



*East Orange County Water District*

**Annual Financial Report**

**For the Fiscal Years Ended June 30, 2011 and 2010**



## Our Mission Statement

“To provide the most cost effective, reliable, and highest quality water services for the present as well as the future by operating in the most cost efficient manner possible, keeping the cost of water to our customers affordable and provide a safe working environment for our employees. Serve the community in an open manner and, at all times, communicate and deliberate in public meetings where open discussions are promoted.”

### East Orange County Water District Board of Directors as of June 30, 2011

<u>Name</u>	<u>Title</u>	<u>Elected / Appointed</u>	<u>Current Term</u>
William VanderWerff	President	Elected	12/08 - 12/12
Douglas M. Chapman	Vice President	Elected	12/08 - 12/12
Richard E. Barrett	Director	Elected	12/10 - 12/14
Richard B. Bell	Director	Elected	12/10 - 12/14
John Dulebohn	Director	Elected	12/08 - 12/12

**Lisa Ohlund, General Manager**  
**East Orange County Water District**  
**185 North McPherson Road**  
**Orange, California 92869**  
**(714) 538-5815**  
**www.eocwd.com ♦ lohlund@eocwd.com**

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# **Introductory Section**





October 20, 2011

Board of Directors  
East Orange County Water District  
Orange, California

## **Introduction**

It is our pleasure to submit the Annual Financial Report for the East Orange County Water District (District) for the fiscal years ended June 30, 2011 and 2010. District staff, following guidelines set forth by the Governmental Accounting Standards Board, prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe is necessary in order to enhance your understanding of the District's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section provides general information about the District's organization and activities, and provides information useful in assessing the District's financial condition. The Financial section includes the Independent Auditors' Report, Management's Discussion and Analysis of the District's basic financial statements, and the District's audited basic financial statements with accompanying notes.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of a Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the Independent Auditors' Report.

## **District Background**

The East Orange County Water District was formed in December of 1961 and is operating under the County Water District Law, which is contained in Division 12 of the California Water Code, Sections 30000 - 33901. The District is an independent special district governed by its Board of Directors elected by the voters within the District's service area. Initially the District was formed to provide an agency which would furnish imported water to the area within its boundaries. In July of 1985, the District assumed the operations of the County of Orange WWD No. 8 as the District's Retail Zone. The District delivers water to five sub-agencies within its boundaries consisting of the Golden State Water Company, City of Tustin, Irvine Ranch Water District, City of Orange and East Orange County Water District's own Retail Zone. All of the sub-agencies use groundwater with supplemental water supplied by the District from the Allen McCulloch Pipeline or the East Orange County Feeder No.2.

The District encompasses an area of approximately 100,000 acres and is a member of the Municipal Water District of Orange County, which is a member of the Metropolitan Water District of Southern California (Metropolitan) and therefore is entitled to receive Colorado River and Northern California imported water through the distribution facilities of the Metropolitan system.

## Industry Outlook

California's water supply continues to pose many new and complex challenges for water suppliers in the state. In recent years, the District has been an active participant and leader in addressing these concerns. Through coordination and planning with other local and regional water suppliers, the District continues to engage in developing long-term solutions to the various water supply challenges.

## Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures that the assets of the District are protected from loss, theft, or misuse. The internal control structure also ensures that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

## Budgetary Control

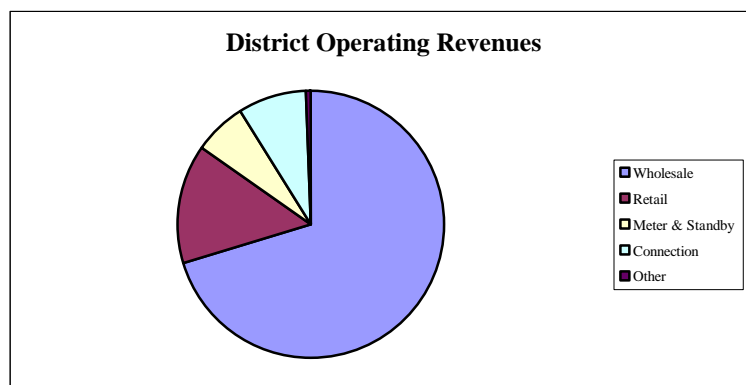
The District's Board of Directors annually adopts a balanced operating and capital budget prior to each new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget is prepared on the cash basis of accounting, the District's interim financial statements are on a modified accrual basis and the final financial statements are prepared using the full accrual basis.

## Financial Plan

The District is committed to provide its customers with a safe, reliable and efficient water system. The foundation for this commitment is based in the District's Capital Improvement Plan and the Financial Masterplan. These plans are reviewed annually as part of the District's budgeting process. The District's financial plan includes the establishment of reserve funds in accordance with the District's reserve practices. Reserve funds are set to ensure the continued orderly operation of the District's water systems, the providing of services to residents at established levels, and the continued stability of the District's rate structure. The purpose and structure of these funds are further discussed in the Management's Discussion and Analysis.

## Water Rates and District Revenues

The District's policy objective is that all revenues from user charges generated from District customers must support all District operations including capital project funding. Water rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge, and a fixed meter and standby service charge, and are reviewed on an annual basis as part of the budgeting process. The following chart reflects the District's operating revenue mix for the year ending June 30, 2011:





## **Debt Administration**

While the District has no bonded indebtedness, the District does have an obligation under a separate note payable agreement. Additional information regarding this obligation can be found in the District's audited financial statements and accompanying notes.

## **Investment Policy**

The Board of Directors annually adopts an investment policy that conforms to California State law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objectives of the Investment Policy are safety, liquidity, and yield. District funds are normally invested in the State Treasurer's Local Agency Investment Fund, Certificates of Deposits, Government Agency Obligations or other specifically authorized investments.

## **Audit and Financial Reporting**

State law and loan covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Charles Z. Fedak & Company, CPAs has conducted the audit of the District's financial statements. Their unqualified Independent Auditor's Report appears in the Financial Section.

## **Risk Management**

The District is a member of the Association of California Water Agencies – Joint Powers Insurance Authority (Authority). The purpose of the Authority is to arrange and administer risk management programs for the pooling of self-insured losses, and the purchase of excess insurance coverage.

