

SERRANO WATER DISTRICT

FINANCIAL REPORT

FOR THE YEARS ENDED
JUNE 30, 2012 AND 2011



SERRANO WATER DISTRICT
June 30, 2012

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SERRANO WATER DISTRICT

June 30, 2012

TITLE	BOARD OF DIRECTORS	TERM EXPIRATION
PRESIDENT	Robert F. Rickerl	December 2016
VICE-PRESIDENT	C.L. "Larry" Pharris, Jr.	December 2016
DIRECTOR	Frank Bryant	December 2014
DIRECTOR	Richard A. Freschi	December 2014
DIRECTOR	Jerry L. Haight	December 2016

ADMINISTRATION

CONTRACT GENERAL MANAGER	David H. Noyes
SECRETARY AND TREASURER	Ann M. Michel
ASSISTANT SECRETARY	Laura Heflin

ATTORNEY

REPRESENTING RUTAN & TUCKER, ATTORNEYS	Joel D. Kuperberg
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Serrano Water District
Villa Park, California

We have audited the accompanying statements of net assets of Serrano Water District as of June 30, 2012 and 2011 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Serrano Water District as of June 30, 2012 and 2011, and the results of its operations and its cash flows of its proprietary fund types for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described further in Note 1, the District has certain transactions with SWD Recreation, Inc., an entity controlled by the same management and Board of Directors as Serrano Water District. The activity of SWD Recreation, Inc. has not been combined with the financial statements of Serrano Water District.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Mission Viejo, California
November 19, 2012

SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Serrano Water District's annual financial report presents an analysis of the District's financial performance during the fiscal years ended June 30, 2012 and 2011. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2012

The District's net assets increased by \$1,766,968 or 21 percent from \$8,426,262 to \$10,193,230.

Total revenues increased by \$689,946 or 14.4 percent from \$4,787,793 to \$5,477,739.

Total expenses decreased by \$13,445 or .4 percent from \$3,724,216 to \$3,710,771.

The District began construction on the improvements to the Walter E. Howiler, Jr. Water Filtration Plant, with an estimated completion date during 2013.

The District received 3,373 acre-feet of water during the rains that occurred during the past fiscal year so it was not necessary to purchase water.

The District repaid in-full two separate loans during the year, with principal payments totaling \$847,109.

Subsequent to year end, the District paid \$526,400 to Calpers in connection with its retirement plan and the District's prior service costs, which will lower its annual required pension contribution in future periods.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2011

The District's net assets increased by \$1,063,577 or 14.4 percent from \$7,362,685 to \$8,426,262.

Total revenues increased by \$147,882 or 3.2 percent from \$4,639,911 to \$4,787,793.

Total expenses decreased by \$52,140 or 1.4 percent from \$3,776,356 to \$3,724,216.

The District completed the design stage of the improvements to the Walter E. Howiler, Jr. Water Filtration Plant.

The District received 3,418 acre-feet of water during the rains that occurred during the past fiscal year so it was not necessary to purchase water.

The District obtained financing in the amount of \$1,500,000 to make improvements to the Walter E. Howiler, Jr. Water Filtration Plant.

SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and Other Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statements of Net Assets include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Assets identify the District's revenues and expenses for the fiscal years ended June 30, 2012 and 2011. This statement provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statements of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statements of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

FINANCIAL ANALYSIS OF THE DISTRICT

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets provide an indication of the District's financial condition and also indicate that the financial condition of the District improved during the last fiscal year. The District's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

NET ASSETS

A summary of the District's Statement of Net Assets is presented below.

	Condensed Statements of Net Assets			Table 1
	2012	2011	Dollar Change	Percent Change
Capital Assets	10,785,573	8,426,256	2,359,317	
Current and Other Assets	6,386,301	7,570,661	(1,184,360)	
Total Assets	17,171,874	15,996,917	1,174,957	7.3%
Long-term Liabilities	4,873,460	6,161,344	(1,287,884)	
Other Liabilities	2,105,184	1,409,311	695,873	
Total Liabilities	6,978,644	7,570,655	(592,011)	-7.8%
Net Investment - Capital Assets	8,309,379	6,446,961	1,862,418	
Unrestricted Net Assets	1,883,851	1,979,301	(95,450)	
Total Net Assets	10,193,230	8,426,262	1,766,968	21.0%

SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statements of Net Assets

Table 1

	2011	2010	Dollar Change	Percent Change
Capital Assets	8,426,256	7,894,781	531,475	
Current and Other Assets	7,570,661	6,043,525	1,527,136	
Total Assets	15,996,917	13,938,306	2,058,611	14.8%
Long-term Liabilities	6,161,344	5,215,075	946,269	
Other Liabilities	1,409,311	1,360,546	48,765	
Total Liabilities	7,570,655	6,575,621	995,034	15.1%
Net Investment - Capital Assets	6,446,961	5,858,536	588,425	
Unrestricted Net Assets	1,979,301	1,504,149	475,152	
Total Net Assets	8,426,262	7,362,685	1,063,577	14.4%

As the above tables indicate, total assets increased by \$1,174,957 during the fiscal year ended June 30, 2012, and total assets increased by \$2,058,611 during the fiscal year ended June 30, 2011.

Total liabilities decreased by \$592,011 during the fiscal year ended June 30, 2012 and total liabilities increased by \$995,034 during the fiscal year ended June 30, 2011.

