RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rio Linda/Elverta Community Water District
Rio Linda, California

Report on the Financial Statements

We have audited the accompanying financial statements of Rio Linda/Elverta Community Water District (the District), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
Rio Linda/Elverta Community Water District

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2014 and 2013 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Report on Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014 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 and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Richardson & Company, LLP

November 7, 2014

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis
June 30, 2014

The management of the Rio Linda/Elverta Water District (District) presents this Management Discussion and Analysis to achieve two goals:

To comply with the requirements of Governmental Accounting Standards Board Statement 34 (GASB 34) that are designed to provide more and easier-to-understand information about the finances of local government agencies such as the District; and

To provide readers with narrative information that may help in understanding and interpreting the information presented in the District's financial statements for the fiscal year ended June 30, 2014 (FY 2013-14)

Questions or comments regarding this Management Discussion and Analysis may be directed to the District General Manager via the following methods:

Mailing address: Rio Linda/Elverta Water District
730 L St.
Rio Linda, California 95673
Telephone: (916) 991-1000
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Financial Highlights

The following items are, in the opinion of District management, among the most significant in assessing the District's overall financial activities during FY 2013-14 and its financial position at the close of FY 2013-14:

- The District's assets exceeded its liabilities at the end of FY 2013-14 by $7,837,659. The District's net capital assets, $4,964,131, are composed of the capital assets of the District net of related debt – the water transmission and distribution system, water production facilities, land, buildings and equipment belonging to the District. Unrestricted net assets totaled $923,655 down from $971,432 at the end of FY 2012-13. This is partially because the write-off of bond issuance costs of $165,473 per GASB Statement No. 65.

- The District's operating revenues were $2,435,088 and non-operating revenues were $677,134 totaling $3,112,222. Water sales to customers totaled 74.49% of all revenues.

- The District's total net long-term liabilities at the end of FY 2013-14, including the 2003 bonds payable, and State Revolving Fund Loan is $6,618,145. This is an increase of $210,442, in net long-term liabilities at the end of FY 2013-14, due primarily to the cost of construction in progress paid with funds provided by a $7.499 million loan from California Department of Public Health.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: (1) management's discussion and analysis; and (2) the financial statements, including the notes to financial statements.

The financial statements provide both long-term and short-term information about the District's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses and Changes in Net Position. All assets and liabilities associated with the operation of the District are included in the Statement of Net Position.

The Statement of Net Position presents the financial position of the District on a full accrual historical cost basis and provides information about the nature and amount of resources and obligations at year-end.

Statement of Net Position

As of June 30, 2014, the total net position of the District was $7,837,659. The following table summarizes assets, liabilities and net position at June 30, 2014 and 2013:

	2014	2013 (Restated)
Current Assets, Unrestricted	$ 1,562,956	$ 865,151
Restricted Cash and Cash Equivalents	1,949,873	1,328,912
Capital assets, net	11,669,476	10,769,109
Total Assets	15,182,305	12,963,172
Total Deferred Outflows	400,602	439,368
Total Assets and Deferred Outflows	15,582,907	13,402,540
Current Liabilities	1,127,103	379,516
Long-term Liabilities	6,618,145	6,407,703
Total Liabilities	7,745,248	6,787,219
Net Position		
Net investment in capital assets	4,964,131	4,314,977
Restricted debt service reserves	817,653	814,541
Restricted for debt service and compliance projects	1,132,220	469,597
Restricted for other purposes		44,774
Unrestricted	923,655	971,432
Total Net Position	$ 7,837,659	$ 6,615,321

The District's net position reflects restrictions imposed as a condition of its bonds and SRF loan debt. Funds that the District has collected through Capacity Fees are restricted to use for evaluating and constructing capital facilities to benefit District customers. Most of the remaining net assets are unrestricted.

Changes in Net Position

The following table summarizes the changes in net assets for the fiscal year ended June 30, 2014 and 2013:

	2014	2013 (Restated)
Operating Revenues	$ 2,435,088	$ 2,285,207
Operating Expenses:		
Personnel services	732,647	696,810
Professional services	187,460	531,433
Field operations		
Transmission and distribution	19,377	64,170
Pumping	190,788	209,235
Transportation	22,964	24,595
Treatment	12,923	17,512
Other	47,845	90,707
Conservation	10,041	7,551
Administration	187,047	255,943
Depreciation and Amortization	298,743	278,118
Total Operating Expenses	1,709,835	2,176,074
Net Income from Operations	725,253	109,133
Non-Operating Revenues	677,134	669,430
Non-Operating Expenses	(180,049)	(543,974)
Net Non-Operating Revenues	497,085	125,456
Net income before capital contributions	1,222,338	234,589
Change in net position	1,222,338	234,589
Net position, beginning of year	6,615,321	6,380,732
Net position, end of year	$ 7,837,659	$ 6,615,321

Total net position increased $1,222,338 or 18.47% from the prior year. Operating revenue exceeded operating expenses by $725,253 and represents 59% of the total increase in net position.

Total operating revenues increased $149,881 or 6.56% from the prior year. Per Ordinance 2011-01 there was a 3% cost of living adjustment implemented on January of 2014. This 3% cost of living adjustment will be implemented every year through January 2016.

Operating expenses decreased by $466,239 a 21.4% reduction from the prior year, due in part to a 64.73% reduction in professional fees and a 27.65% reduction in field operation expenses.

