90% is payable semiannually on May 15 and November 15.

The annual debt service requirements for the 2002 Installment Purchase Agreement outstanding at June 30, 2011, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 68,000	\$ 41,320	\$ 109,320
2013	68,000	37,988	105,988
2014	162,000	34,656	196,656
2015	168,000	26,718	194,718
2016	178,000	18,486	196,486
2017 - 2018	<u>199,270</u>	<u>10,317</u>	<u>209,587</u>
Totals	<u>\$ 843,270</u>	<u>\$ 169,485</u>	<u>\$ 1,012,755</u>

- c. Installment Payment Agreements:

The Installment Payment Agreements are the result of the acquisition of the Laguna Hills Water Company and the Laguna Hills Sanitation, Inc. The agreements provides for annual combined principal and interest payments of \$1,300,000. The payments are for 30 years, maturing on March 15, 2014 and include interest at 12% per annum. The outstanding balances at June 30, 2011 are comprised of:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Current	Long-Term
Laguna Hills Water						
Company	\$ 2,523,967	\$ -	\$ (617,999)	\$ 1,905,968	\$ 695,563	\$ 1,210,405
Laguna Hills						
Sanitation, Inc.	<u>1,147,258</u>	<u>-</u>	<u>(280,910)</u>	<u>866,348</u>	<u>316,165</u>	<u>550,183</u>
Total	<u>\$ 3,671,225</u>	<u>\$ -</u>	<u>\$ (898,909)</u>	<u>\$ 2,772,316</u>	<u>\$ 1,011,728</u>	<u>\$ 1,760,588</u>

See independent auditors' report.

# EL TORO WATER DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

### 7. LONG-TERM LIABILITIES (CONTINUED):

#### c. Installment Payment Agreements (Continued):

The annual debt service requirements for the Installment Payment Agreement of the Laguna Hills Water Company outstanding at June 30, 2011, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 695,563	\$ 198,187	\$ 893,750
2013	782,863	110,887	893,750
2014	<u>427,542</u>	<u>19,334</u>	<u>446,876</u>
Totals	<u>\$ 1,905,968</u>	<u>\$ 328,408</u>	<u>\$ 2,234,376</u>

The annual debt service requirements for the Installment Payment Agreement of the Laguna Hills Sanitation, Inc. outstanding at June 30, 2011, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 316,165	\$ 90,085	\$ 406,250
2013	355,847	50,403	406,250
2014	<u>194,336</u>	<u>8,788</u>	<u>203,124</u>
Totals	<u>\$ 866,348</u>	<u>\$ 149,276</u>	<u>\$ 1,015,624</u>

#### d. Main Extension Contracts:

The Laguna Hills Water Company and developers entered into agreements entitled Main Extension Contracts (the Contracts) which stated that developers would advance funds to the Laguna Hills Water Company for construction of certain water main extensions or construct the water main extensions themselves and deed them to the Laguna Hills Water Company. In exchange, the Laguna Hills Water Company would pay back the amount of money advanced or incurred by the developers.

The Contracts are payable to the developers without interest. The payments are based on a percentage of revenue received from units served by the water main. The Contracts must be repaid in not more than 25 years, but may be paid off in advance at the option of the District.

The outstanding balance at June 30, 2011 was \$6,180.

See independent auditors' report.

# EL TORO WATER DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

### 7. LONG-TERM LIABILITIES (CONTINUED):

#### e. State Revolving Fund Loans:

The outstanding balances for the State Revolving Fund Loans at June 30, 2011 are comprised of:

	Balance			Balance		
	July 1, 2010	Additions	Deletions	June 30, 2011	Current	Long-Term
State Revolving Fund						
Loans for the:						
Wastewater						
Treatment						
Plant upgrade	\$ 4,220,583	\$ -	\$ (495,191)	\$ 3,725,392	\$ 504,098	\$ 3,221,294
Northline Lift						
Station						
Improvement						
Project	-	1,165,471	-	1,165,471	-	1,165,471
Total	<u>\$ 4,220,583</u>	<u>\$ 1,165,471</u>	<u>\$ (495,191)</u>	<u>\$ 4,890,863</u>	<u>\$ 504,098</u>	<u>\$ 4,386,765</u>