Condensed Statements of Revenues, Expenses and
Changes in Net Assets

Table 2

	2012	2011	Dollar Change	Percent Change
Operating Revenues	5,241,711	4,534,876	706,835	
Non-Operating Revenues	236,028	252,917	(16,889)	
Total Revenues	5,477,739	4,787,793	689,946	14.4%
Depreciation	340,637	309,250	31,387	
Other Operating Expenses	2,939,773	3,037,026	(97,253)	
Non-Operating Expenses	430,361	377,940	52,421	
Total Expenses	3,710,771	3,724,216	(13,445)	-0.4%
Changes in Net Assets	1,766,968	1,063,577	703,391	
Beginning Net Assets	8,426,262	7,362,685	1,063,577	
Ending Net Assets	10,193,230	8,426,262	1,766,968	21.0%

SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Table 2

	2011	2010	Dollar Change	Percent Change
Operating Revenues	4,534,876	4,421,051	113,825	
Non-Operating Revenues	252,917	218,860	34,057	
Total Revenues	4,787,793	4,639,911	147,882	3.2%
Depreciation	309,250	301,409	7,841	
Other Operating Expenses	3,037,026	3,099,913	(62,887)	
Non-Operating Expenses	377,940	375,034	2,906	
Total Expenses	3,724,216	3,776,356	(52,140)	-1.4%
Changes in Net Assets	1,063,577	863,556	200,021	
Beginning Net Assets	7,362,685	6,499,129	863,556	
Ending Net Assets	8,426,262	7,362,685	1,063,577	14.4%

The statements of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items which affect the change in net assets. As the information in Table 2 indicates, for the fiscal year ended June 30, 2012, total revenues increased by \$689,946. Total expenses decreased by \$13,445.

For the fiscal year ended June 30, 2011, total revenues increased by \$147,882. Total expenses decreased by \$52,140.

CAPITAL ASSETS

As of June 30, 2012 and 2011, the District's investment in capital assets totaled \$10,193,230 and \$8,426,262, respectively. The District has \$4,650,000 allocated (obtained from financing) for required modifications to its treatment plant facility and for the construction of new wells; the modifications are currently in progress.

LONG-TERM DEBT

As of June 30, 2012, the District had \$4,873,460 in outstanding debt, a decrease of \$1,287,884 from June 30, 2011. In addition to the normal principal reduction, the District repaid in-full two separate loans during the current fiscal year. During the fiscal year ended June 30, 2011, the long-term debt increased by \$946,269. Additional information on the District's long-term debt is provided in Note 6 of the financial statements.

SERRANO WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors adopted the District's budget for the fiscal year ended June 30, 2013. Operating revenues are projected to be \$5,327,549.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, debt holders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding information included in this report or wish to request additional financial information, please contact the Serrano Water District's General Manager at 18021 E. Lincoln St., Villa Park, CA 92861.

SERRANO WATER DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012 AND 2011

ASSETS

	2012	2011
CAPITAL ASSETS (Note 5)		
Land	\$ 147,790	\$ 147,790
Plant in service - district	17,509,133	14,809,179
Plant in service - contributed	863,915	863,915
Less: accumulated depreciation	(7,735,265)	(7,394,628)
TOTAL CAPITAL ASSETS	10,785,573	8,426,256
CURRENT ASSETS		
Cash	638,069	972,737
Cash equivalents (Note 2)	1,845,814	903,979
TOTAL CASH	2,483,883	1,876,716
Accounts receivable:		
Water users	720,428	703,224
General (Note 7)	51,952	9,331
Water districts (Note 3)	142,858	75,377
Prepaid expense	326,656	321,554
Inventory (Note 1)	38,470	32,209
TOTAL CURRENT ASSETS	3,764,247	3,018,411
OTHER ASSETS		
Escrow Funds (Note 6)	2,367,950	4,267,782
Deferred charges, net (Note 4)	106,279	136,643
Investment in SWD Recreation, Inc. (Notes 1 and 8)	140,135	140,135
Deposits	7,690	7,690
TOTAL OTHER ASSETS	2,622,054	4,552,250
TOTAL ASSETS	\$ 17,171,874	\$ 15,996,917

The accountant's report and notes are an integral part of these statements.

SERRANO WATER DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012 AND 2011

LIABILITIES AND FUND EQUITY

	2012	2011
LONG-TERM LIABILITIES		
Notes payable (Note 6)	\$ 197,358	\$ 303,290
Warrant agreement (Note 6)	-	772,407
Installment sale agreement (Note 6)	2,762,562	2,892,512
Installment sale agreement (Note 6)	981,748	1,246,842
Installment sale agreement (Note 6)	1,432,820	1,500,000
Less: current portion	(501,028)	(553,707)
TOTAL LONG-TERM LIABILITIES	4,873,460	6,161,344
CURRENT LIABILITIES		
Accounts payable	1,284,753	538,450
Construction deposits	32,500	36,500
Accrued wages and compensated absences	141,603	137,554
Current portion of long-term liabilities	501,028	553,707
Customer deposits	145,300	143,100
TOTAL CURRENT LIABILITIES	2,105,184	1,409,311
TOTAL LIABILITIES	6,978,644	7,570,655
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	8,309,379	6,446,961
Unrestricted	1,883,851	1,979,301
TOTAL NET ASSETS	\$ 10,193,230	\$ 8,426,262

The accountant's report and notes are an integral part of these statements.

SERRANO WATER DISTRICT
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING REVENUE		
Water sales - domestic (Note 1)	\$ 4,232,098	\$ 3,652,974
Water sales - bulk (Note 7)	1,006,488	879,349
Water sales - irrigation	3,125	2,553
TOTAL OPERATING REVENUE	5,241,711	4,534,876
OPERATING EXPENSE		
Source of supply:		
Maintenance and supplies	14,381	21,340
Purchased water	24,899	19,821
Replenishment assessment	455,016	428,241
Maintenance and supplies	16,567	14,440
Power	304,331	342,523
Water treatment:		
Maintenance, supplies and analysis	147,234	186,267
Transmission and distribution:		
Salaries	381,517	382,822
Maintenance and supplies	124,153	120,579
Vehicle expenses	43,983	33,103
Uniforms	4,513	4,259
Administrative and general:		
Public relations	40,694	39,376
Salaries	403,048	506,207
Office supplies and expenses	11,448	9,920
Telephone and utilities	24,539	27,998
Printing	19,027	23,102
Auto expenses	18,309	19,549
Travel and meetings	10,861	17,008
Dues and subscriptions	6,960	5,995
Insurance expense:		
Property and liability	52,449	35,000
Worker's compensation	44,420	24,686
Employee benefits:		
Group, medical, dental and life	446,958	419,538
Pension plan (Note 10)	142,261	180,233
Payroll taxes	77,018	71,132
Uncollectible accounts	3,087	3,558
General operating expense	71,840	53,431
Sub-totals - Operating Expense	2,889,513	2,990,128
(carried forward)		

The accountant's report and notes are an integral part of these statements.