CAPITAL ASSETS AND DEBT ADMININSTRATION

Capital Assets

As of June 30, 2014, the District's investment in capital assets, net of related debt, was $4,964,131. These assets include: the water transmission and distribution system (underground pipelines, water services, water meters, fire hydrants, and other components); water production facilities (groundwater wells); land; buildings and both mobile and fixed equipment.

Additional information on the District's capital assets can be found in Note C, Capital Assets, of the notes to the basic financial statements.

Debt Administration

The District continues to meet its debt obligations under its 2003 Water Revenue Refunding Bonds. Through scheduled debt service payments during 2013-14, principal on its collective debt was reduced by $100,000 during the year. The District's total debt from its 2003 issuance now stands at approximately $3.02 million.

The District made interest payments to the California Department of Public Health State Revolving Fund Loan for interest accrued on monies received to date at the end of fiscal year 2013-14 in the amount of $77,892. Principal payments will be made once the loan project is completed.

Compensated absences, composed of vacation hours earned by employees that are payable upon termination or retirement, are valued at $27,153 at the end of 2013-14, an increase of $2,041 from the 2012-13 year-end amount of $25,112.

Additional information on debt activity can be found in Note D, Long-Term Liabilities, of the notes to the basic financial statements.

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

The District adopted a budget for FY 2014-15 with an increase in income of 4 % and a 10 % increase in expense compared with the FY 2013-14 Operating Budget. This budget includes:

- An increase of $101,000 in water sales due to implementation of the annual cost of living increase.

- An increase in employee compensation and benefit costs of $46,210 due to the first full year of hiring 3 additional full time staff to perform duties needed for the proper operation of the District and PERS employer portion cost share increase.

- An additional $20,000 in State mandated laboratory testing.

- $100,000 for purchasing of meters was added to the operating expenses. Traditionally this was considered a capital improvement.

- A total of $500,000 in funds was allocated to rebuilding financial reserves for capital improvement.

An 2014-15 Operating Budget Summary is included at the conclusion of this Management's Discussion and Analysis to provide an overview of the District's operating budget.

The 2014-15 Capital Improvement budgeted income is $500,000 with $1,000,000 received from the sale of the tower leases. The budgeted expenses are $1,147,600. A 2014-15 Capital Improvement Budget Summary is included at the conclusion of this Management's Discussion and Analysis to provide an overview of the District's capital improvement budget.

A significant portion of the District's budget continues to be repayment of long-term debt financing in the form of Water Revenue Bonds issued in 2003. The annual debt service for this issuance was budgeted at $240,263 for 2014-15, representing about 7.4 percent of the District's 2014-15 Operating Budget.

The District anticipates the need for annual water rate increases to fund replacement of portions of the District's aging underground water mains and to pay the continually-rising operating costs of the District while maintaining financial reserves to comply with debt covenants and to provide funds for emergencies or catastrophic losses.

The District Engineer has updated the District's master plan. The District will be performing a rate study to determine future rate increases needed for facilities construction and replacement.

Expense Category	***2014-15 Adopted Budget***
Wages & Benefits	825,545
Customer Service & Administration	416,473
Debt Service	362,138
Capital Improvement	500,000
Pumping	207,000
Transmission and Distribution	150,500
Water Demand Management	117,394
Total Operating Budget Summary	**$2,579,050**

2014-15 CAPITAL PROJECTS BUDGET SUMMARY

Budget Category Item	**2014-15 Adopted**
Water Supply: Well 15A – Blending Well Study – HC Mitigation	50,000
Water Supply: L Street – Well 12 Replacement Design – HC Mitigation	50,000
Water Supply: Well 2A – Remove Hydropneumatic Tank	10,000
Water Supply: Well 3 – Plant Upgrades	25,000
Water Supply: Miscellaneous Pump Replacements	20,000
Water Distribution: DI Pipe in Rio Linda Blvd North of Elverta Rd	370,000
Water Distribution: DI Pipe in Front St N/W of Q St	200,000
Water Distribution: 150 ft of 6 inch PVC in Adele Ct	20,000
Water Distribution: System Valve Replacements	10,000
Water Distribution: Paving Replacement	15,000
New Business: ESP Development – Water Supply & Planning	195,000
Miscellaneous: Service Replacements	15,000
Miscellaneous: Large Meter Replacement	5,000
Miscellaneous: Replace Automated Meter Reading Device	10,000
Miscellaneous: Office Vehicle	10,000
Miscellaneous: Field Truck	31,000
Miscellaneous: District Office Improvements	25,000
Contingency	86,600
Total Capital Projects Budget Summary	**$1,147,600**

