

TRS TEAMAN, RAMIREZ & SMITH, INC.
CERTIFIED PUBLIC ACCOUNTANTS

LEE LAKE WATER DISTRICT
ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended
June 30, 2011 and 2010

Lee Lake Water District
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June 30, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lee Lake Water District
Corona, California

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Lee Lake Water District (the "District"), as of and for the years ended June 30, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Lee Lake Water District as of June 30, 2011 and 2010, and the respective changes in financial position, and cash flows, where applicable, thereof 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 our report dated January 19, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 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 to provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lee Lake Water District's financial statements as a whole. The "Supplementary Information" is presented for purposes of additional analysis and is not a required part of the financial statements. The information listed in the "Supplementary Information" section in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Teaman Ramirez & Smith, L.L.C.

January 19, 2012

LEE LAKE WATER DISTRICT
Management's Discussion and Analysis
June 30, 2011

Our discussion and analysis of Lee Lake Water District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the District's financial statements, which begin on page 11.

Financial Highlights

- The District's net assets increased \$ 904,000 or 1.4 percent in the current year as a result of \$ 904,000 from operations.
- Current assets and other restricted assets increased by \$2.35 million mainly due to the net effect of an increase in unrestricted cash and cash equivalents of \$ 2.28 million.
- Current year operating revenues decreased by \$98,000 due to decreases in water service fees, while operating expenses increased by \$35,000 due mainly to higher repairs and maintenance expense.
- Capital asset contributions received from developers were zero in the current year and zero in the prior year, due to no granting of completed facilities within housing developments in the District's service area.
- Total revenues were \$ 7.3 million and \$ 7.4 million and total expenses were \$6.4 million and \$6.0 million for the current year and prior year, respectively.
- See accompanying charts for revenue and expense details, as well as capital expenditures.

Using This Annual Report

This annual report consists of a series of financial statements. The statements of net assets and statements of revenues, expenses, and changes in net assets (on pages 12 through 15) provide information about the activities of the District as a whole and present a longer-term view of the District's finances.

Reporting on the District as a Whole

Our analysis of the District as a whole begins on page 3. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The statements of net assets and the statements of revenues, expenses, and changes in net assets, report information about the District as a whole and about its activities 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 cash is received or paid.

LEE LAKE WATER DISTRICT
Management's Discussion and Analysis
(Continued)
June 30, 2011

These financial statements report the District's net assets and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one 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. You will need to consider other non financial factors, such as changes in the District's property tax base and the condition of the District's water and sewer facilities, to assess the overall health of the District.

The District reports in the statements of net assets and the statements of revenues expenses, and changes in net assets two types of activities, water and sewer services. All District activities are reported in these statements.

The District as a Whole

The District's net assets increased to \$64.8 million from \$63.9 million. Our analysis below focuses on the net assets (Table 1) and the changes in net assets (Table 2) of the District's activities.

Table 1
Net Assets (in Millions)
June 30

	2011	2010	2009
Capital assets	\$ 48.5	\$ 49.8	\$ 48.9
Current and other restricted assets	18.2	15.9	13.4
Total assets	66.7	65.7	62.3
Total liabilities	1.9	1.7	1.7
Net assets			
Invested in capital assets, net of related debt	48.6	49.8	48.5
Unrestricted	16.3	14.2	12.1
Total net assets	\$ 64.8	\$64.0	\$60.6

The net assets increased by \$ 904,000 in 2011, \$3.4 million in 2010 and \$ 879,000 in 2009. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) increased by \$2.1 million. This increase arose primarily as a result of an increase in income from residential and commercial developments.

LEE LAKE WATER DISTRICT
Management's Discussion and Analysis
(Continued)
June 30, 2011

Table 2
Changes in Net Assets (in millions)
June 30

	2011	2010	2009
Operating revenues	\$7.0	\$7.1	\$6.6
Operating expenses	6.0	6.0	6.2
Operating income (loss)	1.0	1.1	.4
Non-operating revenues, net	(.1)	.2	.4
Capital contributions	-	-	.1
Change in net assets	<u>\$.9</u>	<u>\$ 1.3</u>	<u>\$.9</u>

The District's operating revenues decreased by 1.3 percent in the current year. Operating expenses increased by .6 percent. The factors driving these results include:

- Operating revenues decreased by \$98 thousand. The net decrease was due to a decrease in water service fees due to conservation. Operating expenses increased by 0.6% due to minor increases in expenses.
- The District had 4,463 active water services at June 30, 2011 as compared to 4,395 active services at June 30, 2010 and 4,332 active services at June 30, 2009. This represents a net increase of 68 active meters or 1.5 percent.
- Capital asset contributions by developers were zero in 2011 and 2010, and only \$130 thousand in 2009, as a result of the completion and dedication of new water and sewer facilities within the new housing developments inside the District.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the District had \$48.6 million invested in a broad range of capital assets including land, water reclamation facilities, reservoirs, water transportation facilities, water and sewer mains, and sewage collection, treatment, and disposal systems, and buildings and equipment (see Table 3 below).