#### Wastewater Treatment Plant Upgrade

In December 1995, the District obtained approval for a State Revolving Fund Loan (the Loan) through the State Water Resources Control Board (SWRCB), an agency of the State of California. The Loan was obtained to fund a substantial portion of the El Toro Water District Wastewater Treatment Plant upgrade project. The District received loan disbursements through the completion of the project for an aggregate loan amount of approximately \$9,570,000, bearing an imputed interest rate of less than 1.5%. The District established a reserve fund by setting aside \$571,267.

The annual debt service requirements for the Loan outstanding at June 30, 2011, are as follows:

Year Ending	Principal	Interest	Total
June 30,			
2012	\$ 504,098	\$ 67,169	\$ 571,267
2013	513,187	58,080	571,267
2014	522,439	48,828	571,267
2015	531,859	39,408	571,267
2016	541,449	29,818	571,267
2017 - 2018	1,112,360	30,173	1,142,533
Totals	<u>\$ 3,725,392</u>	<u>\$ 273,476</u>	<u>\$ 3,998,868</u>

See independent auditors' report.

# EL TORO WATER DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

### 7. LONG-TERM LIABILITIES (CONTINUED):

#### e. State Revolving Fund Loans (Continued):

##### **Northline Lift Station Improvement Project**

In October 2010, the District obtained approval for a State Revolving Fund Loan (the Loan) through the State Water Resources Control Board (SWRCB), an agency of the State of California. The Loan was obtained to fund a substantial portion of the El Toro Water District Northline Lift Station Improvement project. The District may borrow up to \$3,918,590 or the eligible cost of the project whichever is less bearing an interest rate of 2.7%. As of June 30, 2011, the District has received loan disbursements of \$1,165,471.

The estimated annual debt service requirements for the Loan outstanding at June 30, 2011, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ -	\$ -	\$ -
2013	16,692	61,394	78,086
2014	47,069	31,017	78,086
2015	48,340	29,746	78,086
2016	49,645	28,441	78,086
2017 - 2021	269,070	121,360	390,430
2022 - 2026	307,410	83,020	390,430
2027 - 2031	351,212	39,218	390,430
2032	<u>76,033</u>	<u>2,053</u>	<u>78,086</u>
Totals	<u>\$ 1,165,471</u>	<u>\$ 396,249</u>	<u>\$ 1,561,720</u>

The final debt service payments will be determined after receipt of the final loan borrowing.

- f. Compensated absences are comprised of unpaid vacation leave and sick leave which are accrued as earned (See Note 2k).

See independent auditors' report.

EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

8. PENSION PLAN:

The District contributes to the El Toro Water District Retirement Savings Plan and Trust (the Plan), which is a qualified defined contribution pension plan under Section 401(a) and 401(k) of the Internal Revenue Code. The Plan is administered by the District.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the participant's account balance at the time payments are calculated.

As established by the Plan, enrollment in the elective deferral portion of the Plan is completely voluntary. An employee can authorize elective deferral contributions from 0% of his or her compensation to the maximum amount allowed by law. Employees are always 100% vested in the amount of their elective deferral contributions.

The District allows qualified matching contributions. Effective December 1, 2005, the District executed an amendment to the Plan authorizing the District (as Employer) to match an amount equal to 50% of each participant's contributions to either 401(k) or 457 Plans, but no more than 12%. The District's contributions are limited to deposits toward the 401(k) plan.

In addition, the District contributes an amount equal to 9% of compensation for a plan year, for all participants regardless of whether they are employed on the last day of the plan year, and regardless of whether they made any salary deferrals to the plan.