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

BALANCE SHEETS

June 30, 2014 and 2013

	2014	2013 (Restated)
ASSETS		
CURRENT ASSETS		
Cash and investments	$ 1,020,616	$ 327,336
Accounts receivable	459,801	474,068
Accrued interest receivable	4,101	
Inventory	51,812	41,940
Prepaid expenses	26,626	21,807
TOTAL CURRENT ASSETS	1,562,956	865,151
RESTRICTED ASSETS		
Restricted cash and investments	1,949,873	1,328,912
CAPITAL ASSETS, NET	11,669,476	10,769,109
TOTAL ASSETS	15,182,305	12,963,172
DEFERRED OUTFLOWS		
Deferred amount from refunding debt	400,602	439,368
TOTAL DEFERRED OUTFLOWS	400,602	439,368
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 15,582,907	$ 13,402,540
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 873,456	$ 148,622
Accrued salaries and benefits	7,839	4,945
Accrued interest payable	38,706	37,935
Deposits payable	39,349	26,702
Unearned revenue		600
Current portion of compensated absences	27,153	25,112
Current portion of long-term liabilities	140,600	135,600
TOTAL CURRENT LIABILITIES	1,127,103	379,516
LONG-TERM LIABILITIES		
Bonds, loans and settlements payable	6,618,145	6,407,703
TOTAL LONG-TERM LIABILITIES	6,618,145	6,407,703
TOTAL LIABILITIES	7,745,248	6,787,219
NET POSITION		
Net investment in capital assets	4,964,131	4,314,977
Restricted for debt service reserves	817,653	814,541
Restricted for debt service and compliance projects	1,132,220	469,597
Restricted for other purposes		44,774
Unrestricted	923,655	971,432
TOTAL NET POSITION	7,837,659	6,615,321
TOTAL LIABILITIES AND NET POSITION	$ 15,582,907	$ 13,402,540

The accompanying notes are an integral part of these financial statements.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended June 30, 2014 and 2013

	2014	2013 (Restated)
OPERATING REVENUES		
Water sales	$ 2,318,307	$ 2,165,708
Account service charges	108,628	102,306
Other water service fees	8,153	17,193
TOTAL OPERATING REVENUES	2,435,088	2,285,207
OPERATING EXPENSES		
Personnel services	732,647	696,810
Professional services	187,460	531,433
Field operations:		
Transmission and distribution	19,377	64,170
Pumping	190,788	209,235
Transportation	22,964	24,595
Treatment	12,923	17,512
Other	47,845	90,707
Conservation	10,041	7,551
Administration	187,047	255,943
Depreciation and amortization	298,743	278,118
TOTAL OPERATING EXPENSES	1,709,835	2,176,074
NET INCOME FROM OPERATIONS	725,253	109,133
NON-OPERATING REVENUES (EXPENSES)		
Surcharge	523,538	517,201
Interest income	5,628	797
Miscellaneous income	259	2,626
Property tax	67,410	71,198
Rental income	80,299	77,608
Interest expense	(178,249)	(181,774)
Loss on abandonment of wells #14, 16 and 17		(360,335)
Other non-operating expenses	(1,800)	(1,865)
TOTAL NON-OPERATING REVENUES	497,085	125,456
CHANGE IN NET POSITION	1,222,338	234,589
Net position, beginning of year, as previously reported	6,615,321	6,546,205
Prior period adjustment		(165,473)
Net position, beginning of year, as restated	6,615,321	6,380,732
NET POSITION AT END OF YEAR	$ 7,837,659	$ 6,615,321

The accompanying notes are an integral part of these financial statements.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2014 and 2013

	2014	2013 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 2,462,645	$ 2,190,822
Cash paid to suppliers for goods and services	(1,468)	(1,555,703)
Cash paid to employees for services	(730,917)	(708,267)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,730,260	(73,148)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Miscellaneous income	259	2,626
Property taxes received	67,410	71,198
Rental income received	80,299	77,608
Non-operating expenses paid	(1,800)	(1,865)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	146,168	149,567
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Surcharge revenue received	522,895	515,826
Payments on long-term debt	(100,000)	(95,000)
Purchase and construction of property	(1,199,110)	(1,210,227)
Proceeds from the issuance of long-term debt	351,213	1,221,865
Interest paid on long-term debt	(138,712)	(138,120)
NET CASH (USED) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(563,714)	294,344
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	1,527	815
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,527	815
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,314,241	371,578
Cash and cash equivalents at beginning of year	1,656,248	1,284,670
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,970,489	$ 1,656,248
Cash and cash equivalents consist of the following:		
Unrestricted	$ 1,020,616	$ 327,336
Restricted	1,949,873	1,328,912
	$ 2,970,489	$ 1,656,248

(Continued)

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended June 30, 2014 and 2013

	2014	2013 (Restated)
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income from operations	$ 725,253	$ 109,133
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	298,743	278,118
Changes in assets and liabilities:		
Accounts receivable	14,910	(94,685)
Inventory	(9,872)	20,426
Prepaid expenses and other assets	(1,785)	6,419
Accounts payable	724,834	(439,148)
Accrued salaries and benefits	2,894	(12,642)
Deposits payable	12,647	300
Retention payable		(29,112)
Unearned revenue	(600)	(2,142)
Compensated absences	2,041	1,014
Lawsuit settlement	(35,600)	89,000
Other post employment benefits liability	(3,205)	171
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$ 1,730,260	$ (73,148)
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Abandonment of capital assets	$ -	$ (360,335)

The accompanying notes are an integral part of these financial statements.

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Rio Linda/Elverta Community Water District (District) have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In addition, the District applies Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

Reporting Entity: The District was formed on November 9, 1948 and provided water and sewer services. Sewer services were transferred to Sacramento County in 1976. The District no longer provides sewer service. The District currently provides domestic water service and fire flows to approximately 4,610 metered accounts, including procurement, quality, and distribution. The District is governed by a Board of Directors consisting of five directors elected by residents of the District.