LEE LAKE WATER DISTRICT
Management's Discussion and Analysis
(Continued)
June 30, 2011

Table 3
Capital Assets at Year-End (in millions)
June 30

	2011	2010	2009
Land	\$.9	\$.9	\$.9
Water capacity rights	8.5	8.5	8.5
Construction in progress	38.9	40.4	29.2
Capital assets (net of depreciation)	<u>\$ 48.3</u>	<u>\$ 49.8</u>	<u>\$ 38.6</u>

Debt

At June 30, 2011 and June 30, 2010, the District had no long-term debt.

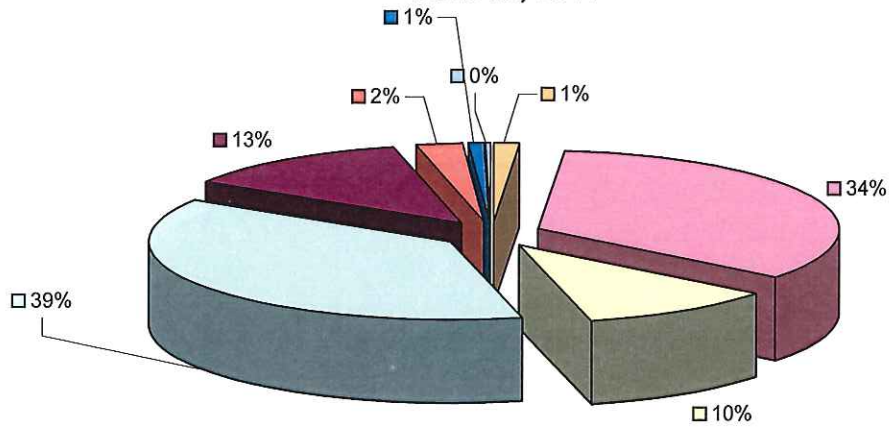
Factors Bearing on the District's Future

The District is currently experiencing very little growth in residential housing within its service area. In the 2010-2011 fiscal year, the customer base increased only by 1.5 percent. New and planned residential communities totaling approximately 2,164 residences are projected to be completed in the future. This new growth will increase the size of the District's customer base. These planned residential communities are in various stages of construction and planning. As water and sewer facilities are completed and accepted by the District, the facilities will become part of the District's capital assets and subject to operation by the District.

Contacting the District's Financial Management

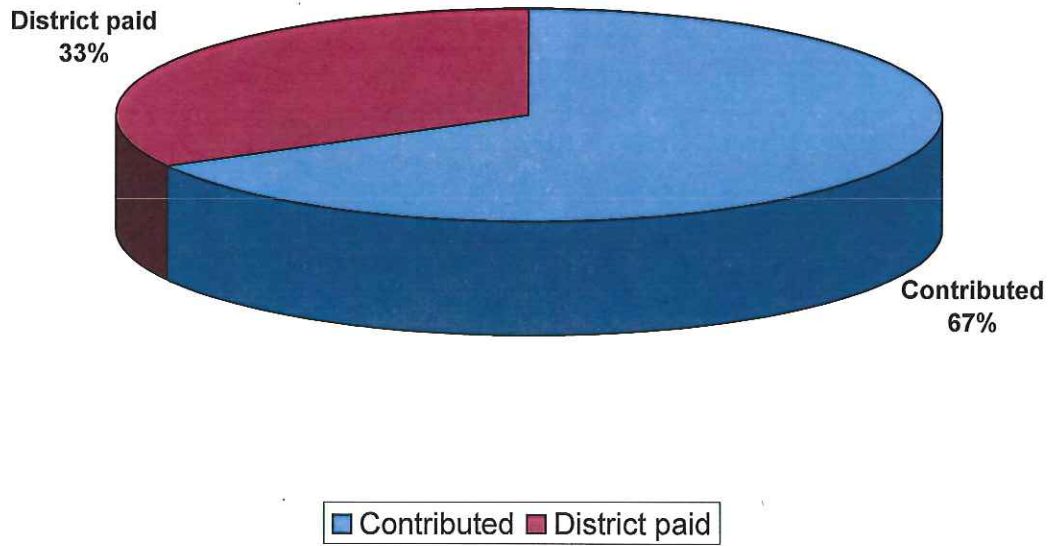
The financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Manager at: Lee Lake Water District, 22646 Temescal Canyon Road, Corona, California 92883.