SERRANO WATER DISTRICT
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Sub-totals - Operating Expense (brought forward)	\$ 2,889,513	\$ 2,990,128
Administrative and general (continued):		
Security	16,250	19,310
Retirement plan administrator	1,453	1,450
Payroll preparation	6,650	6,612
Legal	71,040	47,888
Audit and accounting	11,540	14,961
Directors	33,400	37,000
Engineering	-	2,500
Less: Reimbursed overhead and labor	(90,073)	(82,823)
Depreciation	340,637	309,250
TOTAL OPERATING EXPENSE	3,280,410	3,346,276
OPERATING INCOME	1,961,301	1,188,600
NON-OPERATING INCOME		
Concession income	210,000	210,000
Interest income	8,651	5,951
Development/other income	17,377	36,966
TOTAL NON-OPERATING INCOME	236,028	252,917
NON-OPERATING EXPENSE		
Interest expense	(378,261)	(322,004)
Other expenses	(52,100)	(55,936)
TOTAL NON-OPERATING EXPENSE	(430,361)	(377,940)
INCREASE IN NET ASSETS	1,766,968	1,063,577
NET ASSETS:		
Beginning	8,426,262	7,362,685
Ending	\$ 10,193,230	\$ 8,426,262

The accountant's report and notes are an integral part of these statements.

SERRANO WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 5,170,714	\$ 4,742,819
Payments to suppliers	(1,448,013)	(2,156,125)
Payments to employees	(780,516)	(921,269)
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	2,942,185	1,665,425
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(2,699,954)	(840,725)
Escrow Funds	1,899,832	(1,088,952)
Other cash receipts	236,028	252,917
Other cash payments	(52,100)	(55,936)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	(616,194)	(1,732,696)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Principal payments on long-term debt	(1,340,563)	(467,998)
Proceeds from installment loan	-	1,500,000
Interest payments on long-term debt	(378,261)	(322,004)
CASH FLOWS USED BY INVESTING ACTIVITIES	(1,718,824)	709,998
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	607,167	642,727
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,876,716	1,233,989
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,483,883	\$ 1,876,716
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 1,961,301	\$ 1,188,600
Adjustments to reconcile operating income to net cash flow from operating activities:		
Depreciation and amortization	340,637	339,616
Increase (Decrease) in accounts receivable	(127,306)	212,959
Decrease (increase) in prepaid expenses and other assets	23,051	(38,783)
Decrease in construction deposits	(4,000)	-
Increase (Decrease) in accounts payable and accrued expenses	746,302	(40,367)
Increase in customer deposits	2,200	3,400
Net cash provided by operating activities	\$ 2,942,185	\$ 1,665,425

The accountant's report and notes are an integral part of these statements.

SERRANO WATER DISTRICT
SCHEDULE OF OPERATIONS
COMPARISON BETWEEN BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	Actual	Budget	Variance Favorable (Unfavorable)
OPERATING REVENUE	\$ 5,241,711	\$ 5,066,500	\$ 175,211
OPERATING EXPENSE			
Source of supply	494,296	523,520	29,224
Pumping	320,898	385,000	64,102
Water treatment	147,234	194,000	46,766
Transmission and distribution	554,166	602,200	48,034
Administration and general	1,423,179	1,532,481	109,302
Depreciation and amortization	340,637	292,116	(48,521)
TOTAL OPERATING EXPENSE	3,280,410	3,529,317	248,907
OPERATING INCOME	1,961,301	1,537,183	424,118
Non-operating income	236,028	233,200	2,828
Non-operating expense	(430,361)	(431,100)	739
NET INCOME	\$ 1,766,968	\$ 1,339,283	\$ 427,685

The accountant's report and notes are an integral part of these statements.

SERRANO WATER DISTRICT
SCHEDULE OF OPERATIONS
COMPARISON BETWEEN BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	Actual	Budget	Variance Favorable (Unfavorable)
OPERATING REVENUE	\$ 4,534,876	\$ 4,772,500	\$ (237,624)
OPERATING EXPENSE			
Source of supply	469,402	512,200	42,798
Pumping	356,923	367,000	10,077
Water treatment	186,267	192,000	5,733
Transmission and distribution	540,763	566,600	25,837
Administration and general	1,483,671	1,550,700	67,029
Depreciation and amortization	309,250	292,116	(17,134)
TOTAL OPERATING EXPENSE	3,346,276	3,480,616	134,340
OPERATING INCOME	1,188,600	1,291,884	(103,284)
Non-operating income	252,917	232,000	20,917
Non-operating expense	(377,940)	(367,100)	(10,840)
NET INCOME	\$ 1,063,577	\$ 1,156,784	\$ (93,207)

The accountant's report and notes are an integral part of these statements.

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. General Information - Serrano Water District (The District), formerly Serrano Irrigation District, is a special governmental district of the State of California organized under the California Irrigation Law. (State Instrument dated October, 1911.) The District was formed on July 25, 1927. It took over Villa Park Mutual Water Company on March 31, 1964. The District's responsibility is to supply water as far as the individual water meters located within the District.

The District services an area of approximately 2,000 acres in Villa Park and Orange. The number of domestic meters in service during the year ended June 30, 2012 was approximately 2,200.

The District's sources of water are native water drawn from Santiago Reservoir (also called "Irvine Lake") and three operable water wells. Occasionally, when available, water is drawn from the reservoir at the Villa Park Dam. The District also has three operable water wells, and pumps approximately sixty (60%) of its usage for its customers.

