

**RIO LINDA/ELVERTA COMMUNITY
WATER DISTRICT
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Audited Financial Statements
June 30, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

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, 2015 and 2014, 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, as listed in the table of contents.

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 opinions.

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, 2015 and 2014 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information and the schedule of the District's proportionate share of the net pension liability, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during 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.

Implementation of New Accounting Standards

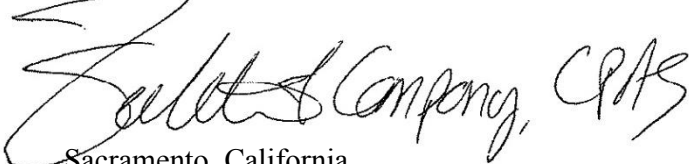
As disclosed in Note 1 to the financial statements, the Rio Linda/Elverta Community Water District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the fiscal year ended June 30, 2015.

Board of Directors
Rio Linda/Elverta Community Water District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015 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.

Fechter & Company
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company, CPAs". The signature is written in black ink and is positioned to the right of the printed company name.

Sacramento, California
December 14, 2015

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2015 and 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, 2015 (FY 2014-15).

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
Facsimile: (916) 991-6616
[E-mail:mhenrici@rlecwd.com](mailto:mhenrici@rlecwd.com)

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 2014-15 and its financial position at the close FY 2014-15.

- ❖ The District's assets exceeded its liabilities by \$7,105,854. The District's net capital assets, \$14,091,779 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 position totaled \$540,312 down from \$923,655 at the end of FY 2013-14.
- ❖ The District's operating revenues were \$2,428,497 and non-operating revenues were \$716,743 totaling \$3,145,240. Water sales to customers totaled 72% of all revenues.
- ❖ The District's total net long-term liabilities were \$10,930,359 and includes the Water Revenue Refunding Bond and State Revolving Fund Loan. The increase of \$4,312,214 represents the completion of the construction project funds provided by the State Revolving Fund Loan and the Net Pension Liability as required by GASB 68.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis
June 30, 2015 and 2014

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.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis
June 30, 2015 and 2014

Statement of Net Position

As of June 30, 2015 the total net position of the District was \$7,105,854. The following table summarizes assets, liabilities and net position at June 30, 2015, 2014, and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current Assets, Unrestricted	\$ 2,660,258	\$1,562,956	\$865,151
Restricted Cash and Cash Equivalents	2,146,936	1,949,873	1,328,912
Capital assets, net	14,091,779	11,669,476	10,769,109
Total Assets	<u>18,898,973</u>	<u>15,182,305</u>	<u>12,963,172</u>
Total Deferred Outflows	100,881	400,602	439,368
Total Assets and Deferred Outflows	<u>18,999,854</u>	<u>15,582,907</u>	<u>13,402,540</u>
Current Liabilities	795,951	1,127,103	379,516
Long-term Liabilities	10,930,359	6,618,145	6,407,703
Total Liabilities	<u>11,726,310</u>	<u>7,745,248</u>	<u>6,787,219</u>
Total Deferred Inflows	100,881	-	-
Total Liabilities and Deferred Inflows	<u>11,894,000</u>	<u>7,745,248</u>	<u>6,787,219</u>
Net Position			
Net investment in capital assets	4,418,605	4,964,131	4,314,977
Restricted debt service reserves	526,199	817,653	814,541
Restricted for debt service & compliance projects	1,620,738	1,132,220	469,597
Restricted for other purposes	-	-	44,774
Unrestricted	<u>540,312</u>	<u>923,655</u>	<u>971,432</u>
Total Net Position	<u>\$ 7,105,854</u>	<u>\$ 7,837,659</u>	<u>\$ 6,615,321</u>

The District's net position reflects Debt Service restrictions imposed as its loan requirements. 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 position is unrestricted.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2015 and 2014