## **Water Conservation Programs**

The District has been implementing conservation management practices for many years. The District distributes materials that encourage water conservation. Additionally, the District has offered the following conservation programs through its affiliation with the Municipal Water District of Orange County:

- Residential and Multi-family low flush toilet distribution
- Residential Appliance Rebate Program
- Residential Drought-tolerant Landscape Classes
- Residential Reimbursement Program for Smart Watering Timers

## **Other References**

More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Respectfully submitted,



Lisa Ohlund  
General Manager

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# **Financial Section**





Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA  
Christopher J. Brown, CPA

# Charles Z. Fedak & Company

Certified Public Accountants  
An Accountancy Corporation

6081 Orange Avenue  
Cypress, California 90630  
(714) 527-1818  
(562) 598-6565  
FAX (714) 527-9154  
EMAIL [czfco@czfcpa.com](mailto:czfco@czfcpa.com)  
WEB [www.czfcpa.com](http://www.czfcpa.com)

## Independent Auditor's Report

Board of Directors  
East Orange County Water District  
Orange, California

We have audited the accompanying financial statements of the East Orange County Water District (District) as of and for the fiscal years ended June 30, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 basic financial statements are free of material misstatement. 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 audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the East Orange County Water District as of June 30, 2011 and 2010, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits. This report can be found on page 30.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 9 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

### **Independent Auditor's Report, continued**

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The introductory section on pages 1 through 3 and the supplementary information of combining schedules on pages 26 through 29 are presented for purposes of additional analysis and are not required parts of the basic financial statements. The supplementary information of combining schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Charles Z. Fedak = Company CPAs - An Accountancy Corporation*

**Charles Z. Fedak and Company, CPA's – An Accountancy Corporation**  
Cypress, California  
October 20, 2011

**East Orange County Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the East Orange County Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2011 and 2010. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The District's net assets increased by 0.9% or \$149,524 to \$16,729,606 in 2011 and increased by 0.6% or \$98,813 to \$16,580,082 in 2010 as a result of each year's operations.
- In 2011, the District's operating revenues increased 38.6% or \$1,345,105 to \$4,826,780 from the prior year due primarily to a increase in wholesale water sales. In 2010, the District's operating revenues decreased 42.0% or \$1,456,744 to \$3,481,675 from the prior year due primarily to a decrease in wholesale water sales.
- In 2011, the District's operating expenses increased by 34.3% or \$1,359,380 to \$5,325,068 from the prior year due primarily to a increase in wholesale water purchases. In 2010, the District's operating expenses decreased by 35.0% or \$1,401,901 to \$3,965,688 from the prior year due primarily to an decrease in wholesale water purchases.

**Required Financial Statements**

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

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 a 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 revenue 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 if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate fiscal stability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 14 through 25.

**Financial Analysis of the District**

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

**East Orange County Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

These two statements report the District's *net assets* and changes in them. One can think of the District's net assets – the difference between assets and liabilities – as a way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, natural disasters, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

**Condensed Statement of Net Assets**

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Assets:			
Current assets	\$ 7,615,779	7,040,292	575,487
Non-current assets	208,195	241,294	(33,099)
Capital assets, net	<u>10,321,075</u>	<u>10,441,402</u>	<u>(120,327)</u>
<b>Total assets</b>	<u><u>18,145,049</u></u>	<u><u>17,722,988</u></u>	<u><u>422,061</u></u>
Liabilities:			
Current liabilities	1,393,347	1,077,717	315,630
Non-current liabilities	<u>22,096</u>	<u>65,189</u>	<u>(43,093)</u>
<b>Total liabilities</b>	<u><u>1,415,443</u></u>	<u><u>1,142,906</u></u>	<u><u>272,537</u></u>
Net assets:			
Net investment in capital assets	10,255,886	10,334,561	(78,675)
Unrestricted	<u>6,473,720</u>	<u>6,245,521</u>	<u>228,199</u>
<b>Total net assets</b>	<u><u>16,729,606</u></u>	<u><u>16,580,082</u></u>	<u><u>149,524</u></u>
<b>Total liabilities and net assets</b>	<u><u>\$ 18,145,049</u></u>	<u><u>17,722,988</u></u>	<u><u>422,061</u></u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$16,729,606 as of June 30, 2011 and \$16,580,082 as of June 30, 2010.

By far the largest portion of the District's net assets (62% in 2011 and 62% in 2010) reflects its investment in capital assets (net of accumulated depreciation), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2011 and 2010, the District shows a positive balance in its unrestricted net assets of \$6,473,720 and \$6,245,521, respectively that may be utilized in future years. The Board of Directors has taken action to reserve aspects of the unrestricted net assets for specified purposes such as asset replacement, rate stabilization, growth accommodation and emergency reserves. The District has committed to the following funds and objectives:

1. Operating Fund – Funds are maintained to capture all operating and maintenance revenues and expenditures separately for the Wholesale and Retail Zone operations. Excess revenues over expenditures are routinely transferred to the Replacement and Capital Improvements funds.
2. Replacement and Capital Improvement Funds – Separate replacement and capital improvement funds are maintained for the Wholesale District and Retail Zone.
3. Emergency Reserve Fund – This fund is earmarked by the Board of Directors for unforeseen Wholesale District emergencies or contingency expenditures.



**East Orange County Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

**Condensed Statement of Revenues, Expenses and Changes in Net Assets**

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 4,826,780	3,481,675	1,345,105
Non-operating revenues	1,043,059	1,025,091	17,968
<b>Total revenues</b>	<u>5,869,839</u>	<u>4,506,766</u>	<u>1,363,073</u>
Expenses:			
Operating expenses	5,325,068	3,965,688	1,359,380
Depreciation and amortization	392,285	437,895	(45,610)
Non-operating expenses	2,962	4,370	(1,408)
<b>Total expenses</b>	<u>5,720,315</u>	<u>4,407,953</u>	<u>1,312,362</u>
<b>Change in net assets</b>	149,524	98,813	50,711
<b>Net assets, beginning of year</b>	<u>16,580,082</u>	<u>16,481,269</u>	<u>98,813</u>
<b>Net assets, end of year</b>	<u>\$ 16,729,606</u>	<u>16,580,082</u>	<u>149,524</u>

The Statement of Revenues, Expenses and Changes in Net Assets shows how the District's net assets change during the fiscal year. In the case of the District, net assets increased by \$149,524 in 2011 and increased by \$98,813 in 2010.