**Lee Lake Water District
Capital Assets
June 30, 2011**

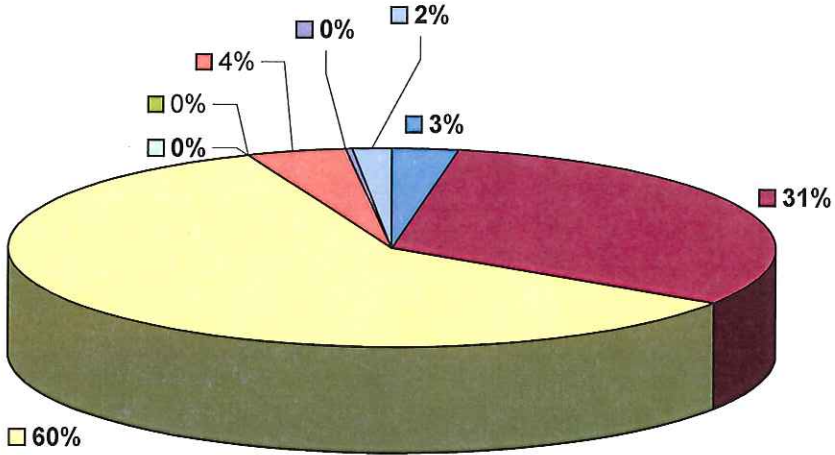


Land	Water reclamation facility	Reservoirs & water transportation facilities
Water & sewer mains	Water capacity rights	Equipment
Office building improvements	Construction in progress	

**Lee Lake Water District
Percentage of Capital Assets Contributed
June 30, 2011**

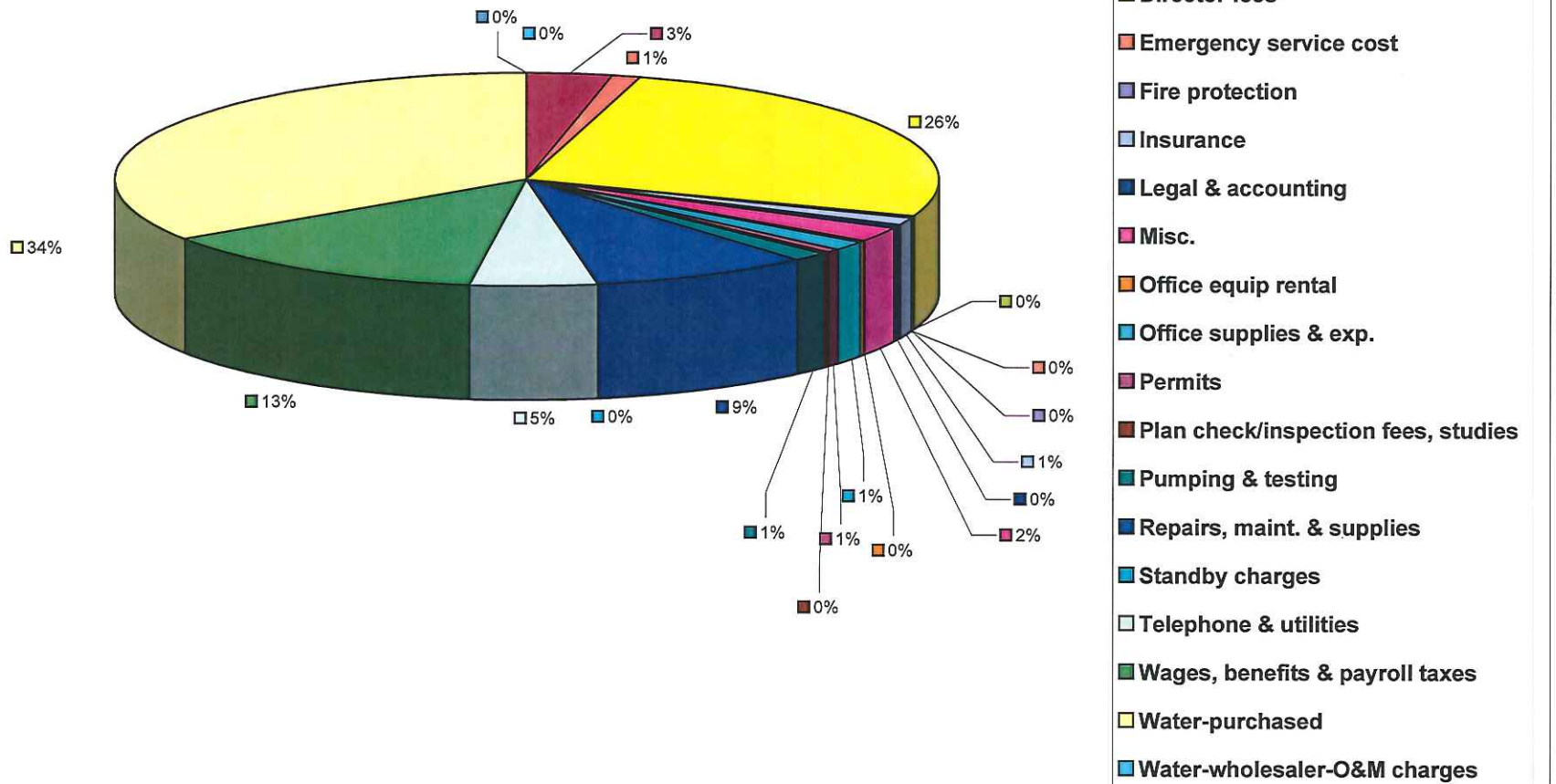


**Lee Lake Water District
Operating Revenue
Year ended June 30, 2011**



■ Standby charges	■ Sewer service fees	■ Water service fees
■ Connection fees	■ Plan check/inspection fees	■ Nonpotable water sales
■ Service meter income	■ Other	