Changes in Net Position

The following table summarizes the changes in net position for the fiscal year ended June 30, 2015, 2014, and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating Revenues	\$ 2,428,497	\$ 2,435,088	\$ 2,285,207
Operating Expenses:			
Personnel services	762,133	732,647	696,810
Professional services	146,459	187,460	531,433
Field operations			
Transmission and distribution	77,694	19,377	64,170
Pumping	174,093	190,788	209,235
Transportation	18,112	22,964	24,595
Treatment	13,005	12,923	17,512
Other	52,491	47,845	90,707
Conservation	11,549	10,041	7,551
Administration	235,369	187,047	255,943
Depreciation and Amortization	978,027	298,743	278,118
Total Operating Expenses	<u>2,468,932</u>	<u>1,709,835</u>	<u>2,176,074</u>
Net Income from Operations	(40,435)	725,253	109,133
Non-Operating Revenues	716,743	677,134	669,430
Non-Operating Expenses	<u>(290,993)</u>	<u>(180,049)</u>	<u>(543,974)</u>
Net Non-Operating Revenues	<u>425,750</u>	<u>497,085</u>	<u>125,456</u>
Net income before capital contributions	<u>385,315</u>	<u>1,222,338</u>	<u>234,589</u>
Capital contributions:	<u>40,208</u>	<u>-</u>	<u>-</u>
Total Capital Contributions	<u>40,208</u>	<u>-</u>	<u>-</u>
Change in net position	425,523	1,222,338	234,589
Net position, beginning of year	7,837,659	6,615,321	6,380,732
Prior period adjustment	<u>(1,157,328)</u>	<u>-</u>	<u>-</u>
Beginning net position, restated	<u>6,680,331</u>	<u>6,615,321</u>	<u>6,380,732</u>
Net position, end of year	<u>\$ 7,105,854</u>	<u>\$ 7,837,659</u>	<u>\$ 6,615,321</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2015 and 2014

Total net position decreased \$731,805 or 9.34% from the prior year. Operating expenses exceeded operating revenue by \$40,435 as a result of a substantial increase in depreciation expense.

Total operating revenues decreased \$6,591 or 0.27% from the prior year. Per Ordinance 2011-01 there was also 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 increased by \$759,097 a 44.4% increase from the prior year, due in part to a substantial increase of depreciation expense as a result of the completion of the SRF Construction Project.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2015, the District's investment in capital assets, net of related debt, was \$4,418,605 including: 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 3, Capital Assets, of the notes to the basic financial statements.

Debt Administration

The District continues to meet its debt obligations under its Water Revenue Refunding Bonds. Through scheduled debt service payments during 2014-15, principal on its collective debt was reduced by \$100,000 during the year. The District's total debt from its 2015 issuance now stands at approximately \$2.688 million.

The District made interest payments to the State Water Resource Control Board State Revolving Fund Loan for interest accrued on monies received to date at the end of FY ending 2014-15 in the amount of \$88,086. The construction project is complete and principle payments will begin in FY 2015-16.

Compensated absences, composed of vacation hours earned by employees that are payable upon termination or retirement, are valued at \$22,602 at the end of 2014-15, a decrease of \$4,553 from the 2013-14 year-end amount of \$27,153.

Additional information on debt activity can be found in Note 4, Long-Term Liabilities, of the notes to the basic financial statements.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis
June 30, 2015 and 2014

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

The District adopted a budget for FY 2015-16 with a decrease in income of 1.1% and a 7.4 % increase in expense compared with the FY 2014-15 Operating Budget. The budget includes:

- ❖ A decrease in water sales of \$50,890 due to drought conditions causing a decrease in water sales.
- ❖ An increase in employee compensation and benefit costs of \$94,069 due to the implementation of a new union contract and a PERS employer portion cost share increase.
- ❖ An increase in computer and equipment maintenance due to additional computer programs and the maintenance contracts needed to maintain the programs.
- ❖ An increase of \$3,500 in conservation costs due to the drought messaging to the public.
- ❖ A decrease of \$12,100 was obtained in insurance coverage due to 3 years without a claim.
- ❖ Total office operations decreased by \$13,844.
- ❖ State mandated laboratory testing decreased by \$7,600.00 due to a reduction in required testing.
- ❖ \$65,000 for purchasing of meter lids and distribution supplies was added to field operations for new meter lids for the district's AMI metering project and repairs.

The 2015-16 Capital Improvement budgeted income is \$600,000. The budgeted expenses are \$587,400. A significant portion of the District's budget continues to be repayment of long-term debt financing in the form of Water Revenue Bonds which were reissued in 2015. The annual debt service for this issuance was budgeted at \$288,803 for 2015-16, representing about 14% of the District's 2015-16 Budget. Future bond payments will be lower as the debt reissuance reduced the total interest payable by over \$900,000 over the life of the bonds. Future payments will be \$198,158 per year.