The District is one-half owner of the Santiago Dam and Reservoir facilities. The District holds one-fourth of the water rights in water impounded in the Santiago Reservoir under an agreement dated February 26, 1928 with the Irvine Company, which subsequently has been modified and amended on numerous occasions.

Reservoir capacity of the District for treated water is presently 9.0 million gallons.

Willard Smith Reservoir #1	3.0 million gallons
Willard Smith Reservoir #2	3.0 million gallons
Lockett Reservoir	3.0 million gallons

The capacity of the Walter E. Howler Water Filtration Plant is 4 million gallons per day.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation - The District is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

The District utilizes the accrual basis of accounting. The District applies all applicable GASB pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradicts GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedures.

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 its related 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.

C. Capital Assets - Capital assets are recorded at cost. Depreciation is recorded using a straight-line method on fixed assets with useful lives from three to one hundred years. See supplementary information for schedules of depreciable assets and depreciation for the year ended June 30, 2012.

D. Inventory - Inventory is stated at lower of cost or market using the first-in, first-out (FIFO) method.

E. Compensated Absences - The total amount of accrued sick leave hours and vacation pay hours at the end of each year have been reflected in the body of the statement. To discourage excessive absences from work, the employees (excluding management) are paid for unused sick pay hours in excess of 40 hours. The accrued amounts at June 30, 2012 and 2011 were as follows:

	2012	2011	
Vacation Pay	\$ 103,298	\$ 108,747	
Sick Pay	21,475	20,834	
Accrued Wages	16,830	7,973	
Total	\$ 141,603	\$ 137,554	

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Water Sales - Water users are billed every month for their water usage for that period plus the service charge for the same period. The amount of water used but unbilled at year-end can only be approximated. The total amount included for used but unbilled water sales was \$261,786 and \$283,792 as of June 30, 2012 and 2011, respectively.

G. Accounts Receivable - Water Users - The balance shown as a receivable represents the amount of water usage and service charges that have been earned but not yet collected at year end.

H. Uncollectible Water Sales - The amount of uncollectible water sales that is written off is determined by direct write-off of individual accounts that have been outstanding for more than one year. The items are usually final bills that are not paid after the user moves from the District. The amount of bad debts each year is extremely low, averaging less than 1% of total sales per year.

I. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Basis of Presentation – The accompanying financial statements only include the accounts of Serrano Water District. The District has had certain transactions with SWD Recreation, Inc., a non-profit public benefit corporation (see Note 8). Both entities operate under the same management and Board of Directors. Generally accepted accounting principles requires that SWD Recreation be combined with the District for a complete picture of the financial position and results of operations of the District. As of June 30, 2012, if SWD Recreation had been combined with the District, the investment in SWD Recreation would decrease by \$140,135, revenues would have increased by \$3,061,033, expenses would have increased by \$2,987,255, and net income would have increased by \$73,778. As of June 30, 2011, if SWD Recreation had been combined with the District, the investment in SWD Recreation would decrease by \$140,135, revenue would have increased by \$2,943,162, expenses would have increased by \$2,865,318 and net income would have increased by \$77,844.

K. Subsequent Events - The District has evaluated subsequent events through November 19, 2012, which is the date the basic financial statements were available to be issued.

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 2 - CASH AND CASH EQUIVALENTS

Funds in excess of needs for current operating expenses are invested in various short-term money market and investment funds.

The primary goals of the District's Investment Policy are to assure compliance with all Federal, State, and Local laws governing the investment of funds under the control of the organization, protect the principal of investments entrusted, and generate income under the parameters of such policies.

The District's investment policy and state statutes authorize the District to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit with national and state-licensed or chartered banks or federal or state savings and loan associations, money market and mutual funds whose portfolios consist of one or more of the foregoing investments, and the Local Agency Investment Fund.

A summary of cash and cash equivalents is as follows at June 30:

	<u>2012</u>	<u>2011</u>
Unrestricted deposits		
Cash	\$ 638,069	\$ 972,737
Cash equivalents	<u>1,845,814</u>	<u>903,979</u>
Total unrestricted deposits	2,483,883	1,876,716
Restricted portion	<u>-</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 2,483,883</u>	<u>\$ 1,876,716</u>

The Federal Deposit Insurance Corporation provides deposit insurance for all banks at which the District's deposits are held. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category, except that, from December 31, 2010 through December 31, 2012, at all FDIC-insured institutions, deposits held in noninterest-bearing transaction accounts are fully insured regardless of the amount in the account.

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

For June 30, 2012 and 2011, 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 trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's Investment Policy.

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

Authorized Investments	Maximum maturity	Maximum percentage of portfolio	Maximum investment in issuer
Local Agency Investment Fund (LAIF)	N/A	None	None
U.S. Treasury (bills, notes, and bonds)	36 months	None	None
Bank Certificates of Deposit	36 months	20%	None
Money Market Mutual Funds	N/A	20%	None

Local Agency Investment Fund (LAIF)

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 District's prorated 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.

LAIF is a special fund of the California State Treasury through which local governments may pool investments. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. Investments with LAIF are secured by the full faith and credit of the State of California. The yield of LAIF during the years ended June 30, 2012 and 2011 was 0.36% and 0.45%, respectively. Included in cash equivalents as of June 30, 2012 and 2011 is \$870,426 and \$350,642 respectively, invested in LAIF.

NOTE 3 - ACCOUNTS RECEIVABLE - WATER DISTRICTS

The District shares expenses for jointly owned facilities with the Irvine Ranch Water District. Expenses from the maintenance and operation of Santiago Dam and Reservoir are shared, three-fourths by Irvine Ranch Water District and one-fourth by the District. The District pays expenses and then charges three-fourths of the expenses to Irvine Ranch Water District. To cover overhead, administrative and general expenses, 90% of direct labor charges are added to the bill. The amount of \$113,207 and \$122,796 was billed to Irvine Ranch Water District for the years ended June 30, 2012 and 2011.