In 2011, a closer examination of the sources of changes in net assets reveals that the District's total revenues increased by \$1,363,073 due primarily to an increase in wholesale water sales of \$1,308,551. In addition, total expenses increased by \$1,312,362 due primarily to an increase in water purchases of \$1,381,547.

In 2010, closer examination of the sources of changes in net assets reveals that the District's total revenues decreased by \$1,565,219 due primarily to a decrease in wholesale water sales of \$1,578,996 coupled with a decrease in investment earnings of \$91,710. In addition, total expenses decreased by \$1,430,841 due primarily to a decrease in water purchases of \$1,506,002.

### Capital Asset Administration

Changes in capital assets for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2011</u>
Non-depreciable assets	\$ 1,993,515	255,265	-	2,248,780
Depreciable assets	17,630,113	16,693	-	17,646,806
Accumulated depreciation and amortization	<u>(9,182,226)</u>	<u>(392,285)</u>	<u>-</u>	<u>(9,574,511)</u>
<b>Total capital assets, net</b>	<u>\$ 10,441,402</u>	<u>(120,327)</u>	<u>-</u>	<u>10,321,075</u>

Changes in capital assets for 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets	\$ 333,279	1,660,236	-	1,993,515
Depreciable assets	17,621,958	11,325	(3,170)	17,630,113
Accumulated depreciation and amortization	<u>(8,744,331)</u>	<u>(437,895)</u>	<u>-</u>	<u>(9,182,226)</u>
<b>Total capital assets, net</b>	<u>\$ 9,210,906</u>	<u>1,233,666</u>	<u>(3,170)</u>	<u>10,441,402</u>

**East Orange County Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

**Capital Asset Administration, continued**

The capital asset activities of the District are summarized on the previous page and in Note 4 to the basic financial statements.

**Debt Administration**

Total debt decreased by \$41,652 and \$40,256 due to principal payments made on the Note Payable to the Department of Water Resources for the years ended June 30, 2011 and 2010, respectively. The total debt position of the District is summarized below and more fully analyzed in Note 5 to the basic financial statements.

Changes in debt amounts for the year were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2011</u>
Long-term debt:				
Note payable – DWR	\$ 106,841	-	(41,652)	65,189
Total long-term debt	<u>\$ 106,841</u>	<u>-</u>	<u>(41,652)</u>	<u>65,189</u>

Changes in debt amounts for the year were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2010</u>
Long-term debt:				
Note payable – DWR	\$ 147,097	-	(40,256)	106,841
Total long-term debt	<u>\$ 147,097</u>	<u>-</u>	<u>(40,256)</u>	<u>106,841</u>

**Conditions Affecting Current Financial Position**

Management is not aware of past, present and future conditions that would have a significant impact on the District's financial position and/or net assets.

**Requests for Information**

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager, Lisa Oland at (714) 538-5815.

# **Basic Financial Statements**

**East Orange County Water District**  
**Statements of Net Assets**  
**June 30, 2011 and 2010**

<i>Assets</i>	<b>2011</b>	<b>2010</b>
Current assets:		
Cash and cash equivalents (note 2)	\$ 6,217,435	6,303,714
Accrued interest receivable	5,473	7,887
Accounts receivable – water sales and services:		
Wholesale	830,080	145,192
Retail	235,462	227,036
Other	2,003	447
Property taxes receivable	24,485	34,195
Accrued interest receivable – AMP	7,004	7,891
Note receivable – current portion – AMP (note 3)	33,099	30,569
Prepaid expenses and other assets	144,946	161,257
Water-in-storage inventory	22,732	29,212
Materials and supplies inventory	93,060	92,892
<b>Total current assets</b>	<b>7,615,779</b>	<b>7,040,292</b>
Non-current assets:		
Capital assets, net (note 4)	10,321,075	10,441,402
Note receivable – AMP (note 3)	208,195	241,294
<b>Total non-current assets</b>	<b>10,529,270</b>	<b>10,682,696</b>
<b>Total assets</b>	<b>\$ 18,145,049</b>	<b>17,722,988</b>
<b><i>Liabilities and Net Assets</i></b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,274,997	837,784
Accrued wages and compensated absences	36,910	25,601
Retentions payable	-	146,447
Deposits and deferred revenue	37,788	25,317
Accrued interest on note payable – DWR	559	916
Long-term liabilities - due within one year:		
Note payable – current portion – DWR (note 5)	43,093	41,652
<b>Total current liabilities</b>	<b>1,393,347</b>	<b>1,077,717</b>
Non-current liabilities:		
Long-term liabilities - due in more than one year:		
Note payable – long-term portion – DWR (note 5)	22,096	65,189
<b>Total non-current liabilities</b>	<b>22,096</b>	<b>65,189</b>
<b>Total liabilities</b>	<b>1,415,443</b>	<b>1,142,906</b>
Net assets:		
Net investment in capital assets (note 6)	10,255,886	10,334,561
Unrestricted	6,473,720	6,245,521
<b>Total net assets</b>	<b>16,729,606</b>	<b>16,580,082</b>
<b>Total liabilities and net assets</b>	<b>\$ 18,145,049</b>	<b>17,722,988</b>

See accompanying notes to the basic financial statements

**East Orange County Water District**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Water sales:		
Wholesale	\$ 3,311,077	2,002,526
Retail	756,737	817,833
Meter and standby service charges	307,267	280,372
Connection fees	419,484	357,206
Other service charges	32,215	23,738
Total operating revenues	<u>4,826,780</u>	<u>3,481,675</u>
Operating expenses:		
Source of supply	4,207,002	2,825,455
Pipeline capacity lease	12,000	20,023
Pumping	61,516	74,397
Treatment, transmission and distribution	767,727	755,747
General and administrative	276,823	290,066
Total operating expenses	<u>5,325,068</u>	<u>3,965,688</u>
Operating loss before depreciation and amortization	(498,288)	(484,013)
Depreciation and amortization	(392,285)	(437,895)
<b>Operating loss</b>	<u>(890,573)</u>	<u>(921,908)</u>
Non-operating revenues(expenses):		
Property taxes	913,652	913,913
Rental income – cellular antennas	72,407	47,141
Interest and investment earnings	26,313	40,758
Change in fair-value of cash equivalents and investments	(1,777)	1,673
Interest income – note receivable – AMP	14,090	21,327
Interest expense – note payable – DWR	(2,962)	(4,370)
Other, net	18,374	279
Total non-operating revenues, net	<u>1,040,097</u>	<u>1,020,721</u>
<b>Change in net assets</b>	149,524	98,813
Net assets, beginning of year	<u>16,580,082</u>	<u>16,481,269</u>
Net assets, end of year	<u>\$ 16,729,606</u>	<u>16,580,082</u>