Basis of Presentation – Fund Accounting: The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net assets for the enterprise fund represent the amount available for future operations.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Net assets are segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Earned but unbilled water services are accrued as revenue.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principle operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

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.

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents held include bank deposits, Local Agency Investment Fund (LAIF), an investment pool managed by the State of California, and money market mutual funds.

Restricted Assets: Certain proceeds of the District's long-term debt are classified as restricted investments on the balance sheet because their use is limited by applicable debt covenants and ordinances. In addition, proceeds from the surcharge levied on customer accounts are restricted for capital improvements. Certain other amounts received by the District are restricted for other purposes.

Investments: Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

Inventory: Inventory consists primarily of materials used in the construction and maintenance of the water distribution facilities and is valued on a first-in, first-out basis.

Capital Assets: Capital assets are recorded at historical cost. Donated assets are valued at estimated fair value on the date received. Self-constructed assets are recorded based on the amount of direct labor, material, and certain overhead charged to the asset construction. Depreciation is calculated using the straight-line method over estimated useful lives of 8 to 60 years for transmission and distribution and 3 to 50 years for general plant assets. Depreciation expense in the amount of $298,743 and $278,118 was recorded for the years ended June 30, 2014 and 2013, respectively, and is included with depreciation and amortization expense.

Maintenance and repairs are charged to operations when incurred. It is the District's policy to capitalize all capital assets with an initial cost of more than $1,500 and an estimated useful life in excess of two years. Costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the balance sheet in the year of sale or retirement, and the resulting gain or loss is recognized in operations.

Interest costs incurred during the year and capitalized on construction projects was $93,552 in 2014.

Accounts Receivable: The District issues water invoices bi-monthly based on meter readings. Delinquent water invoices may have a lien placed on the property. The District does not provide for an allowance for uncollectible accounts due to the lien process.

Bond Premiums and Deferred Bond Issuance Costs: Bond premiums, as well as issuance costs, are deferred and amortized over the lives of the bonds. Long-term liabilities are reported net of the applicable bond premiums. Bond issuance costs are reported as a component of Deferred Outflows.

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unearned Revenues: Unearned revenue represents funds received for future service installation and is recognized as revenue when installations are performed.

Contributed Facilities: The District receives facilities (hydrant, pipes, valves, etc.) from developers resulting from developers preparing the sites to connect to the District. The District records these items as capital assets and depreciates them over their estimated useful life.

Property Taxes: Property tax revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of Sacramento levies, bills and collects property taxes and special assessments for the District. Under the County's "Teeter Plan", the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on July 1. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31.

Compensated Absences: The District has a policy whereby employees can accrue up to a maximum of 120 hours of vacation leave. All accrued vacation leave will be paid to the employee on termination of employment. Accumulated unpaid vacation leave is accrued when earned. Employees accrue sick leave, but any remaining balance at termination of employment is not paid out to the employee; thus, the District does not accrue a liability for sick leave, except for those that have contracts that specifically state that sick leave will be paid out upon termination.

Reclassifications: Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. These reclassifications had no effect on previously reported changes in net position or in the net position.

New Pronouncements: In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. Previous to GASB 65, bond issuance costs were classified as an asset and amortized over the life of the related debt issuance. Under GASB 65, bond issuance costs will be classified as a current-period outflow of resources and expensed. The implementation of this GASB Statement is effective for the District's June 30, 2014 financial statements and resulted in the write-off of bond issuance costs totaling $165,473 as of July 1, 2012.

In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The implementation of this GASB Statement will have a significant impact on the District's financial statements and is effective for the District's June 30, 2015 financial statements.

NOTE B – CASH AND INVESTMENTS

Cash and investments as June 30, 2014 and 2013 are classified in the accompanying financial statements as follows:

	2014	2013
Cash and cash equivalents	$ 1,020,616	$ 327,336
Restricted cash and investments	1,949,873	1,328,912
Total cash and investments	$ 2,970,489	$ 1,656,248

Cash and investments as of June 30, 2014 and 2013 consisted of the following:

	2014	2013
Cash on hand		
Deposits with financial institutions	$ 2,139,764	$ 1,308,135
Total cash	2,139,764	1,308,135
Investment in Local Agency Investment Fund (LAIF)	15,609	15,571
Held by bond trustee:		
Money market mutual fund	127,043	122,309
Local Agency Investment Fund	10,752	210,233
Negotiable certificates of deposits	576,949	
Government agency securities	100,372	
Total investments	830,725	348,113
Total cash and investments	$ 2,970,489	$ 1,656,248

Investment policy: California statutes authorize districts to invest idle, surplus or reserve funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized by the District's investment policy and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. The District's investment policy is more restrictive than the California Government Code, as it limits the length of maturity and/or the maximum percentage at the portfolio of several investment types. Where there is a difference, the table presents the more restrictive requirement.

NOTE B – CASH AND INVESTMENTS (Continued)

This table does not address investments of debt proceeds held by the 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. During the year ended June 30, 2014, the District's permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Local Agency Bonds	None	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	75%	None
State of California obligations	None	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	180 days	20%	10%
Negotiable Certificates of Deposits	5 years	20%	None
Repurchase Agreements	180 days	20%	None
Medium Term Corporate Notes	5 years	25%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage pass-through securities	5 years	20%	None
LAIF	N/A	$50m	None
Bank Savings Account	N/A	25%	None

*Excluding amounts held by the bond trustee that are not subject to California Government Code restrictions.