NOTE 4 - DEFERRED CHARGES

Deferred charges are related to the 2002 defeasance costs of the LaSalle National Bank loan refunding. These costs are being amortized over a 14 year period (remaining debt service years on the 2002 LaSalle Refunding) beginning in 2002 as follows:

The balance at June 30 consists of the following:

	2012	2011
Deferred charges	\$ 425,112	\$ 425,112
Accumulated amortization	(318,833)	(288,469)
Deferred charges, net	\$ 106,279	\$ 136,643

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 5 - CAPITAL ASSETS

Changes in capital assets for the years ended June 30, 2012 and 2011 were as follows:

DESCRIPTION	Balance 2011	Additions/ Transfers	Deletions/ Transfers	Balance 2012
Non-Depreciable Assets:				
Land	\$ 147,790	\$ -	\$ -	\$ 147,790
Total Non-Depreciable Assets	<u>147,790</u>	<u>-</u>	<u>-</u>	<u>147,790</u>
Depreciable Assets:				
Santiago Dam appurtenances	221,410	-	-	221,410
Santiago Dam	208,537	-	-	208,537
Santiago Lateral extension	25,772	-	-	25,772
Lagoon	50,617	-	-	50,617
Submerged equipment	1,643	-	-	1,643
Irvine Park meter	7,626	-	-	7,626
Water treatment plant	864,548	25,579	-	890,127
Treatment building at Park	4,906	-	-	4,906
Pipeline concrete	54,180	-	-	54,180
Pipeline delivery	3,310,960	57,502	-	3,368,462
Lemon Street well	1,135,989	44,513	-	1,180,502
Smith Reservoir #1	707,630	-	-	707,630
Smith Reservoir #2	391,974	-	-	391,974
Lockett Reservoir	954,127	-	-	954,127
Treatment Plant	5,592,582	2,462,968	-	8,055,550
Vehicles	631,961	85,496	-	717,457
Building and improvements	201,392	2,215	-	203,607
Office equipment	280,252	16,792	-	297,044
Tools and equipment	102,347	4,889	-	107,236
Total Depreciable Assets - Purchased	14,748,453	2,699,954	-	17,448,407
Total assets transferred from Villa Park				
Mutual Water Company	60,726	-	-	60,726
Combined total - purchase and transfer	14,809,179	2,699,954	-	17,509,133
Contributed by developers - domestic pipelines				
Total - All Depreciable Assets	<u>\$ 15,673,094</u>	<u>\$ 2,699,954</u>	<u>\$ -</u>	<u>\$ 18,373,048</u>

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 5 - CAPITAL ASSETS (Continued)

DESCRIPTION	Balance 2011	Additions/ Transfers	Deletions/ Transfers	Balance 2012
Accumulated Depreciation:				
Santiago Dam appurtenances	(180,482)	(10,632)	-	(191,114)
Santiago Dam	(163,695)	(2,085)	-	(165,780)
Santiago Lateral extension	(25,772)	-	-	(25,772)
Lagoon	(25,309)	(2,531)	-	(27,840)
Submerged equipment	(1,643)	-	-	(1,643)
Irvine Park meter	(2,670)	(763)	-	(3,433)
Water treatment plant	(295,220)	(12,927)	-	(308,147)
Treatment building at Park	(4,343)	(164)	-	(4,507)
Pipeline concrete	(54,180)	-	-	(54,180)
Pipeline delivery	(1,738,651)	(67,278)	-	(1,805,929)
Lemon Street well	(554,909)	(38,939)	-	(593,848)
Smith Reservoir #1	(577,270)	(9,205)	-	(586,475)
Smith Reservoir #2	(278,289)	(7,839)	-	(286,128)
Lockett Reservoir	(228,986)	(9,541)	-	(238,527)
Treatment Plant	(1,386,563)	(129,596)	-	(1,516,159)
Vehicles	(535,660)	(28,460)	-	(564,120)
Building and improvements	(167,777)	(4,857)	-	(172,634)
Office equipment	(186,217)	(11,603)	-	(197,820)
Tools and equipment	(88,223)	(2,694)	-	(90,917)
Total Assets Purchased	(6,495,859)	(339,114)	-	(6,834,973)
Total assets transferred from Villa Park				
Mutual Water Company	(60,726)	-	-	(60,726)
Combined total - purchase and transfer	(6,556,585)	(339,114)	-	(6,895,699)
Contributed by developers - domestic pipelines	(838,043)	(1,523)	-	(839,566)
Total Accumulated Depreciation	(7,394,628)	(340,637)	-	(7,735,265)
Total Depreciable Assets, Net	8,278,466	\$ 2,359,317	\$ -	10,637,783
Total Capital Assets, Net	\$ 8,426,256			\$ 10,785,573

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 5 - CAPITAL ASSETS (Continued)

DESCRIPTION	Balance 2010	Additions/ Transfers	Deletions/ Transfers	Balance 2011
Non-Depreciable Assets:				
Land	\$ 147,790	\$ -	\$ -	\$ 147,790
Total Non-Depreciable Assets	<u>147,790</u>	<u>-</u>	<u>-</u>	<u>147,790</u>
Depreciable Assets:				
Santiago Dam appurtenances	218,294	3,116	-	221,410
Santiago Dam	208,537	-	-	208,537
Santiago Lateral extension	25,772	-	-	25,772
Lagoon	50,617	-	-	50,617
Submerged equipment	1,643	-	-	1,643
Irvine Park Meter	7,626	-	-	7,626
Water treatment plant	710,320	154,228	-	864,548
Treatment building at Park	4,906	-	-	4,906
Pipeline concrete	54,180	-	-	54,180
Pipeline delivery	3,174,019	136,941	-	3,310,960
Lemon Street well	1,115,985	20,004	-	1,135,989
Smith Reservoir #1	666,365	41,265	-	707,630
Smith Reservoir #2	391,974	-	-	391,974
Lockett Reservoir	954,127	-	-	954,127
Treatment Plant	5,144,188	448,394	-	5,592,582
Vehicles	609,184	22,777	-	631,961
Building and improvements	201,392	-	-	201,392
Office equipment	267,405	12,847	-	280,252
Tools and equipment	101,194	1,153	-	102,347
Total Depreciable Assets - Purchased	<u>13,907,728</u>	<u>840,725</u>	<u>-</u>	<u>14,748,453</u>
Total assets transferred from Villa Park Mutual Water Company	<u>60,726</u>	<u>-</u>	<u>-</u>	<u>60,726</u>
Combined total - purchase and transfer	<u>13,968,454</u>	<u>840,725</u>	<u>-</u>	<u>14,809,179</u>
Contributed by developers - domestic pipelines	<u>863,915</u>	<u>-</u>	<u>-</u>	<u>863,915</u>
Total - All Depreciable Assets	<u>\$ 14,832,369</u>	<u>\$ 840,725</u>	<u>\$ -</u>	<u>\$ 15,673,094</u>