See accompanying notes to the basic financial statements

**East Orange County Water District**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:		
Receipts from customers for water sales and services	\$ 4,162,755	3,470,353
Payments to employees for salaries	(383,193)	(356,601)
Payments to vendors for materials and services	(4,617,177)	(3,164,000)
Net cash used by operating activities	(837,615)	(50,248)
Cash flows from non-capital financing activities:		
Proceeds from property taxes	923,362	933,398
Proceeds from rental income – cellular antennas	72,407	47,141
Net cash provided by non-capital financing activities	995,769	980,539
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(271,957)	(1,666,718)
Principal and interest paid on note payable – DWR	(44,971)	(44,971)
Net cash used by capital and related financing activities	(316,928)	(1,711,689)
Cash flows from investing activities:		
Proceeds from interest and investment earnings	26,949	53,189
Proceeds from note receivable – AMP	30,569	189,050
Proceeds from interest income – note receivable – AMP	14,977	26,729
Net cash provided by investing activities	72,495	268,968
Net decrease in cash and cash equivalents	(86,279)	(512,430)
Cash and cash equivalents, beginning of year	6,303,714	6,816,144
Cash and cash equivalents, end of year	\$ 6,217,435	6,303,714

See accompanying notes to the basic financial statements

**East Orange County Water District**  
**Statements of Cash Flows, continued**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ <u>(890,573)</u>	<u>(921,908)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:		
Deprecation and amortization	392,285	437,895
Other non-operating revenues, net	18,374	279
Changes in assets – (increase)decrease:		
Accounts receivable – water and other:		
Wholesale	(684,888)	45,630
Retail	(8,426)	(61,699)
Other	(1,556)	3,479
Prepaid and other	16,311	(87,404)
Water-in-storage inventory	6,480	(2,423)
Materials and supplies inventory	(168)	8,332
Changes in liabilities – increase(decrease):		
Accounts payable and accrued expenses	437,213	381,998
Accrued wages and compensated absences	11,309	(1,863)
Retentions payable	(146,447)	146,447
Deposits and deferred revenue	<u>12,471</u>	<u>989</u>
Total adjustments	<u>52,958</u>	<u>871,660</u>
Net cash used by operating activities	<u>\$ (837,615)</u>	<u>(50,248)</u>

See accompanying notes to the basic financial statements

**East Orange County Water District**  
*Notes to the Basic Financial Statements*  
**June 30, 2011 and 2010**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. Organization and Operations of the Reporting Entity**

The East Orange County Water District (the District) was formed in 1961 in order to furnish imported potable water to an area encompassing the eastern half of the City of Orange. The District provides wholesale potable water to five sub-agencies in the region through its pipeline transmission and distribution system. The five sub-agencies consist of the East Orange County Water District Retail Zone, Golden State Water Company, City of Tustin, Irvine Ranch Water District, and the City of Orange. The District provides potable water service through the East Orange County Water District Retail Zone to 1,179 customers within its service area. The District is governed by a Board of Directors, which consists of five directors, each of whom is elected at-large for a four-year term by the citizens living within the District's service area.

**B. Basis of Accounting and Measurement Focus**

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its customers on a continuing basis be financed or recovered primarily through user charges (water sales and services) or similar funding. The District segregates its Wholesale and Retail Zone accounting internally as separate entities. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses are generated and incurred through the water sales activities to the District's customers. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

**C. Financial Reporting**

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and subsequent GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.



**East Orange County Water District**  
*Notes to the Basic Financial Statements*  
**June 30, 2011 and 2010**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities and Net Assets**

**1. Use of Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results most likely will differ from those estimates.

**2. Cash and Cash Equivalents**

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

**3. Investments and Investment Policy**

The District has adopted an investment policy directing the Treasurer to deposit funds in financial institutions. Investments are to be made in the following areas:

- Securities of the U.S. government or its agencies
- Federal agency obligations
- Certificates of deposit (negotiable and placed)
- Commercial paper (prime)
- Money market and mutual fund accounts
- State of California – Local Agency Investment Fund (LAIF)

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

**4. Accounts Receivable**

The District has uncollectible accounts receivable at year-end. Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been recorded. Historical experience indicates that uncollectible accounts receivable are immaterial.

**5. Property Taxes**

Property taxes receivable at year-end are related to property taxes collected by the County of Orange, which have not been credited to the District as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

The County of Orange Assessor's Office assesses all real and personal property within the County each year. The County of Orange Tax Collector's Office bills and collects the District's share of property taxes and assessments. The County of Orange Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

**East Orange County Water District**  
*Notes to the Basic Financial Statements*  
**June 30, 2011 and 2010**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities and Net Assets**

**6. Prepaid Expenses**

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

**7. Water-In-Storage Inventory**

Annually, a controlled quantity of water is purchased by the District and, if not used in the current year, is stored for use in the following year. Purchased stored water is subject to loss through meter error or leakage. The losses are not covered by insurance nor has a loss reserve been recorded.

**8. Materials and Supplies Inventory**

Materials and supplies inventory consists primarily of water meters, pipe and pipe fittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using a weighted average cost method. Inventory items are charged to expense at the time that individual items are inventoried at year-end.

**9. Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. (See Note 4 for further details) Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Transmission and distribution systems – 5 to 100 years
- Structures and improvements – 3 to 50 years
- Capacity rights – 75 years
- Water treatment plant – 10 to 100 years
- Equipment – 5 to 50 years

**10. Construction-in-Process**

The costs associated with developmental stage projects are accumulated in an in-progress account until the project is fully developed. Once the project is complete and in use, the entire cost of the project is transferred to a capital asset account and depreciated over its estimated useful life.

**11. Compensated Absences**

The District's policy allows full-time employees to accumulate a maximum of 160 hours of vacation time. No compensation in lieu of time off is allowed except for termination or disability. Employees may accumulate up to 80 hours of sick time. As of November 30 each year, one-half of the excess over 80 hours may be credited to additional vacation or may be paid to the employee. The remaining one-half is forfeited. The District has recorded the liability for accrued vacation and sick pay in the accompanying financial statements.