The District complied with the provisions of the California Government Code pertaining to the types of investments held, the institutions in which deposits were made and the security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Investments Authorized by Debt Agreements: Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The Water Revenues Refunding Bond agreements contain certain provisions that address interest rate risk and credit risk, but not concentration of credit risk.

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

NOTE B – CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair value of the District's interments (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:

Type of Investment	Total	12 Months or Less	13-24 Months	25-60 Months
Local Agency Investment Fund	$ 15,609	$ 15,609		
Held by bond trustee:				
Money market mutual fund	127,043	127,043		
LAIF	10,752	10,752		
Negotiable certificates of deposits	576,949		$ 100,710	$ 476,239
Government agency securities	100,372			100,372
	$ 830,725	$ 153,404	$ 100,710	$ 576,611

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.

	Minimum Legal Rating	Total	Ratings as of Year End AAA	Not Rated
Local Agency Investment Fund	N/A	$ 15,609		$ 15,609
Held by bond trustee:				
Money market mutual fund	N/A	127,043	$ 127,043	
LAIF	N/A	10,752		10,752
Negotiable certificates of deposits	N/A	576,949		576,949
Government agency securities	"A"	100,372	100,372	
		$ 830,725	$ 227,415	$ 603,310

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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

NOTE B – CASH AND INVESTMENTS (Continued)

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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2014, the carrying amount of the District's deposits were $2,716,713 and the balances in financial institutions were $2,765,317. Of the balance in financial institutions, $826,949 was covered and $1,936,692 was not covered by federal depository insurance. As of June 30, 2014, District investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the District to buy the securities:

Reported Investment Type	Amount
Money market mutual funds	$ 127,043
LAIF	10,752
Negotiable certificates of deposit	576,949
Government agency securities	100,372

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is $64,896,335,761 managed by the State Treasurer. Of that amount, 1.86% is invested in structured notes and asset-back securities. No amounts were invested in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2014 and 2013 are as follows:

	Balance July 1, 2013	Additions	Disposals	Transfers/ Adjustments	Balance June 30, 2014
Capital assets not being depreciated:					
Land	$ 496,673				$ 496,673
Construction in progress	138,976	$ 1,028,591			1,167,567
Total capital assets, not being depreciated	635,649	1,028,591			1,664,240
Capital assets being depreciated:					
Transmission and distribution	15,059,075	133,298			15,192,373
General plant assets	721,407	37,221	(31,620)		727,008
Intangible assets	407,225				407,225
Total capital assets, being depreciated	16,187,707	170,519	(31,620)		16,326,606
Less accumulated depreciation for:					
Transmission and distribution	(5,183,078)	(266,787)			(5,449,865)
General plant assets	(672,229)	(18,365)	31,620		(658,974)
Intangible assets	(198,940)	(13,591)			(212,531)
Total accumulated depreciation	(6,054,247)	(298,743)	31,620		(6,321,370)
Total capital assets, being depreciated, net	10,133,460	(128,224)			10,005,236
Capital assets, net	$ 10,769,109	$ 900,367	$ -	$ -	$ 11,669,476

NOTE C – CAPITAL ASSETS (Continued)

	Balance July 1, 2012	Additions	Disposals	Transfers	Balance June 30, 2013
Capital assets not being depreciated:					
Land	$ 496,673				$ 496,673
Construction in progress	3,090,786	$ 1,101,202	$ (357,771)	$ (3,695,241)	138,976
Total capital assets, not being depreciated	3,587,459	1,101,202	(357,771)	(3,695,241)	635,649
Capital assets being depreciated:					
Transmission and distribution	11,303,047	60,787		3,695,241	15,059,075
General plant assets	792,013	14,878	(85,484)		721,407
Intangible assets	373,865	33,360			407,225
Total capital assets, being depreciated	12,468,925	109,025	(85,484)	3,695,241	16,187,707
Less accumulated depreciation for:					
Transmission and distribution	(4,926,730)	(256,348)			(5,183,078)
General plant assets	(743,634)	(11,515)	82,920		(672,229)
Intangible assets	(188,685)	(10,255)			(198,940)
Total accumulated depreciation	(5,859,049)	(278,118)	82,920		(6,054,247)
Total capital assets, being depreciated, net	6,609,876	(169,093)	(2,564)	3,695,241	10,133,460
Capital assets, net	$ 10,197,335	$ 932,109	$ (360,335)	$ -	$ 10,769,109

NOTE D – LONG-TERM LIABILITIES

2003 Water Revenue Refunding Bonds: On January 22, 2003, the District issued $3,970,000 of Water Revenue Refunding Bonds with interest ranging from 4.00% to 4.75%. These 2003 Bonds were issued to refund debt used to finance certain capital improvements to the District's water system. Annual principal payments, ranging from $105,000 to $235,000 are due on November 1 through November 1, 2032 and semi-annual interest payments, ranging from $5,581 to $69,138 are due on May 1 and November 1 through November 1, 2032.