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 5 - CAPITAL ASSETS (Continued)

DESCRIPTION	Balance 2010	Additions/ Transfers	Deletions/ Transfers	Balance 2011
Accumulated Depreciation:				
Santiago Dam appurtenances	(169,246)	(11,236)	-	(180,482)
Santiago Dam	(161,610)	(2,085)	-	(163,695)
Santiago Lateral extension	(25,772)	-	-	(25,772)
Lagoon	(22,778)	(2,531)	-	(25,309)
Submerged equipment	(1,643)	-	-	(1,643)
Irvine Park Meter	(1,907)	(763)	-	(2,670)
Water treatment plant	(282,612)	(12,608)	-	(295,220)
Treatment building at Park	(4,179)	(164)	-	(4,343)
Pipeline concrete	(54,180)	-	-	(54,180)
Pipeline delivery	(1,673,804)	(64,847)	-	(1,738,651)
Lemon Street well	(517,583)	(37,326)	-	(554,909)
Smith Reservoir #1	(568,065)	(9,205)	-	(577,270)
Smith Reservoir #2	(270,450)	(7,839)	-	(278,289)
Lockett Reservoir	(219,445)	(9,541)	-	(228,986)
Treatment Plant	(1,281,597)	(104,966)	-	(1,386,563)
Vehicles	(511,514)	(24,146)	-	(535,660)
Building and improvements	(159,728)	(8,049)	-	(167,777)
Office equipment	(175,690)	(10,527)	-	(186,217)
Tools and equipment	(86,329)	(1,894)	-	(88,223)
Total Assets Purchased	(6,188,132)	(307,727)	-	(6,495,859)
Total assets transferred from Villa Park Mutual Water Company	(60,726)	-	-	(60,726)
Combined total - purchase and transfer	(6,248,858)	(307,727)	-	(6,556,585)
Contributed by developers - domestic pipelines	(836,520)	(1,523)	-	(838,043)
Total Accumulated Depreciation	(7,085,378)	(309,250)	-	(7,394,628)
Total Depreciable Assets, Net	\$ 7,746,992	\$ 531,474	\$ -	\$ 8,278,466

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 6 - LONG-TERM LIABILITIES

	<u>Balance 2011</u>	<u>Additions</u>	<u>Payments/ Retirements</u>	<u>Balance 2012</u>
Orange County Water District - due July 2012, payable in semi-annual payments of \$23,061, which includes interest at 3.5%. Paid in full during 2012	\$ 74,702	\$ -	\$ (74,702)	\$ -
Orange County Water District - for the construction of a well facility, with semi-annual installments of \$14,249, due August 2020, at a rate of 3.5%.	228,588	-	(31,230)	197,358
LaSalle Bank National Association - loan proceeds obtained June 30, 2006 for modifications to the treatment plant facility and construction of new wells, due June 2026, payable in semi-annual installments of \$141,349, which includes interest at 5.34%.	2,892,512	-	(129,950)	2,762,562
LaSalle Bank National Association - refinanced warrant agreement in June 2006, due June 2026, payable in semi-annual installments of \$46,034, which includes interest at 8.5%. Paid in full during 2012	772,407	-	(772,407)	-
State of California Department of Water Resources - Funding Agreement, for the defeasance of the LaSalle National Bank treatment plant facility note, due January 2016, payable in semi-annual installments of \$147,387, which includes interest at 2.5132%.	1,246,842	-	(265,094)	981,748
Bank of America - loan proceeds obtained for improvements to the Walter E. Howler, Jr. Water Filtration Plant, due April 2026, payable in semi-annual installments of \$73,494, which includes interest at 5.38%	1,500,000	-	(67,180)	1,432,820
Total Long-term Liabilities	6,715,051	<u>\$ -</u>	<u>\$ (467,974)</u>	5,374,488
Less: Current Portion	<u>(553,707)</u>			<u>(501,028)</u>
Total Non-Current	<u>\$ 6,161,344</u>			<u>\$ 4,873,460</u>

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 6 - LONG-TERM LIABILITIES

	<u>Balance 2010</u>	<u>Additions</u>	<u>Payments/ Retirements</u>	<u>Balance 2011</u>
Orange County Water District - due July 2012, payable in semi-annual payments of \$23,061, which includes interest at 3.5%.	\$ 116,022	\$ -	\$ (41,320)	\$ 74,702
Orange County Water District - for the construction of a well facility, with semi-annual installments of \$14,249, due August 2020, at a rate of 3.5%.	248,612	-	(20,024)	228,588
LaSalle Bank National Association - loan proceeds obtained June 30, 2006 for modifications to the treatment plant facility and construction of new wells, due June 2026, payable in semi-annual installments of \$141,349, which includes interest at 5.34%.	3,015,791	-	(123,279)	2,892,512
LaSalle Bank National Association - refinanced warrant agreement in June 2006, due June 2026, payable in semi-annual installments of \$46,034, which includes interest at 8.5%.	797,227	-	(24,820)	772,407
State of California Department of Water Resources - Funding Agreement, for the defeasance of the LaSalle National Bank treatment plant facility note, due January 2016, payable in semi-annual installments of \$147,387, which includes interest at 2.5132%	1,505,397	-	(258,555)	1,246,842
Bank of America - loan proceeds obtained for improvements to the Walter E. Howler, Jr. Water Filtration Plant, due April 2026, payable in semi-annual installments of \$73,494, which includes interest at 5.38%	-	1,500,000	-	1,500,000
Total Long-term Liabilities	5,683,049	<u>\$ 1,500,000</u>	<u>\$ (467,998)</u>	6,715,051
Less: Current Portion	<u>(467,974)</u>			<u>(553,707)</u>
Total Non-Current	<u>\$ 5,215,075</u>			<u>\$ 6,161,344</u>