**East Orange County Water District**  
*Notes to the Basic Financial Statements*  
**June 30, 2011 and 2010**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities and Net Assets**

**12. Net Assets**

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of external constraints placed on net assets imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

**13. Water Sales – Wholesale and Retail**

Wholesale water sales are billed on a monthly basis and retail water sales are billed on a bi-monthly cyclical basis. Estimated unbilled retail water sales revenue through June 30 has been accrued at year-end.

**14. Capital Contributions**

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

**15. Budgetary Policies**

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of previous years actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

**(2) Cash and Investments**

	<b>2011</b>	<b>2010</b>
Cash on hand	\$ 250	250
Deposits with financial institutions	40,169	12,730
Investments	6,177,016	6,290,734
Total cash and investments	\$ 6,217,435	6,303,714

***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. 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).

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**June 30, 2011 and 2010**

**(2) Cash and Investments, continued**

***Custodial Credit Risk, continued***

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. Of the bank balances, up to \$250,000 as of June 30, 2011 and 2010, were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

***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 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.

***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 matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. 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 date:

Maturities of investments at June 30, 2011, are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Remaning Maturity (in Months)</u>	
		<u>12 Months Or Less</u>	<u>13-60 Months</u>
Local Agency Investment Fund (LAIF)	\$ 4,619,028	4,619,028	-
Money market funds	1,557,988	1,557,988	-
Total	<u>\$ 6,177,016</u>	<u>6,177,016</u>	<u>-</u>

Maturities of investments at June 30, 2010, are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Remaning Maturity (in Months)</u>	
		<u>12 Months Or Less</u>	<u>13-60 Months</u>
Local Agency Investment Fund (LAIF)	\$ 5,513,103	5,513,103	-
Money market funds	777,631	777,631	-
Total	<u>\$ 6,290,734</u>	<u>6,290,734</u>	<u>-</u>

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**June 30, 2011 and 2010**

**(2) Cash and Investments, continued**

**Credit Risk**

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

Credit ratings of investments as of June 30, 2011, were as follows:

<u>Investment Types</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Not Rated</u>
Local Agency Investment Fund (LAIF)	\$ 4,619,028	N/A	\$ -	4,619,028
Money market funds	1,557,988	N/A	1,557,988	-
<b>Total</b>	<b>\$ 6,177,016</b>		<b>\$ 1,557,988</b>	<b>4,619,028</b>

Credit ratings of investments as of June 30, 2010, were as follows:

<u>Investment Types</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Not Rated</u>
Local Agency Investment Fund (LAIF)	\$ 5,513,103	N/A	\$ -	5,513,103
Money market funds	777,631	N/A	777,631	-
<b>Total</b>	<b>\$ 6,290,734</b>		<b>\$ 777,631</b>	<b>5,513,103</b>

**(3) Note Receivable – Allen-McColloch Pipeline**

On July 1, 1994, the District signed an agreement along with the Municipal Water District of Orange County (MWDOC) and several other participants for the sale of capacity rights in the Allen-McColloch Pipeline (AMP) to the Metropolitan Water District of Southern California (Metropolitan). Under the terms of the sale, the District became a 3.039% recipient of principal and interest in the following:

	<u>1989 COPs Series A &amp; B</u>	<u>1989 COPs Series D</u>	<u>1992 COPs</u>	<u>Total COPs</u>
Total MWDOC COPs	\$ 60,453,013 *	715,000	59,800,000	120,968,013
District's COPs share	\$ 1,837,185	715,000	1,817,339	4,369,524
Annual receipts due	Jan 1 & July 1	Jan 1 & July 1	Jan 1 & July 1	
Interest rate	5.80%	7.0% - 7.1%	Floating rate	
Initial payment received	April 10, 1995	July 1, 1995	April 10, 1995	
Final payment due/made	July 1, 2016	July 1, 2016	July 1, 2006	

\* Amount has been adjusted for debt service reserve and negotiated capacity changes in the AMP for the City of San Juan Capistrano, and the former Coastal Municipal Water District and the former El Toro Water District.

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**June 30, 2011 and 2010**

**(3) Note Receivable – Allen-McColloch Pipeline, continued**

MWDOC Certificates of Participation (COPs):

Metropolitan acknowledged in its purchase that the purchase price was substantially less than the value of the AMP based on replacement costs less depreciation, but MWDOC and the seller participants accepted the price because Metropolitan will expand the capacity of the AMP at their expense and will provide new delivery points along with AMP which will benefit the sellers.

Note receivable from the AMP consists of the following:

		<u>2011</u>	<u>2010</u>
Note receivable – current – AMP	\$	33,099	30,569
Note receivable – non-current – AMP		<u>208,195</u>	<u>241,294</u>
Total	\$	<u><u>241,294</u></u>	<u><u>271,863</u></u>

**(4) Capital Assets**

Changes in capital assets for 2011 were as follows:

		<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2011</u>
Non-depreciable assets:					
Land and easements	\$	56,289	-	-	56,289
Construction-in-process		1,937,226	255,265	-	2,192,491
Total non-depreciable assets		<u>1,993,515</u>	<u>255,265</u>	<u>-</u>	<u>2,248,780</u>
Depreciable assets:					
Transmission and distribution system		10,446,815	16,693	-	10,463,508
Structures and improvements		5,939,406	-	-	5,939,406
Capacity rights		943,320	-	-	943,320
Equipment		300,572	-	-	300,572
Total depreciable assets		<u>17,630,113</u>	<u>16,693</u>	<u>-</u>	<u>17,646,806</u>
Accumulated depreciation and amortization		<u>(9,182,226)</u>	<u>(392,285)</u>	<u>-</u>	<u>(9,574,511)</u>
Total depreciable assets, net		<u>8,447,887</u>	<u>(375,592)</u>	<u>-</u>	<u>8,072,295</u>
Total capital assets, net	\$	<u><u>10,441,402</u></u>	<u><u>(120,327)</u></u>	<u><u>-</u></u>	<u><u>10,321,075</u></u>

Changes in capital assets for 2010 were as follows:

		<u>Balance 2009</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets:					
Land and easements	\$	56,289	-	-	56,289
Construction-in-process		276,990	1,660,236	-	1,937,226
Total non-depreciable assets		<u>333,279</u>	<u>1,660,236</u>	<u>-</u>	<u>1,993,515</u>
Depreciable assets:					
Transmission and distribution system		10,441,152	5,663	-	10,446,815
Structures and improvements		5,942,576	-	(3,170)	5,939,406
Capacity rights		943,320	-	-	943,320
Equipment		294,910	5,662	-	300,572
Total depreciable assets		<u>17,621,958</u>	<u>11,325</u>	<u>(3,170)</u>	<u>17,630,113</u>
Accumulated depreciation and amortization		<u>(8,744,331)</u>	<u>(437,895)</u>	<u>-</u>	<u>(9,182,226)</u>
Total depreciable assets, net		<u>8,877,627</u>	<u>(426,570)</u>	<u>(3,170)</u>	<u>8,447,887</u>
Total capital assets, net	\$	<u><u>9,210,906</u></u>	<u><u>1,233,666</u></u>	<u><u>(1,095,815)</u></u>	<u><u>10,441,402</u></u>

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**June 30, 2011 and 2010**

**(4) Capital Assets, continued**

Major capital assets additions during the years include the rehabilitation of the District's wells and many of the District's transmission and distribution systems. A significant portion of these additions were constructed by the District and/or sub-contractors and transferred out of construction-in-process upon completion of these various projects.

**Construction-In-Process**

The District has been involved in various construction projects throughout the year. The construction-in-process balances at year-end are as follows:

The balance at June 30, consist of the following projects:

		<u>2011</u>	<u>2010</u>	<u>2009</u>
Transmission and distribution system upgrades	\$	<u>2,192,491</u>	<u>1,937,226</u>	<u>276,990</u>

**(5) Note Payable – Department of Water Resources**

In 1991, the California Department of Water Resources contracted with the District to loan the District up to \$718,500 to fund a Water Conservation Project to replace 6,600 l.f. of 12" and 14" diameter steel distribution mainline with 14" C900 PVC or ductile iron piping. The construction amount financed was \$646,561. The note is scheduled to mature in 2013. Principal and interest are payable semi-annually on October 1<sup>st</sup> and April 1<sup>st</sup> each year at a rate of 3.4375%. Remaining annual debt service requirements on the 1991 Department of Water Resources Note are as follows:

<u>Fiscal Year</u>		<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2012		43,093		1,878		44,971
2013		<u>22,096</u>		<u>380</u>		<u>22,476</u>
Total	\$	65,189		<u>2,258</u>		<u>67,447</u>
Less current portion		<u>(43,093)</u>				
Total non-current	\$	<u>22,096</u>				

**(6) Net Investment in Capital Assets**

The balance consists of the following:

		<u>2011</u>	<u>2010</u>
Capital assets, net	\$	10,321,075	10,441,402
Note payable – current portion – DWR		(43,093)	(41,652)
Note payable – DWR		<u>(22,096)</u>	<u>(65,189)</u>
	\$	<u>10,255,886</u>	<u>10,334,561</u>

**(7) Allen-McColloch Pipeline Lease**

On July 1, 1994, the District, along with Municipal Water District of Orange County (MWDOC), as well as other participants, sold its capacity rights in the Allen-McColloch Pipeline AMP) to Metropolitan Water District of Southern California (MET). It was agreed with MET, that the District and other participants would continue to receive water from the AMP as requested (subject to availability) through the term of the agreement and thereafter. In consideration for the availability of water through the AMP and other matters, the District and other participants agreed to make lease payments measured by the debt service (on MWDOC's 1989 COPS, Series D) previously incurred and assumed by MET. In February 2010 the District accepted MWDOC's offer to prepay this lease obligation through 2017 for \$107,000, thereby saving the District \$31,191 in future pipeline lease payments. The prepaid lease schedule is as follows:

**East Orange County Water District**  
*Notes to the Basic Financial Statements*  
**June 30, 2011 and 2010**

**(7) Allen-McColloch Pipeline Lease, continued**

<u>Fiscal Year</u>	<u>Lease Payable 1989 COPs Series D</u>
2012	\$ 13,000
2013	14,000
2014	15,000
2015	16,000
2016	18,000
2017	19,000
Total	\$ <u>95,000</u>

**(8) Deferred Compensation Savings Plan**

For the benefit of its employees, the District participates in the California Public Employees Retirement System (CalPERS) Section 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for California public employees that elect to participate in the Program. This Program is established pursuant to sections 21670 through 21685 of the Government Code of the State of California and is intended to constitute an "eligible deferred compensation plan" within the meaning of Section 457 of the Federal Internal Revenue Code. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

The Program was created under the administrative and investment control of the CalPERS Board, which requires the Board to act in the interest of Program participants. Also, Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of participants. Accordingly, the District is in compliance with legislation, which requires Section 457 plan assets to be held in trust for employees. This means that employee assets held in Section 457 plans are no longer viewed as the legal property of the District and are no longer subject to claims of the District's general creditors.

The District has implemented GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net assets.

**(9) Defined Benefit Pension Plan**

***Plan Description***

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained from their Executive Office: 400 P Street, Sacramento, CA, 95814.



**East Orange County Water District**  
*Notes to the Basic Financial Statements*  
**June 30, 2011 and 2010**

**(9) Defined Benefit Pension Plan, continued**

***Funding Policy***

The contribution rate for plan members in the CalPERS 2.0% at 60 Risk Pool Retirement Plan is 7% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2011, 2010 and 2009 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For Fiscal years 2011, 2010 and 2009, the Agency’s annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

***Three Year Funding Information***

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2009	\$ 47,499	100%	-	10.776%
2010	54,048	100%	-	10.774%
2011	53,375	100%	-	10.803%

**(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. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2011, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees’ errors and omissions: Total risk financing self-insurance limits of \$500,000, combined single limit at \$500,000 per occurrence. The District purchased additional excess coverage layers: \$50 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.
- Fidelity coverage up to \$250,000 per loss includes public employee dishonesty, forgery or alteration, computer fraud and ERISA coverage’s, subject to a \$100,000 pooled self –insurance limit with a deductible of \$1,000 per claim.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$50 million per occurrence, subject to a \$50,000 pooled self –insurance limit. Boiler and machinery coverage for the replacement cost up to \$50 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers’ compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law.

There have been no losses or claims in any of the last three fiscal years and there were no reductions in the District’s insurance coverage during the years ending June 30, 2011 and 2010. 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 and 2010.