For the year ended June 30, 2011, the District and employees made the following contributions:

	Actual <u>Contributions</u>	Percent of Covered <u>Payroll</u>
District	\$ 575,617	13%
Employees	204,001	5%

For the year ended June 30, 2011, the total payroll and the payroll for the employees covered by the Plan were \$4,342,960.

See independent auditors' report.

EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

9. OTHER POST-EMPLOYMENT BENEFITS (OPEB):

a. Plan Description:

The District provides certain post-employment health care benefits for employees hired on or before June 1, 2008. It is the District's policy to extend medical coverage into retirement beginning at age 55 if the employee has 10 consecutive years of service. Medical insurance premiums will continue to be paid by the District on behalf of the retiree and covered dependents (or surviving spouse) until the retiree attains age 65. After age 65, retiree and spouse or surviving spouse may elect to continue coverage for their further lifetime at the District's expense under a Medicare-coordinated version of either of the Association of California Water Agencies (ACWA) Blue Cross options. For both pre- and post-Medicare coverage, the retiree is required to pay a monthly premium of \$0 for retiree, \$54 for retiree plus spouse, and \$74 for retiree plus family (HMO), or \$40 for retiree, \$75 for retiree plus spouse, \$110 for retiree plus family (PPO). For employees hired after June 1, 2008, coverage is limited to the employee only beginning at age 60 if the employee has 20 consecutive years of service. The plan does not provide a publicly available financial report.

b. Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District, and/or the District's Board of Directors. Currently, contributions are not required from plan members. The District is currently funding this OPEB obligation on a pay-as-you-go basis, which the Board believes is the most appropriate method. For the year ended June 30, 2011, the District paid \$114,265 in health care costs for its retirees and their covered dependents.

c. Annual OPEB Cost and Net OPEB Obligation:

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed thirty years.



EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

c. Annual OPEB Cost and Net OPEB Obligation (Continued):

The following table shows the component of the District's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the District's net OPEB asset.

Annual required contribution (ARC)	\$ 723,262
Interest on Net OPEB obligation	44,268
Adjustment to ARC	<u>(57,594)</u>
Annual OPEB cost	709,936
Contribution made, net of adjustment	<u>(114,265)</u>
Increase in Net OPEB obligation	595,671
Net OPEB obligation at June 30, 2010	<u>885,356</u>
Net OPEB obligation at June 30, 2011	<u>\$ 1,481,027</u>

d. Three-Year Trend Information:

The District's annual OPEB cost, the actual contribution, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for the three years ended June 30, 2011 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution (Net of Adjustments)</u>	<u>Percentage of Annual OPEB Costs Contributed</u>	<u>Net OPEB Obligation</u>
6/30/09	\$ 557,480	\$ 108,039	19.38 %	\$ 449,441
6/30/10	551,795	115,880	21.00 %	885,356
6/30/11	709,936	114,265	16.10 %	1,481,027

See independent auditors' report.

EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

e. Funded Status and Funding Progress:

As of July 1, 2010, the latest actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability (AAL) for benefits was \$6,244,208, and the actuarial value of assets (AVA) was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,244,208. The covered payroll (annual payroll of active employees covered by the plan) was \$5,366,236 and the ratio of the UAAL to the covered payroll was 116.36%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the District 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 basic 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.

f. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a discount rate of 5.0% per annum, a rate of return on assets of 5.0% per annum and a healthcare cost trend rate of 8.0% initially, reduced by annual decrements of 1.0% to an ultimate rate of 5.0% after four years

# EL TORO WATER DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

### 10. 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, injuries to employees and natural disasters. In an effort to manage its risk exposure, the District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (the Authority).

The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2011, as a member of the Authority, the District participated in the insurance programs as follows:

General and Auto Liability - the District is insured up to \$60,000,000 with no deductible; subject to policy aggregate limits; the Authority is self-insured up to \$1,000,000 and excess insurance coverage has been purchased to cover losses ranging from \$1,000,000 to \$60,000,000.