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 6 - LONG-TERM LIABILITIES (Continued)

On June 30, 2006, the District entered into two new loan agreements as discussed above with LaSalle Bank. An existing loan with LaSalle was refinanced, a loan was retired (the bond issuance in connection with the former Safe Drinking Water Bond Loan), and a new loan was established to make modifications to the District's treatment plant and well facilities. On June 30, 2006, the District opened an escrow funding account with loan proceeds in the amount of \$3,150,000, pending construction of the capital improvements. In April 2011, the District obtained additional financing in the amount of \$1,500,000 to facilitate the construction of improvements to the Walter E. Howler Water Filtration Plant. Capital improvements began during the current fiscal year. As of June 30, 2012, the balance in the escrow accounts totaled \$2,622,054.

Annual debt service requirements on the long-term liabilities as of June 30, 2012 are as follows:

	<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Orange County Water District				
	2013	21,405	7,823	29,228
	2014	22,500	7,093	29,593
	2015	23,345	5,998	28,498
	2016	23,754	5,153	28,498
	2017	24,010	4,744	28,498
	2018-2020	<u>82,344</u>	<u>20,837</u>	<u>103,181</u>
	Total	197,358	\$ 51,648	\$ 249,006
	Less Current Portion	<u>(21,405)</u>		
	Total Long Term	<u>\$ 175,953</u>		
LaSalle Bank National Association				
	2013	136,982	152,749	289,731
	2014	144,394	145,716	290,110
	2015	152,208	138,304	290,512
	2016	160,444	130,490	282,698
	2017	167,900	122,254	282,698
	2018 - 2026	<u>2,000,634</u>	<u>658,441</u>	<u>2,826,976</u>
	Total	2,762,562	\$ 1,347,954	\$ 4,110,516
	Less Current Portion	<u>(136,982)</u>		
	Total Long Term	<u>\$ 2,625,580</u>		
State of California Department of Water Resources				
	2013	271,798	22,976	294,774
	2014	278,672	16,102	294,774
	2015	285,720	9,054	294,774
	2016	<u>145,558</u>	<u>1,829</u>	<u>147,387</u>
	Total	981,748	\$ 49,961	\$ 1,031,709
	Less Current Portion	<u>(271,798)</u>		
	Total Long Term	<u>\$ 709,950</u>		

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 6 - LONG-TERM LIABILITIES (Continued)

	<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Bank of America				
	2013	70,843	22,976	146,989
	2014	74,706	16,102	146,989
	2015	78,779	68,210	146,989
	2016	83,074	63,915	146,989
	2017-2026	<u>1,125,418</u>	<u>344,469</u>	<u>1,469,887</u>
Total		1,432,820	<u>\$ 515,672</u>	<u>\$ 1,948,492</u>
Less Current Portion		(70,843)		
Total Long Term		<u>\$ 1,361,977</u>		

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 7 - WATER SALES IN ACRE FEET

During the year ended June 30, 2012 and 2011, one thousand three hundred forty one (1,462) and one thousand four hundred fifty one (1,341) acre feet of bulk water was sold to the City of Orange for a total sales price of \$1,006,488 and \$879,349, respectively. Included in Accounts Receivable - General are \$24,427 and \$9,257, relating to the sale of water to the City of Orange as of June 30, 2012 and 2011, respectively.

Water Sales:	2012	2011
Domestic water	2,779	2,752
Bulk sale	1,462	1,341
Irrigation water	5	4
Total Sold	4,246	4,658

NOTE 8 - IRVINE LAKE OPERATIONS

Irvine Ranch Water District (IRWD) and the District co-manages the daily lake operations.

The recreational rights at Irvine Lake are jointly owned by The Irvine Company and the District. The District is the manager of the recreational activities through a non-profit public benefit corporation, SWD Recreation, Inc., which was formed in 1997. For the years ended June 30, 2012 and 2011, rent in the amount of \$210,000 was paid to the District by SWD Recreation, Inc.

NOTE 9 - JOINT VENTURE

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Authority). The following joint venture disclosures are made in compliance with GASB Code Section J50.103:

A. Description of 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.

B. Self-Insurance Programs of the Authority - The District participated in the self-insurance programs of the Authority as follows:

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 9 – JOINT VENTURE (Continued)

Property Loss - Insured up to replacement value with \$25,000 deductible per occurrence; the Authority is self-insured up to \$10,000 per occurrence and has purchased excess insurance coverage.

General Liability - Insured up to \$35,000,000 per occurrence with \$2,500 deductible; the Authority is self-insured up to \$500,000 and excess insurance coverage has been purchased.

Auto Liability - Insured up to \$35,000,000 per occurrence; the Authority is self-insured up to \$500,000 per occurrence with \$2,500 deductible for property damage and has purchased excess insurance coverage.

Public Officials' and Employees' Errors and Omissions - Insured up to \$20,000,000 per occurrence, the Authority is self-insured up to \$500,000 and excess insurance coverage has been purchased. In addition to the preceding, the Authority also has purchased insurance coverage as follows:

Fidelity Bonds - \$100,000 total insurance.