**East Orange County Water District**  
*Notes to the Basic Financial Statements*  
**June 30, 2011 and 2010**

**(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2011, that have effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 60***

In November 2010, the GASB issued Statement No.60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard address how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 61***

In November 2010, the GASB issued Statement No.61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 63***

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 64***

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. This standard is designed to improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or swap counterparty's credit support provider, is replaced. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

**(12) Commitments and Contingencies**

***Joint Facilities Agreement***

The District is a party to a joint facilities agreement, dated February 13, 1964, with the Irvine Ranch Water District (IRWD) for the original purpose of constructing, operating and maintaining a water treatment plant, reservoir and pipelines. The construction was completed in 1964 and the District has capitalized the reservoir and pipelines as part of its utility plant assets. IRWD entered into this agreement with the District to gain capacity rights in the water treatment plant, reservoir and pipelines. The District and IRWD continue to proportionally share in the costs of maintenance and operations of the reservoir and pipelines; however, the treatment plant has been abandoned.

**East Orange County Water District**  
*Notes to the Basic Financial Statements*  
**June 30, 2011 and 2010**

**(12) Commitments and Contingencies, continued**

***Construction Contracts***

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction.

***Litigation***

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes that there are no legal matters that will materially affect its financial condition.

**(13) Subsequent Events**

Events occurring after June 30, 2011 have been evaluated for possible adjustment to the financial statements or disclosure as of October 20, 2011, which is the date the financial statements were available to be issued.

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## **Supplemental Information**



**East Orange County Water District**  
**Combining Schedule of Net Assets**  
**June 30, 2011**

<u>Assets</u>	<u>Wholesale</u>	<u>Retail</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 5,652,740	564,695	6,217,435
Accrued interest receivable	5,270	203	5,473
Accounts receivable – water sales and services:			
Wholesale	830,080	-	830,080
Retail	-	235,462	235,462
Other	2,003	-	2,003
Property taxes receivable	15,554	8,931	24,485
Accrued interest receivable – AMP	7,004	-	7,004
Note receivable – current portion – AMP	33,099	-	33,099
Prepaid expenses and other assets	139,891	5,055	144,946
Water-in-storage inventory	11,366	11,366	22,732
Materials and supplies inventory	46,530	46,530	93,060
<b>Total current assets</b>	<u>6,743,537</u>	<u>872,242</u>	<u>7,615,779</u>
Non-current assets:			
Capital assets, net	5,931,992	4,389,083	10,321,075
Note receivable – AMP	208,195	-	208,195
<b>Total non-current assets</b>	<u>6,140,187</u>	<u>4,389,083</u>	<u>10,529,270</u>
<b>Total assets</b>	<u>\$ 12,883,724</u>	<u>5,261,325</u>	<u>18,145,049</u>
<b><u>Liabilities and Net Assets</u></b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,153,037	121,960	1,274,997
Accrued wages and compensated absences	13,288	23,622	36,910
Retentions payable	-	-	-
Deposits and deferred revenue	24,750	13,038	37,788
Accrued interest on note payable – DWR	-	559	559
Long-term liabilities - due within one year:			
Note payable - current portion - DWR	-	43,093	43,093
<b>Total current liabilities</b>	<u>1,191,075</u>	<u>202,272</u>	<u>1,393,347</u>
Non-current liabilities – note payable – DWR			
Long-term liabilities - due in more than one year:			
Note payable - long-term portion - DWR	-	22,096	22,096
<b>Total non-current liabilities</b>	<u>-</u>	<u>22,096</u>	<u>22,096</u>
<b>Total liabilities</b>	<u>1,191,075</u>	<u>224,368</u>	<u>1,415,443</u>
Net assets:			
Net investment in capital assets	5,931,992	4,323,894	10,255,886
Unrestricted	5,760,657	713,063	6,473,720
<b>Total net assets</b>	<u>11,692,649</u>	<u>5,036,957</u>	<u>16,729,606</u>
<b>Total liabilities and net assets</b>	<u>\$ 12,883,724</u>	<u>5,261,325</u>	<u>18,145,049</u>

**East Orange County Water District**  
**Combining Schedule of Net Assets**  
**June 30, 2010**

<u>Assets</u>	<u>Wholesale</u>	<u>Retail</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 5,846,740	456,974	6,303,714
Accrued interest receivable	7,511	376	7,887
Accounts receivable – water sales and services:			
Wholesale	145,192	-	145,192
Retail	-	227,036	227,036
Other	447	-	447
Property taxes receivable	21,704	12,491	34,195
Accrued interest receivable – AMP	7,891	-	7,891
Note receivable – current portion – AMP	30,569	-	30,569
Prepaid expenses and other assets	159,232	2,025	161,257
Water-in-storage inventory	14,606	14,606	29,212
Materials and supplies inventory	46,446	46,446	92,892
<b>Total current assets</b>	<u>6,280,338</u>	<u>759,954</u>	<u>7,040,292</u>
Non-current assets:			
Capital assets, net	6,090,313	4,351,089	10,441,402
Note receivable – AMP	241,294	-	241,294
<b>Total non-current assets</b>	<u>6,331,607</u>	<u>4,351,089</u>	<u>10,682,696</u>
<b>Total assets</b>	<u>\$ 12,611,945</u>	<u>5,111,043</u>	<u>17,722,988</u>
<b><u>Liabilities and Net Assets</u></b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 776,302	61,482	837,784
Accrued wages and compensated absences	7,936	17,665	25,601
Retentions payable	99,140	47,307	146,447
Deposits and deferred revenue	11,250	14,067	25,317
Accrued interest on note payable – DWR	-	916	916
Long-term liabilities - due within one year:			
Note payable - current portion - DWR	-	41,652	41,652
<b>Total current liabilities</b>	<u>894,628</u>	<u>183,089</u>	<u>1,077,717</u>
Non-current liabilities – note payable – DWR			
Long-term liabilities - due in more than one year:			
Note payable - long-term portion - DWR	-	65,189	65,189
<b>Total non-current liabilities</b>	<u>-</u>	<u>65,189</u>	<u>65,189</u>
<b>Total liabilities</b>	<u>894,628</u>	<u>248,278</u>	<u>1,142,906</u>
Net assets:			
Net investment in capital assets	6,090,313	4,244,248	10,334,561
Unrestricted	5,627,004	618,517	6,245,521
<b>Total net assets</b>	<u>11,717,317</u>	<u>4,862,765</u>	<u>16,580,082</u>
<b>Total liabilities and net assets</b>	<u>\$ 12,611,945</u>	<u>5,111,043</u>	<u>17,722,988</u>