Safe Drinking Water State Revolving Fund Loan: On June 30, 2011, the District finalized the Safe Drinking Water Loan funding agreement in the amount of $7,499,045 at an interest rate of 2.5707% to be paid over 20 years. The loan proceeds will assist the District in complying with the State safe drinking water standards. Principal payments are not due until completion of the construction projects required to meet the drinking water standards, which is expected during the year ended June 30, 2015. Interest accrues and is payable semi-annually on January 1, and July 1 on the outstanding loan balance. As of June 30, 2014, the District's loan balance was $3,685,345. The District received additional loan proceeds subsequent to June 30, 2014 in the amount of $535,875, which brings the loan balance up to $4,221,220.

Legal Settlement: In February 2013, the District entered into a legal settlement with a former employee whereby $89,000 of the settlement is due in 29 monthly installments starting July 15, 2013.

NOTE D – LONG-TERM LIABILITIES (Continued)

The activity of the District's long-term liabilities during the years ended June 30, 2014 and 2013 was as follows:

	Balance July 1, 2013	Additions	(Reductions)	Balance June 30, 2014	Due Within One Year
State Safe Drinking Water Loan	$ 3,334,132	$ 351,213		$ 3,685,345	
2003 Water Revenue Refunding Bonds	3,120,000		$ (100,000)	3,020,000	$ 105,000
Legal settlement	89,000		(35,600)	53,400	35,600
Other post employment benefits	171	25,492	(25,663)	(3,034)	
	6,543,303	376,705	(161,263)	6,755,711	140,600
Compensated absences	25,112	2,041		27,153	27,153
	$ 6,568,415	$ 378,746	$ (161,263)	$ 6,782,864	$ 167,753

	Balance July 1, 2012	Additions	(Reductions)	Balance June 30, 2013	Due Within One Year
State Safe Drinking Water Loan	$ 2,112,267	$ 1,221,865		$ 3,334,132	
2003 Water Revenue Bonds	3,215,000		$ (95,000)	3,120,000	$ 100,000
Legal Settlement		89,000		89,000	35,600
Other Post Employment Benefits		25,492	(25,321)	171	
	5,327,267	1,336,357	(120,321)	6,543,303	135,600
Compensated absences	24,098	1,014		25,112	25,112
	$ 5,351,365	$ 1,337,371	$ (120,321)	$ 6,568,415	$ 160,712

The advance refunding of the 1999 Certificates of Participation with the 2003 Water Revenue Refunding Bonds resulted in differences between the reacquisition price and the net carrying amount of the outstanding debt of $854,898 at June 30, 2014 and 2013, net of accumulated amortization of $454,296 and $415,530, respectively. This deferred amount on refunding, reported in the accompanying financial statements as a deferred outflow, is being charged to operations over the remaining life of the 2003 Water Revenue Bonds.

NOTE D – LONG-TERM LIABILITIES (Continued)

The annual requirements to amortize the outstanding debt as of June 30, 2014 are as follows:

	2003 Water Revenue Refunding Bonds		
For the Year Ended June	Principal	Interest	Total
2015	$ 105,000	$ 136,175	$ 241,175
2016	110,000	131,875	241,875
2017	110,000	127,475	237,475
2018	115,000	122,903	237,903
2019	120,000	117,981	237,981
2020-2024	695,000	502,654	1,197,654
2025-2029	885,000	318,131	1,203,131
2030-2033	880,000	85,975	965,975
	$ 3,020,000	$ 1,543,169	$ 4,563,169

Pledged Revenue: The District pledged future water system revenues, net of specified expenses, to repay the 2003 Water Revenue Refunding Bonds in the original amount of $3,970,000. Proceeds of the refunded bonds funded the acquisition and construction of certain facilities, as indicated above. The Bonds are payable solely from water customer net revenues and are payable through November, 2032. Annual principal and interest payments on the Bonds are expected to require less than 80% of net revenues. Total principal and interest remaining to be paid on the Bonds was $4,563,169 and $4,803,256 at June 30, 2014 and 2013, respectively.

Total principal and interest paid on all debt payable from net revenues was $239,483 and $238,563 and the total water system net revenues were $1,020,202 and $539,480 for the years ended June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, the District's net revenues were 417% and 221% of debt service payments, respectively.

The District pledged surcharge fee revenues, to repay the 2011 State Safe Drinking Water Loan in the amount up to $7,499,045. Proceeds of the Loan funded the construction of wells to meet State safe drinking water standards. Annual principal and interest payments on the Loan are expected to be fully recovered by the surcharge fees from customers.

Total interest paid on the loan from surcharge fees was $87,062 and the total surcharge fee revenues were $523,538 for the year ended June 30, 2014. No principal payments were made. The District is required to maintain net revenues at least 1.2 times total annual debt service. The District's surcharge revenues exceeded this requirement at June 30, 2014 and 2013.

NOTE E – ARBITRAGE REBATE LIABILITY

Section 148(f) of the Internal Revenue Code requires issuers of tax-exempt state and local bonds to remit to the federal government amounts equal to (a) the excess of the actual amounts earned on all "Non-purpose Investments" allocable to "Gross Proceeds" of an issue of municipal obligations less the amount that would have been earned if the investments bore a rate equal to the amount that would have been earned if the investments bore a rate equal to the yield on the issue, plus (b) all income attributable to the excess. Issuers must make rebate payments at least once every five years and upon final retirement or redemption of the bonds. There was no arbitrage liability at June 30, 2014 and 2013.