Lee Lake Water District
 Operating Expenses
 Year ended June 30, 2011



BASIC FINANCIAL STATEMENTS

Lee Lake Water District
Statement of Net Assets
June 30, 2011 and 2010

	2011	2010
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 16,135,056	\$ 13,810,706
Accounts Receivable:		
Utility	737,201	704,684
Other	127,648	225,772
Accrued Interest Receivable	16,741	15,998
Inventory	63,173	44,460
Total Current Assets	17,079,819	14,801,620
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	1,151,839	1,079,541
Capital Assets Not Being Depreciated:		
Land	902,118	902,118
Water Capacity Rights	8,452,438	8,452,438
Construction in Progress	293,885	218,695
Capital Assets, Net of Accumulated Depreciation	38,930,809	40,207,553
Total Noncurrent Assets	49,731,089	50,860,345
Total Assets	66,810,908	65,661,965
LIABILITIES		
Current Liabilities:		
Accounts Payable	119,919	71,722
Payable to Other Governmental Agencies	237,177	381,683
Accrued Salaries and Refunds	39,512	33,839
Settlements Payable	336,000	-
Related Party Payable	45,907	119,130
Excess Sewer Capacity Deposits	430,325	418,678
Other Deposits	721,514	660,863
Total Current Liabilities	1,930,354	1,685,915
NET ASSETS		
Invested in Capital Assets	48,579,250	49,780,804
Unrestricted	16,301,304	14,195,246
Total Net Assets	\$ 64,880,554	\$ 63,976,050

The accompanying notes are an integral part of this statement.

Lee Lake Water District
Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Standby Charges	\$ 210,804	\$ 200,363
Sewer Service Fees	2,326,734	2,254,897
Water Service Fees	4,380,076	4,507,294
Connection Fees	-	9,172
Service Meter Income	9,620	33,435
Other	132,453	152,508
	<u>7,059,687</u>	<u>7,157,669</u>
Total Operating Revenues		
OPERATING EXPENSES		
Contract Work - Management and Administrative	209,168	204,800
Contract Work - Operations and Engineering	58,694	116,338
Depreciation and Amortization	1,587,210	1,585,690
Director Fees	7,859	8,860
Insurance	79,223	77,366
Legal and Accounting	25,720	53,920
Miscellaneous	142,963	70,851
Office Equipment Rental	9,182	11,439
Office Supplies and Expenses	75,525	113,956
Permits	44,294	44,048
Plan Check/Inspection Fees and Studies	8,621	44,175
Pumping and Testing	83,812	77,570
Repairs, Maintenance, and Supplies	531,624	389,313
Telephone and Utilities	300,457	316,773
Wages, Employee Benefits, and Payroll Taxes	806,374	795,351
Water - Purchased	2,084,594	2,109,805
	<u>6,055,320</u>	<u>6,020,255</u>
Total Operating Expenses		
Operating Income (Loss)	<u>1,004,367</u>	<u>1,137,414</u>
NON-OPERATING REVENUES (EXPENSES)		
Property Taxes	114,826	120,313
Interest Income	67,173	70,186
Penalties	(336,000)	-
Other	54,138	39,268
	<u>54,138</u>	<u>39,268</u>
Total Non-Operating Revenues (Expenses)	<u>(99,863)</u>	<u>229,767</u>
Change in Net Assets	904,504	1,367,181
Net Assets - Beginning of Year	63,976,050	60,574,929
Prior Period Adjustments	-	2,033,940
	<u>-</u>	<u>2,033,940</u>
Net Assets - End of Year	<u>\$ 64,880,554</u>	<u>\$ 63,976,050</u>

The accompanying notes are an integral part of this statement.

Lee Lake Water District
Statement of Cash Flows
For the Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 7,197,592	\$ 6,904,613
Payments to Employees	(800,701)	(782,563)
Payments to Suppliers	(3,849,981)	(3,713,743)
Other Revenue	54,138	39,268
	2,601,048	2,447,575
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	114,826	120,313
	114,826	120,313
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(385,656)	(473,172)
	(385,656)	(473,172)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Restricted Cash	(72,298)	(67,914)
Interest on Cash and Cash Equivalents	66,430	89,704
	(5,868)	21,790
Net (Decrease) Increase in Cash and Cash Equivalents	2,324,350	2,116,506
Cash and Cash Equivalents - Beginning of Year	13,810,706	11,694,200
Cash and Cash Equivalents - End of Year	\$ 16,135,056	\$ 13,810,706

The accompanying notes are an integral part of this statement.