**East Orange County Water District**  
**Combining Schedule of Revenues, Expenses and Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2011**

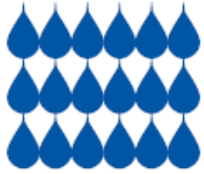
	<u>Wholesale</u>	<u>Retail</u>	<u>Internal Balances</u>	<u>Total</u>
Operating revenues:				
Water sales:				
Wholesale	\$ 3,697,970	-	(386,893)	3,311,077
Retail	-	756,737	-	756,737
Meter and standby service charges	137,793	187,249	(17,775)	307,267
Connection fees	298,071	142,226	(20,813)	419,484
Other service charges	19,037	13,178	-	32,215
Total operating revenues	<u>4,152,871</u>	<u>1,099,390</u>	<u>(425,481)</u>	<u>4,826,780</u>
Operating expenses:				
Source of supply	4,130,534	501,949	(425,481)	4,207,002
Pipeline capacity lease	12,000	-	-	12,000
Pumping	2,241	59,275	-	61,516
Treatment, transmission and distribution	358,210	409,517	-	767,727
General and administrative	138,195	138,628	-	276,823
Total operating expenses	<u>4,641,180</u>	<u>1,109,369</u>	<u>(425,481)</u>	<u>5,325,068</u>
Operating income(loss) before depreciation	(488,309)	(9,979)	-	(498,288)
Depreciation	(244,943)	(147,342)	-	(392,285)
<b>Operating loss</b>	<u>(733,252)</u>	<u>(157,321)</u>	<u>-</u>	<u>(890,573)</u>
Non-operating revenues(expenses):				
Property taxes	584,659	328,993	-	913,652
Rental income – cellular antennas	72,407	-	-	72,407
Interest and investment earnings	25,091	1,222	-	26,313
Change in fair-value of cash equivalents and investments	(1,603)	(174)	-	(1,777)
Interest income – note receivable – AMP	14,090	-	-	14,090
Interest expense – note payable – DWR	-	(2,962)	-	(2,962)
Other, net	13,940	4,434	-	18,374
Total non-operating revenues, net	<u>708,584</u>	<u>331,513</u>	<u>-</u>	<u>1,040,097</u>
<b>Change in net assets</b>	(24,668)	174,192	-	149,524
Net assets, beginning of year	<u>11,717,317</u>	<u>4,862,765</u>	<u>-</u>	<u>16,580,082</u>
Net assets, end of year	<u>\$ 11,692,649</u>	<u>5,036,957</u>	<u>-</u>	<u>16,729,606</u>

**East Orange County Water District**  
**Combining Schedule of Revenues, Expenses and Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2010**

	<u>Wholesale</u>	<u>Retail</u>	<u>Internal Balances</u>	<u>Total</u>
Operating revenues:				
Water sales:				
Wholesale	\$ 2,260,223	-	(257,697)	2,002,526
Retail	-	817,833	-	817,833
Meter and standby service charges	102,994	188,646	(11,268)	280,372
Connection fees	239,404	142,320	(24,518)	357,206
Other service charges	13,203	10,535	-	23,738
Total operating revenues	<u>2,615,824</u>	<u>1,159,334</u>	<u>(293,483)</u>	<u>3,481,675</u>
Operating expenses:				
Source of supply	2,672,944	445,994	(293,483)	2,825,455
Pipeline capacity lease	20,023	-	-	20,023
Pumping	1,974	72,423	-	74,397
Treatment, transmission and distribution	265,247	490,500	-	755,747
General and administrative	158,180	131,886	-	290,066
Total operating expenses	<u>3,118,368</u>	<u>1,140,803</u>	<u>(293,483)</u>	<u>3,965,688</u>
Operating income(loss) before depr. and amort.	(502,544)	18,531	-	(484,013)
Depreciation and amortization	(275,158)	(162,737)	-	(437,895)
<b>Operating loss</b>	<u>(777,702)</u>	<u>(144,206)</u>	<u>-</u>	<u>(921,908)</u>
Non-operating revenues(expenses):				
Property taxes	579,917	333,996	-	913,913
Rental income – cellular antennas	47,141	-	-	47,141
Interest and investment earnings	37,476	3,282	-	40,758
Change in fair-value of cash equivalents and investments	1,816	(143)	-	1,673
Interest income – note receivable – AMP	21,327	-	-	21,327
Interest expense – note payable – DWR	-	(4,370)	-	(4,370)
Other, net	1,501	(1,222)	-	279
Total non-operating revenues, net	<u>689,178</u>	<u>331,543</u>	<u>-</u>	<u>1,020,721</u>
<b>Change in net assets</b>	<u>(88,524)</u>	<u>187,337</u>	<u>-</u>	<u>98,813</u>
Net assets, beginning of year	<u>11,805,841</u>	<u>4,675,428</u>	<u>-</u>	<u>16,481,269</u>
Net assets, end of year	<u>\$ 11,717,317</u>	<u>4,862,765</u>	<u>-</u>	<u>16,580,082</u>

# **Report on Compliance and Internal Controls**





Charles Z. Fedak, CPA, MBA  
 Paul J. Kaymark, CPA  
 Christopher J. Brown, CPA

# Charles Z. Fedak & Company

Certified Public Accountants  
 An Accountancy Corporation

6081 Orange Avenue  
 Cypress, California 90630  
 (714) 527-1818  
 (562) 598-6565  
 FAX (714) 527-9154  
 EMAIL [czfco@czfcpa.com](mailto:czfco@czfcpa.com)  
 WEB [www.czfcpa.com](http://www.czfcpa.com)

**Independent Auditor's Report on Internal Control Over Financial Reporting  
 And on Compliance and Other Matters Based on an Audit of Financial Statements  
 Performed in Accordance with *Government Auditing Standards***

Board of Directors  
 East Orange County Water District  
 Orange, California

We have audited the basic financial statements of the East Orange County Water District (District) as of and for the fiscal years ended June 30, 2011 and 2010, and have issued our report thereon dated October 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

*Charles Z. Fedak & Company CPAs - An Accountancy Corporation*

**Charles Z. Fedak and Company, CPA's – An Accountancy Corporation**  
 October 20, 2011  
 Cypress, California