Boiler and Machinery - \$1,000 deductible

C. Condensed Financial Information of the Authority - Noted below are condensed audited financial statements of the Authority for the years ended September 30, 2011 and 2010:

	2011	2010
ASSETS		
Current assets	\$ 47,799,175	\$ 48,403,357
Noncurrent assets	78,970,791	79,562,048
Total Assets	126,769,966	127,965,405
LIABILITIES		
Current liabilities	41,867,839	38,507,711
Noncurrent liabilities	45,455,820	45,455,820
Total Liabilities	87,323,659	83,963,531
NET ASSETS	\$ 39,446,307	\$ 44,001,874

(1) The Authority does not show in its records the separate equity of each individual district.

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 9 – JOINT VENTURE (Continued)

	2011	2010
OPERATING REVENUES		
Members premiums	\$ 32,175,664	\$ 30,328,626
Retrospective premium adjustments	(4,026,190)	(3,276,537)
Total Operating Revenues	28,149,474	27,052,089
OPERATING EXPENSES		
Claims expense	11,880,268	12,328,854
Excess insurance	8,507,507	8,350,340
Other expenses	5,898,455	5,330,063
Total Operating Expenses	26,286,230	26,009,257
OPERATING INCOME (LOSS)	1,863,244	1,042,832
NONOPERATING REVENUES		
Investment income and investment fair value	1,446,926	2,885,378
INCREASE IN NET ASSETS	3,310,170	3,928,210
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	44,001,874	40,073,664
NET ASSETS, END OF YEAR	\$ 47,312,044	\$ 44,001,874

NOTE 10 - RETIREMENT PLAN

Plan Description: The District contributes to the California Public Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public employees within the State of California. All permanent District employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times their highest average monthly salary over twelve consecutive months of employment. Copies of the PERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
FOR YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 10 - RETIREMENT PLAN (Continued)

Funding Policy: Active plan members are required to contribute 7% of their annual covered salary. The District is required to contribute at an actuarially determined rate, which was 21.365% for the fiscal year ended June 30, 2012, and was determined to be 21.847% for the next fiscal year. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost: For the year ending June 30, 2012, the District incurred an annual pension cost of \$142,261. The following is a summary of the actuarial assumptions and methods.

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average remaining Period	5 years as of the Valuation Date
Asset Valuation Method	15 Years Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45 % depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

For each of the fiscal years shown below, the District has contributed at the actuarially determined rate provided by PERS' actuaries. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contributions (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contribution for the year. The cumulative difference is called the net pension obligation (NPO). The District's rate also includes a contribution to fund pension costs relating to prior service. The amortization period expires in 2017 at which time there will be a substantial reduction in the annual pension cost. Subsequent to year-end, the District paid \$526,400 to PERS in connection with the District's prior service cost, which will lower its annual required pension contribution for future periods.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The District presents the most recent available three-year Annual Pension Cost (APC) information for the plan, along with required supplementary information as follows:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009-2010	\$184,514	100%	-
2010-2011	\$180,233	100%	-
2011-2012	\$142,261	100%	-

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
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NOTE 11 - DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The assets in the plan are held in trust for the exclusive benefit of the participants and their beneficiaries, and are therefore not reported in the financial statements of the District.

NOTE 12 - RETIREE MEDICAL BENEFITS

During fiscal year ended June 30, 2010, the District implemented the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect prior year's financial statements. Required disclosures are presented below.

Plan Description

The District provides a defined benefit healthcare plan (the "Retiree Health Plan"). The retiree Health Plan provides lifetime healthcare insurance for eligible retirees, which covers both active and retired members. Benefit provisions are established by the Board of Directors.

Funding Policy

The District's Board of Directors will not be funding the plan in the current year. The Board will review the funding requirements and policy annually.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. 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 actuarial liabilities (or funding excess) over the remaining period of 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in its net OPEB obligation to the Retiree Health Plan:

Annual required Contribution	\$	109,081
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Annual OPEB cost (expense)	\$	109,081
Contributions made	\$	26,853
Increase in net OPEB obligation	\$	82,229
Net OPEB obligation - beginning of year	\$	164,458
Net OPEB obligation - end of year	\$	246,687

SERRANO WATER DISTRICT
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The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the current fiscal year is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$109,081	25%	\$82,229

Funding Status and Funding Progress

As of July 1, 2010, the actuarial accrued liability (AAL) for benefits was \$1,332,087, all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer as 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 presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The 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 prospective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 69.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
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Methods and Assumptions, continued

Turnover - The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of GASB Statement No. 45.

Healthcare cost trend rate - Healthcare cost trend rates were selected based on a combination of national and state trend surveys as well as professional judgment.

Health insurance premiums - 2010 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid.

Medicare coordination - Medicare was assumed as the primary payer for current and future retirees when both the retiree and spouse reach age 65.

Dental and vision benefits - Employees without dental and vision benefits are assumed to continue without those benefits upon retirement.

Payroll increase - Changes in the payroll for current employees are expected to increase at a rate of approximately 2.0% annually.

Discount rate - The calculation uses an annual discount rate of 5%. This is based on the assumed long-term return on plan assets or employer assets.

Actuarial cost method - The entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2010, was thirty years.

Plan for Funding

On an ongoing basis, the District will be reviewing its assumptions, comparing them against actual experience and recalculating the needed funding with the goal of paying for postemployment benefits out of interest earned on designated funds.

Required Supplementary information: Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAL as a % of Payroll ((a-b)/c)
7/1/2010	\$ 1,332,087	\$ -	\$ 1,332,087	0.00%	\$ 814,314	163.60%

SERRANO WATER DISTRICT
NOTES TO FINANCIAL STATEMENT
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NOTE 13 – CONTRACT GENERAL MANAGER AGREEMENT

In December 2010, the District entered into a contract management consultant agreement with David H. Noyes, the former general manager who retired in December 2010. The agreement is for a one year term and compensation is \$3,660 per month.

On January 1, 2012, the District entered into an agreement to extend the terms to June 30, 2012. For the year end June 30, 2012, the District paid \$40,260 in connection with these agreements.