Lee Lake Water District
Statement of Cash Flows - Continued
For the Years Ended June 30, 2011 and 2010

	2011	2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 1,004,367	\$ 1,137,414
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,587,210	1,585,690
Other Revenue	54,138	39,268
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable:		
Utility	(32,517)	(147,724)
Other	98,124	(173,246)
(Increase) Decrease in Inventory	(18,713)	1,106
Increase (Decrease) in Accounts Payable	(118,715)	(127,762)
Increase (Decrease) in Payable to Other Governmental Agencies	23,456	(20,296)
Increase (Decrease) in Accrued Salaries and Refunds	5,673	12,788
Increase (Decrease) in Related Party Payable	(74,273)	72,423
Increase (Decrease) in Excess Sewer Capacity Deposits	11,647	24,305
Increase (Decrease) in Other Deposits	60,651	43,609
	<u>\$ 2,601,048</u>	<u>\$ 2,447,575</u>

The accompanying notes are an integral part of this statement.

Lee Lake Water District
Statements of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and Investments with Fiscal Agent	<u>\$ 18,002,781</u>	<u>\$ 23,276,730</u>
Total Assets	<u><u>\$ 18,002,781</u></u>	<u><u>\$ 23,276,730</u></u>
LIABILITIES		
Due to Bondholders	<u>\$ 18,002,781</u>	<u>\$ 23,276,730</u>
Total Liabilities	<u><u>\$ 18,002,781</u></u>	<u><u>\$ 23,276,730</u></u>

The accompanying notes are an integral part of this statement.

Lee Lake Water District
Notes to Financial Statements
June 30, 2011 and 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The reporting entity includes the accounts of the general District and the related improvements districts located within the service area of the general District. The District is a special district created for the purpose of providing water, water treatment, and sewage disposal services to customers within its service area. The District has a contract to purchase a majority of their water from Western Municipal Water District. In a past year, the District's board of directors ratified the formation of the Lee Lake Water District Financing Corporation to facilitate the issuance of certificates of participation. The certificates may be issued to assist in the financing of costs of design and engineering of certain sewer system and water system improvements. Although the Financing Corporation qualifies as a component unit for inclusion within these financial statements, the certificates have not been issued and there has been no other activity to record in these financial statements to date.

Basis of Accounting and Measurement Focus

As a governmental agency, the District is subject to accounting and reporting standards established by the Governmental Accounting Standards Board (GASB). As the majority of revenues consist of water sales and related services, the District as a whole, for financial statements purposes, is classified as a proprietary fund. Separate financial statements are provided for the proprietary fund and the agency fund. The District uses the accrual basis of accounting. The financial activities of the District are accounted for using the economic resources measurement focus. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned and become measurable; and expenses are recorded when liabilities are incurred.

The District reports its water and sewer operations as a single enterprise fund. Additionally, the District reports an agency fund to account for money received by the District as an agent for individuals, other governments and other entities. Specifically, the District accounts for activities of the Community Facilities Districts in the agency fund. The agency fund is reported using the accrual basis of accounting.

The District does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. The District applies all applicable GASB pronouncements, as well as statements and interpretations of the FASB, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

Lee Lake Water District
Notes to Financial Statements
June 30, 2011 and 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. The District invests funds with the State of California Pooled Local Agency Investment Fund (LAIF). Due to the high liquidity of this investment, the funds are classified as a cash equivalent. Fair value in external investments pools such as LAIF are determined based on the District's pro rate share of the fair value of the Pool's underlying portfolio. Some of the cash and cash equivalents have been classified as restricted in accordance with applicable standards.

Inventory

Inventory consists of supplies and excess Equivalent Dwelling Units (EDUs) and is recorded at the lower of cost (first-in, first-out) or market.

Capital Assets

The District records the acquisition of capital assets and additions, improvements, and other capital outlays that significantly extend the life of an asset. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Capital assets include contributed assets. Contributed assets are recorded at the fair market value or, if fair market value cannot be determined, the estimated cost of the contribution at the date of donation. Capital assets purchased by the District are carried at cost. Assets are depreciated using the straight-line method of depreciation over their estimated useful lives ranging from five to fifty years.

Revenue and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are fees in connection with providing water and sewer services to customers.

Operating expenses include the costs of providing water and sewer services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Lee Lake Water District
Notes to Financial Statements
June 30, 2011 and 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property Taxes

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	March	
Levy Date	July 1 to June 30	
Due Date	November 1	1st Installment
	March 1	2nd Installment
Collection Date	December 10	1st Installment
	April 10	2nd Installment

The District assesses its property taxes through the County tax rolls. Property taxes are recognized as revenue in the period for which the taxes are levied.

Reclassification

Certain reclassifications have been made to prior fiscal year amounts to conform with the current fiscal year financial statement presentations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Net Assets

GASB No. 34 requires that the difference between assets and liabilities be reported as net assets. Net assets are classified as either invested in capital assets, net of related debt, restricted, or unrestricted.

Net assets that are invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation and reduced by the outstanding principal of related debt. Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted net assets.