Public Officials' Liability - the District has coverage for errors and omissions up to \$60,000,000 subject to policy aggregate limits; the Authority is self-insured up to \$1,000,000 and excess insurance coverage has been purchased to cover losses ranging from \$1,000,000 to \$60,000,000.

Property Loss - the District is insured up to \$100,000,000 with a \$1,000 deductible; the Authority is self-insured up to \$50,000 and insurance coverage has been purchased to cover losses ranging from \$50,000 to \$100,000,000 limited to the insurable value.

Public Employee Fidelity Bond - the District is insured up to \$1,500,000 with a \$5,000 deductible; the Authority is self-insured up to \$100,000 and excess insurance coverage has been purchased to cover losses ranging from \$100,000 to \$1,500,000.

Workers' Compensation - the District is insured up to \$4,000,000; the Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased to cover losses in excess of \$2,000,000.

Underground Storage Tank Pollution Liability - the District is insured up to \$1,000,000 with a \$10,000 deductible; the Authority is self-insured up to \$500,000 and excess insurance coverage has been purchased to cover losses ranging from \$500,000 to \$1,000,000.

See independent auditors' report.

EL TORO WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

10. RISK MANAGEMENT (CONTINUED):

At June 30, 2011, as a member of the Authority, the District participated in the insurance programs as follows (Continued):

Dam Failure Liability - the District is insured up to \$20,000,000 with \$50,000 retention and excess insurance coverage has been purchased to cover losses ranging from \$50,000 to \$20,000,000.

Fiduciary Liability - the District is insured up to \$3,000,000.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the last three years. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2011.

11. NET ASSETS:

The District's net assets are classified into the following categories:

- Invested in capital assets, net of related debt
- Restricted net assets
- Unrestricted net assets

As of June 30, 2011 the investment in capital assets, net of related debt, consisted of the following:

Capital assets, net	\$ 53,136,209
Related long-term debt	<u>(8,512,629)</u>
Invested in capital assets, net of related debt	<u>\$ 44,623,580</u>

See independent auditors' report.

# EL TORO WATER DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

### 11. NET ASSETS (CONTINUED):

As of June 30, 2011 the restricted net assets consisted of the following:

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Restricted cash and equivalents	\$ 3,702,205	\$ 1,010,945	\$ 4,413,150
Current liabilities payable from restricted assets:			
Interest payable	<u>(55,778)</u>	<u>-</u>	<u>(55,778)</u>
Restricted net assets	<u>\$ 3,646,427</u>	<u>\$ 1,010,945</u>	<u>\$ 4,657,372</u>

### 12. CONTINGENCIES AND COMMITMENTS:

The District had \$1,567,473 in outstanding contract commitments for completion of ongoing capital improvements projects at June 30, 2011.

### 13. PROPOSITION 1A BORROWINGS BY THE STATE OF CALIFORNIA:

Under the provisions of Proposition 1A and as part of the 2009-2010 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in the lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the District was \$58,245.

The borrowing by the State of California was recognized as a receivable in the accompanying financial statements. It is reported as part of taxes receivable.

See independent auditors' report.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FUNDING PROGRESS  
OTHER POST-EMPLOYMENT BENEFIT PLAN**

EL TORO WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2011

**SCHEDULE OF FUNDING PROGRESS  
OTHER POST-EMPLOYMENT BENEFIT PLAN**

Note 9e

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (AVA) (b)	Unfunded AAL (UAAL) (a) - (b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll [(a)-(b)]/(c)
7/1/2007	\$ 4,398,864	\$ -	\$ 4,398,864	0.00%	\$ 4,200,911	104.71%
7/1/2010	\$ 6,244,208	\$ -	\$ 6,244,208	0.00%	\$ 5,366,236	116.36%

See independent auditors' report and notes to basic financial statements.