NOTE F – NET POSITION

Restrictions: Restricted net position consist of constraints placed on net position use through external requirements imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or constraints by law through constitutional provisions or enabling legislation. Restricted net position consisted of the following at June 30:

	2014	2013
Debt service reserve on 2003 Water Revenue Refunding Bonds	$ 335,654	$ 332,542
Debt service reserve on State Loan	481,999	
Restricted for State Loan repayment and compliance projects	1,132,220	951,596
Restricted for other purposes	-	44,774
Total restricted net position	$ 1,949,873	$ 1,328,912

The restrictions for debt service represent debt service and other reserves required by the related debt covenants. The restriction for State Loan repayment represents surcharges collected under Ordinance No. 2009-03 passed by the Board in May 2009 to fund projects to comply with a State of California Department of Public Health Compliance Order and to repay the State Loan per the Loan agreement. The restriction for other purposes represents insurance proceeds received for the legal settlement that have not yet been paid and funds held on behalf of another agency.

NOTE G – DEFINED BENEFIT PENSION PLAN

Plan description: The District contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. The District participates in the miscellaneous 2% at 55 risk pool. 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 employers within the State of California. CalPERS require agencies with less than 100 active members in the plan to participate in the risk pool. All full and part-time 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 the monthly average salary of their highest twelve consecutive months full-time equivalent monthly pay. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by

NOTE G – DEFINED BENEFIT PENSION PLAN (Continued)

Contract with PERS and adopts those benefits through District resolution. PERS issues a separate comprehensive annual financial report. Copies of the PERS' annual financial report may be obtained from the PERS Executive Office - 400 P Street - Sacramento, California 95814.

Funding policy: Active plan members were required to contribute 7% of their annual covered salary. Starting in December 2011, the District contributed 3.5% on behalf of the employees. The contributions made by the District on behalf of the employees were $14,436 for the year ended June 30, 2014 and $13,248 for the year ended June 30, 2013. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for fiscal year 2013/2014, 2012/2013 and 2012/2011 was 17.106%, 16.273%, and 14.841%, respectively. The contribution requirements of the plan members and the District are established and may be amended by PERS. The District's contributions for the years June 30, 2014, 2013 and 2012 were $62,660, $56,782, and $46,357, respectively, which were equal to the required contributions each year.

NOTE H - OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY

Plan Description: The District provides health benefits for employees and retirees through the Northern California General Teamsters Security Fund for members of Teamsters Local 150, and through outside providers for non-Teamsters employees and retirees.

Retiree health benefits vary by tier, which is based on date of hire, as follows:

> Tier 1: Hired prior to January 1, 2003: Eligible for District-paid retiree health benefits after the later of age 50 and 5 years of service. Coverage will be for retiree and one eligible dependent, up to $466/month for retiree and $675/month for retiree plus one coverage.
>
> Tier 2: Hired on or after January 1, 2003 but prior to May 1, 2004: The District contributes a percentage of the premium for retiree and one eligible dependent, up to a maximum of $466/month for retiree and $675/month for retiree plus one coverage, based on years of service at retirement, as follows:

Years of Service	Hired on or after January 1, 2003
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20+	100%

NOTE H - OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY (Continued)

Tiers 3 and 4: Hired on or after May 1, 2004: Eligible for District-paid benefits after the later of age 59 and 20 years of service. Benefits limited to $300/month for the retiree only.

Benefits for all tiers end at eligibility for Medicare (age 65). Benefits are reduced for employees working less than full-time for the 3-year period before retirement.

There are three retired management employees and one retired Board member with benefits being provided according to special arrangements not expected to be repeated in the future. Current management and Board members will not be entitled to District-paid retiree health benefits upon retirement.

Funding Policy: As required by GASB 45, an actuary will determine the District's Annual Required Contributions (ARC) at least once every three fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year, and (2) a component for amortization of the total unfunded actuarial accrued liability (UAL) over a period not to exceed 30 years.

GASB 45 does not require pre-funding of OPEB benefits. The District's funding policy is to continue to pay healthcare premiums for retirees as they become due (“pay-as-you-go”).

Annual OPEB Cost and Net OPEB Obligation: The following table shows the components of the District's Annual OPEB Cost for the fiscal years ended June 30, 2014 and 2013, the amount actually contributed to the plan (including administrative costs), and changes in the District's Net OPEB Obligation:

	2014	2013
Annual Required Contributions	$ 25,492	$ 25,492
Annual OPEB cost (expense)	25,492	25,492
Contributions made	(28,697)	(25,321)
Increase in Net OPEB Obligation	(3,205)	171
Net OPEB Obligation – beginning of year	171	
Net OPEB (Asset) Obligation – end of year	$ (3,034)	$ 171

The District's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation for the fiscal year ended June 30, 2014 and 2013 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2013	$ 25,492	$ 25,321	99.30%	$ 171
6/30/2014	25,492	28,697	112.57%	(3,034)

NOTE H - OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY (Continued)

Funded Status and Funding Progress: The funded status of the plan as of January 1, 2012, the Plan's most recent actuarial valuation date, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Projected Unit Credit Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2012	$ -	$ 233,310	$ 233,310	0.00%	$ 284,775	81.9%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the Annual Required Contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The plan's most recent actuarial valuation was performed as of July 1, 2012. In that valuation, the Projected Unit Credit (PUC) Cost Method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual medical trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 5 percent after 3 years. These assumptions reflect an implicit 3 percent general inflation assumption. The District's Unfunded Actuarial Accrued Liability is being amortized as a level dollar amount on an open basis over 30 years. The remaining amortization period as of June 30, 2013 was 30 years.