Lee Lake Water District
Notes to Financial Statements
June 30, 2011 and 2010

2) CASH AND INVESTMENTS

Cash and investments as of June 30, 2011 and June 30, 2010 are classified in the accompanying financial statements as follows:

	<u>2011</u>	<u>2010</u>
Statement of Net Assets:		
Cash and Cash Equivalents	\$ 16,135,056	\$ 13,810,706
Restricted Cash and Cash Equivalents	1,151,839	1,079,541
Statement of Fiduciary Assets and Liabilities:		
Cash and Investments with Fiscal Agent	<u>18,002,781</u>	<u>23,276,730</u>
 Total Cash and Investments	 <u>\$ 35,289,676</u>	 <u>\$ 38,166,977</u>

Cash and investments as of June 30, 2011 and June 30, 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Cash on Hand	\$ 400	\$ 400
Deposit with Financial Institutions	3,168,454	3,338,235
Investments in LAIF	14,118,041	11,551,612
Cash and Investments with Fiscal Agent:		
LAIF	5,015,492	4,990,106
Money Market Funds	<u>12,987,289</u>	<u>18,286,624</u>
 Total Cash and Investments	 <u>\$ 35,289,676</u>	 <u>\$ 38,166,977</u>

Investments Authorized by the District's Investment Policy

The District's investment policy authorizes investment in the local government investment pool administered by the State of California (LAIF). The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk. Investment of debt proceeds held by bond trustees is governed by the provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy.

Disclosures Relating to Interest Rate Risk

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

Lee Lake Water District
Notes to Financial Statements
June 30, 2011 and 2010

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Interest Rate Risk - Continued

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

		Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
LAIF	\$ 14,118,041	\$ 14,118,041	\$	\$	\$
Cash and Investments with Fiscal Agent:					
LAIF	5,015,492	5,015,492			
Money Market Funds	<u>12,987,289</u>	<u>12,987,289</u>			
 Total	 <u>\$ 32,120,822</u>	 <u>\$ 32,120,822</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. 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.

Investment Type		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	AA	Not Rated
LAIF	\$ 14,118,041	N/A	\$	\$	\$	\$14,118,041
Cash and Investments with Fiscal Agent:						
LAIF	5,015,492	N/A				5,015,492
Money Market Funds	<u>12,987,289</u>	AA		<u>12,987,289</u>		
 Total	 <u>\$ 32,120,822</u>		 <u>\$ -</u>	 <u>\$ 12,987,289</u>	 <u>\$ -</u>	 <u>\$19,133,533</u>

Concentration of Credit Risk

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

Lee Lake Water District
Notes to Financial Statements
June 30, 2011 and 2010

2) CASH AND INVESTMENTS - Continued

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following 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.

As of June 30, 2011 and June 30, 2010, the District had deposits with financial institutions in excess of federal depository insurance limits of \$2,918,454 and \$3,088,235, respectively, which were collateralized by securities held by the pledging Financial Institution's Agent but not 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 the amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

All temporary investments are with the Local Agency Investment Fund (LAIF) administered by the State Treasurer's Office. The yield of LAIF for the quarter ended June 30, 2011 was 0.48%. The estimated amortized cost and fair value of the LAIF Pool at June 30, 2011 was \$66,384,617,119 and \$66,489,270,508, respectively. The District's share of the Pool at June 30, 2011 was approximately .021 percent.

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each district may invest up to \$50,000,000 in the Fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Investments in LAIF are secured by the full faith and credit of the State of California. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes totaling \$1,100,000,000 and asset-backed securities totaling \$2,221,706,000. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

Lee Lake Water District
Notes to Financial Statements
June 30, 2011 and 2010

3) CAPITAL ASSETS

Capital assets are presented as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 902,118	\$ -	\$ -	\$ 902,118
Water Capacity Rights	8,452,438	-	-	8,452,438
Construction in Progress	218,695	75,190	-	293,885
Total Capital Assets, Not Being Depreciated	9,573,251	75,190	-	9,648,441
Capital Assets, Being Depreciated:				
Water Reclamation Facility	20,508,337	129,017	-	20,637,354
Reservoirs	6,962,033	-	-	6,962,033
Water and Sewer Mains	25,291,708	-	-	25,291,708
Office Building Improvements	88,441	-	-	88,441
Sewage Systems (Improvement Districts)	2,381,665	-	-	2,381,665
Equipment - Water and Sewer	1,621,270	181,449	-	1,802,719
Administration Building	481,137	-	-	481,137
Well Systems	46,014	-	-	46,014
Total Capital Assets, Being Depreciated	57,380,605	310,466	-	57,691,071
Less Accumulated Depreciation:				
Water Reclamation Facility	(8,812,614)	(657,210)	-	(9,469,824)
Reservoirs	(1,571,011)	(173,147)	-	(1,744,158)
Water and Sewer Mains	(4,109,412)	(508,445)	-	(4,617,857)
Office Building Improvements	(48,599)	(5,250)	-	(53,849)
Sewage Systems (Improvement Districts)	(1,760,687)	(86,927)	-	(1,847,614)
Equipment - Water and Sewer	(753,908)	(135,897)	-	(889,805)
Administration Building	(106,016)	(19,299)	-	(125,315)
Well Systems	(10,805)	(1,035)	-	(11,840)
Total Accumulated Depreciation	(17,173,052)	(1,587,210)	-	(18,760,262)
Total Capital Assets Being Depreciated, Net	40,207,553	(1,276,744)	-	38,930,809
Capital Assets, Net	\$ 49,780,804	\$ (1,201,554)	\$ -	\$ 48,579,250

Lee Lake Water District
Notes to Financial Statements
June 30, 2011 and 2010

4) EXCESS SEWER CAPACITY DEPOSITS

In connection with the District's construction of its water reclamation plant, the District can offer "excess" sewer capacity to individuals outside Community Facilities Districts (CFD) 87-5 and 89-1. According to the agreement, the District shall pay to the CFDs, without interest, the reimbursement amount for the oversized sewer capacity utilized by the connection of those parties outside the CFDs. As of June 30, 2011 and 2010, the District held deposits of \$184,955 and \$184,955, respectively, from individuals interested in hooking up to the District's plant. Payment to the CFDs shall be due upon receipt of the full connection fee or commencement of service, whichever is earlier.

During the 2010-11 fiscal year and previous fiscal years, the District has collected deposits for sewer capacity for the Sycamore Creek Commercial Site. Upon completion of the project, the actual requirement of EDUs will be determined. Any deposits received in excess of the actual funds required to purchase the units will be refunded.

5) DESIGNATIONS OF DISTRICT UNRESTRICTED NET ASSETS

For the amounts reported as unrestricted net assets in these financial statements, the District's Board of Directors has designated \$11,317,400 and \$10,573,300 to be set aside for the future major refurbishing or replacement of the wastewater utility plant as of June 30, 2011 and 2010, respectively.

6) DEFINED BENEFIT PENSION PLAN

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee 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 entities within the State of California. Benefit provisions and all other requirements are established by state statute within the Public Employees' Retirement Law. Copies of the CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% of their annual covered salary. The District contributes 4% of the contributions required of District's employees on their behalf and for their account. The District is also required to make an additional contribution at an actuarially determined rate. This rate for the fiscal year ended June 30, 2011 was 7.895% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by CalPERS. The District's contribution to CalPERS for the year ended June 30, 2011 and June 30, 2010 was \$41,881 and \$9,033 respectively, and was equal to 100% of the required contribution for each year.

Lee Lake Water District
Notes to Financial Statements
June 30, 2011 and 2010

7) DEFINED CONTRIBUTION PENSION PLAN

The District also has a defined contribution retirement plan for its employees. All of the District's employees participate in the plan and vest immediately in all contributions. District contributions are based on 15 percent of participants' compensation and amounted to \$0 and \$60,768 for the years ended June 30, 2011 and 2010, respectively. Contributions are made directly to SEP/IRA plans for the employees. Upon the adoption of the District's defined benefit plan pension plan in the 2009-10 fiscal year, the District discontinued contributions to the defined contribution plan.

8) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Premiums are paid annually by the District. For the fiscal year ended June 30, 2011, the District paid \$49,573 in premiums.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2011 and June 30, 2010, there were no such liabilities to be reported.

9) DEBT WITHOUT DISTRICT COMMITMENT

The District has issued \$79,145,000 in Community Facilities District Special Tax Bonds to finance the acquisition and construction of public improvements within the Community Facilities Districts No. 1, 2, and 3. The Bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982, and are special obligations of the District payable solely from revenues derived from special taxes levied on taxable land within the Community Facilities Districts. The Bonds are not general obligations of the District. Neither the faith and credit of the District, nor of either County, nor the State or any related political subdivision, is pledged to the payment of the Bonds. Therefore, these Bonds are not reflected as debt in the District's financial statements. As of June 30, 2011, the remaining balance on the bonds was \$73,875,000.

10) COMMITMENTS AND CONTINGENCIES

Since April 2004, the District entered into an agreement with the Western Municipal Water District for the right to use 10.6 cubic feet per second (cfs) of the capacity of Western Municipal Water District's Reach A-E and F of the Mills Pipeline. The District also has the first right of refusal to purchase an additional 4.0 cfs of the Mills Pipeline (Reach A-E and F) for a total of 14.6 cfs. The right to purchase additional 4.0 cfs of capacity expires June 1, 2014 for any amount of the 4.0 cfs not purchased.