NOTE I – COMMITMENTS AND CONTINGENCIES

The District entered into a major reservoir and pump station contract during the year. The unpaid commitment amount on this contract totals $2,310,170, as of June 30, 2014.

On November 19, 2007 the District received the California Department of Public Health Compliance Order 01-09-07-CO-004 with a full compliant date of December 31, 2008. The Compliance Order documents finding or facts about the water source capacity and low-pressure problems observed in the District, and includes nine Directives to accurately characterize the problems, evaluate solution options,

NOTE I – COMMITMENTS AND CONTINGENCIES (Continued)

and implement interim measures towards the complete resolution of the water source capacity and low-pressure problems. On October 13, 2008, the District requested and received an extension to March 31, 2009 from the Department of Public Health to become fully compliant with Compliance Order No. 01-09-07-CO-004. On June 30, 2011, the District was awarded a $7,499,045 State Safe Drinking Water loan to finance the drilling of new wells to meet the requirements stipulated in the Department of Public Health Compliance Orders. Well #15 was completed in mid 2013 and is producing sufficient water to stabilize the District's water flow and pressure. The remaining requirement, the design and construction of a water tank to meet emergency water quantity requirements, is in process and is expected to be completed in mid fiscal year 2014/15.

NOTE J – INSURANCE

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) a public entity risk pool of California water agencies, for general and auto liability, public officials liability, property damage and fidelity insurance. The District did not have employment practices liability coverage as of June 30, 2014 or 2013, but this coverage will be reinstated as of October 1, 2013. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which the group purchases commercial excess insurance.

The District pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the ACWA/JPIA. The District's deductibles and maximum coverage are as follows:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and Auto Liability (Includes Public Officials Liability)	$ 2,000,000	$ 58,000,000	None
Property Damage	100,000	100,000,000	$ 500 - 50,000
Fidelity	100,000		1,000

The District continues to carry commercial insurance for all other risks of loss to cover all claims for risk of loss to which the District is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K – CHANGES IN ACCOUNTING PRINCIPLE

The District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2014. As a result of the implementation of this statement the District wrote-off deferred debt issuance costs (deferred charges) recorded as of July 1, 2012, resulting in a decrease in deferred outflows of resources and net position reported on the statement of net position as follows:

Net position as of July 1, 2012, as previously reported	$ 6,546,205
Expense debt issuance costs per GASB Statement No. 65	(165,473)
Net position as of July 1, 2012, as restated	$ 6,380,732

NOTE L – SUBSEQUENT EVENT

In August 2014, the District assigned the right to receive rental income on various cell tower leases for a period of 20 years to Wireless Capital Partners, LLC in exchange for $985,101 of cash. The District is also entitled to receive 50% of any rental increases after the expiration of the current leases.

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November 7, 2014

To the Board of Directors
Rio Linda/Elverta Community Water District
Rio Linda, California

We have audited the financial statements of the Rio Linda/Elverta Community Water District (the District) for the year ended June 30, 2014, and have issued our report thereon dated November 7, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated November 4, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Internal control related matters that are required to be communicated under professional standards are reported in a separate letter.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note A to the financial statements. During 2014, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. The significant effect of this Statement on the District is it requires debt issuance costs to be expensed as incurred. Due to GASB Statement No. 65, the District expensed its remaining debt issuance costs in the current year and for comparability, also removed issuance costs from the prior year affected balances. No other new accounting policies were adopted and the application of existing policies was not changed during the year.

We noted no transaction entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: depreciable lives and method used to depreciate capital assets, the values of the retirement and OPEB valuations, and the collectability of receivables. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements is the disclosure of commitments and contingencies in Note I to the financial statements.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Adjustments during the audit process included 7 entries needed to correct balances as follows:

- Reduce loan balance and receivable amounts related to the State loan for draws not yet requested.
- True up restricted net asset balances to the corresponding cash balance.
- Accrue May and June interest on the State loan.
- Reclassify the current portion of long-term debt.
- Correct recording of amortization on deferred amount on refunding from depreciation /amortization to interest expense.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 7, 2014.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Richardson & Company, LLP

November 7, 2014

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
SUMMARY OF UNADJUSTED DIFFERENCES
YEAR ENDED JUNE 30, 2014

	Financial Statement Effect - Amount of Overstatement (Understatement) of :						
Description (Nature) of Audit Difference	Total Assets and Deferred Outflows	Total Liabilities	Net Position	Net Operating Income	Non-Operating Revenue/Exp	Capital Contributions	Change in Net Position
Retainage payable not accrued	$ (35,948)	$ (35,948)					$ -
Accounts payable accrued that related to fiscal year 2014/15	58,448	58,448					-
Net Unadjusted Audit Differences - This Year	22,500	22,500	-	-	-	-	-
Financial Statement Caption Totals	$ 15,582,907	$ 7,745,248	$ 7,837,659	$ 725,253	$ 497,085	$ -	$ 1,222,338
Net Audit Differences as % of Financial Statement Captions	0.14%	0.29%	0.00%	0.00%	0.00%	0.00%	0.00%