Lee Lake Water District
Notes to Financial Statements
June 30, 2011 and 2010

10) COMMITMENTS AND CONTINGENCIES - Continued

Construction Commitments

The District has active construction projects as of June 30, 2011. At year-end the District's commitments with contractors are as follows:

	<u>Costs Incurred</u>	<u>Remaining Commitment</u>
Dawson Canyon Reservoir	\$ -	\$ 100,000
GIS Plan Exchange	61,724	38,276
Phone Upgrade	-	25,000
Headworks EQ Design/Cont.	-	450,000
SBR Overflow	28,319	16,681
SBR Panels	-	65,000
Outfall Mod and Storage	-	600,000
Digester Design/Cont.	<u>8,936</u>	<u>33,064</u>
Total	<u>\$ 98,979</u>	<u>\$ 1,328,021</u>

Other Contingencies

The District was notified in September 2011 that certain violations of its National Pollution Discharge Elimination System permit resulted in mandatory minimum penalties as mandated by the United States Environmental Protection Agency. The violations from 2006 resulted in a maximum fine of \$336,000. The District requested and was permitted to pay \$186,000 (in November 2011) to the Pollution Clean Up and Abatement Fund of the State Water Resources Control Board and \$150,000 be used for a Supplemental Environmental Project as approved by the Regional Water Quality Control Board. A liability of \$336,000 has been recorded in the financial statements as of June 30, 2011 as a result of the penalty settlement.

11) RELATED PARTY TRANSACTIONS

The District contracts with Dudek & Associates for management and engineering services. The services of the general manager for the District are hired under this contract. The general manager has an ownership interest in Dudek & Associates. The District owed Dudek & Associates \$45,907 and \$119,130 at June 30, 2011 and 2010, respectively, for services received.

Lee Lake Water District
Notes to Financial Statements
June 30, 2011 and 2010

11) RELATED PARTY TRANSACTIONS - Continued

The District incurred the following:

	June 30,	
	2011	2010
General Management	\$ 209,167	\$ 209,280
General Engineering	138,048	54,449
Total	\$ 347,215	\$ 263,729

12) PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of \$2,033,940 was made to beginning net assets for the 2009-10 fiscal year, to reverse prior years' amortization of water capacity rights.

13) JOINT VENTURE

The District is a member of the California Finance Authority for Delinquent Special Taxes and Assessments (Authority), along with the Cities of Norco and Riverside. The Authority was established to implement and finance a program for the purchase from the member agencies of delinquent special taxes, assessments and property-related fees and charges that are collected on the secured property tax roll. The District has determined to assign to the Authority certain delinquent special taxes (levied under the Mello-Roos Community Facilities Act of 1982) in consideration of the agreement by the Authority to pay the purchase price to the District for such liens and to assume all responsibility and pay all costs in connection with the enforcement and collection of such liens. Separate financial statements for the Authority are currently not available.

14) SUBSEQUENT EVENT

In December 2011, the District entered into a Non-Potable Water Service Agreement with the Elsinore Valley Municipal Water District (EVMWD). Under the terms of the agreement the District will purchase non-potable water from EVMWD for the Sycamore Creek development area for landscape irrigation purposes. There is no minimum committed water take requirement in the first year under the agreement. In each subsequent year following the first year, the District has a minimum committed water take requirement equal to 80% of the previous year's total water volume usage.

SUPPLEMENTARY INFORMATION

**Lee Lake Water District
Organizational and Insurance Information**

June 30, 2011

Organizational Information

The Lee Lake Water District was formed December 27, 1965 for the purpose of providing irrigation, industrial, and domestic water for the District area. The District was formed and is governed by the California Water Code Section 34000. The area encompasses approximately 6,700 acres or 10½ square miles of land south and east of the City of Corona following the floor of Temescal Canyon to a boundary in the vicinity of Indian Truck Trail. The District's service area is predominantly business, agricultural and unimproved and includes residential homes as of June 30, of 4,463 for 2011, 4,500 for 2010 and 4,538 for 2009.

In February 1979, the District formed Improvement District No. 1 to operate a wastewater treatment facility to serve Tract 11959 which is located at the intersection of Maitre Road and Highway 71. The facility was completed during the year ended June 30, 1984.

In August 1983, the District formed Improvement District No. 2 to operate a wastewater treatment facility to serve Tract 13990 in the unincorporated area of Riverside County. A facility was completed and accepted by the District as of October 1990.

January 1992 marked the completion and the subsequent operation of a majority of the District's facilities. Those facilities include a wastewater reclamation plant, sewer, and water mains. In addition, the District completed construction on a reservoir which now serves water purchased from the State Water Project.

The officers of the District and the date of expiration of terms of office are as follows:

Charles Colladay	President	November 2015
Paul Rodriguez	Vice President	November 2013
Owen Grant	Secretary/Treasurer	November 2013
Grant Destache	Board Member	November 2013
John Butler	Board Member	November 2013

Insurance

The District maintains a commercial general liability, wrongful acts, employment practices, and employment benefit liability policy with coverage in the amount of \$1,000,000 for each occurrence and aggregate coverage of \$3,000,000, fire damage coverage for any one fire of \$1,000,000, hired and non-owned auto liability coverage of \$1,000,000 per accident and excess liability coverage per occurrence/aggregate limit of insurance of \$5,000,000, and property insurance in the amount of \$22,468,981. The District also has crime coverage in the amount of \$250,000 for employee dishonesty and forgery or alteration, \$250,000 for theft, disappearance or destruction, and \$100,000 for computer fraud. As mandated by the State, the District has covered all employees with a workers' compensation policy through the State Compensation Insurance Fund.