The District is now starting to pay down its \$7,179,000 construction loan. \$1.5 million was paid on the principal with surcharge money the District has collected from our customers over the years. This principal prepayment will save the District \$600,000 in interest over the life of the loan. There will be an additional payment of \$230,677 in FY 2015-16. The total annual payment will be \$461,354 per year for the next 15 years.

The District anticipates the need for annual water rate increases to fund replacement of portions of the District's aging underground water mains, chromium 6 treatment facilities 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. A rate study is currently being completed which will determine future rate increases needed for facilities construction and replacement.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Current Assets:		
Cash and investments	\$ 2,008,761	\$ 1,020,616
Accounts receivable	532,890	459,801
Accrued interest receivable	868	4,101
Inventory	76,879	51,812
Prepaid expenses	40,152	23,592
OPEB asset	708	3,034
	2,660,258	1,562,956
Restricted Assets		
Restricted cash and investments	2,146,936	1,949,873
Capital Assets, Net		
Capital assets	14,091,779	11,669,476
	18,898,973	15,182,305
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount from refunding debt	-	400,602
Deferred pensions	100,881	-
	100,881	400,602
LIABILITIES		
Current Liabilities:		
Accounts payable	269,867	873,456
Accrued salaries and benefits	24,155	7,839
Accrued interest payable	13,547	38,706
Deposits payable	54,812	39,349
Unearned revenue	49,255	-
Current portion of compensated absences liability	22,602	27,153
Current portion of long-term liabilities	361,713	140,600
	795,951	1,127,103
Long-term Liabilities:		
Unearned revenue	902,817	-
Bonds, loans, and settlements payable	9,329,261	6,618,145
Net pension liability	698,281	-
	11,726,310	7,745,248
DEFERRED INFLOWS OF RESOURCES		
Deferred pensions	167,690	-
	167,690	-
NET POSITION		
Invested in capital assets, net	4,418,605	4,964,131
Restricted for debt service reserves	526,199	817,653
Restricted for debt service and compliance projects	1,620,738	1,132,220
Unrestricted	540,312	923,655
	7,105,854	7,837,659
TOTAL NET POSITION	\$ 7,105,854	\$ 7,837,659

The accompanying notes are an integral part of these financial statements

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015 AND 2014

	2015	2014
Operating revenues:		
Water sales	\$ 2,308,047	\$ 2,318,307
Account service charges	102,983	108,628
Other water service fees	17,467	8,153
Total operating revenues	2,428,497	2,435,088
Operating expenses:		
Personnel services	762,133	740,854
Professional services	146,459	187,460
Field operations:		
Transmission and distribution	77,694	19,377
Pumping	174,093	190,788
Transportation	18,112	22,964
Treatment	13,005	12,923
Other	52,491	37,637
Conservation	11,549	10,041
Administration	235,369	189,048
Depreciation and amortization	978,027	298,743
Total operating expenses	2,468,932	1,709,835
Operating income	(40,435)	725,253
Non-operating revenues and (expenses):		
Surcharge	565,286	523,538
Interest income	7,577	5,628
Miscellaneous income	-	259
Property tax	78,620	67,410
Rental income	58,405	80,299
Gain on sale of assets	6,855	-
Interest expense	(225,190)	(178,249)
Other non-operating expenses	(65,803)	(1,800)
Total non-operating revenues and (expenses)	425,750	497,085
Income before capital contributions	385,315	1,222,338
Capital Contributions	40,208	-
Change in net position	425,523	1,222,338
Beginning net position	7,837,659	6,615,321
Prior period adjustment	(1,157,328)	-
Beginning net position, restated	6,680,331	6,615,321
Ending net position	\$ 7,105,854	\$ 7,837,659

The accompanying notes are an integral part of these financial statements

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Receipts from customers	\$ 2,370,871	\$ 2,462,645
Payments to suppliers	(1,373,988)	(1,468)
Payments to employees	(783,642)	(730,917)
	213,241	1,730,260
Cash Flows from non-capital financing activities:		
Miscellaneous income	-	259
Property taxes received	78,620	67,410
Rental income received	107,660	80,299
Non-operating expenses paid	-	(1,800)
	186,280	146,168
Cash flows from capital and related financing activities:		
Surcharge revenue received	565,286	522,895
Payments on long-term debt	(3,020,000)	(100,000)
Purchase and construction of property	(3,351,758)	(1,199,110)
Proceeds from sale of capital assets	6,855	-
Proceeds from the issuance of long-term debt	5,987,829	351,213
Interest and fees paid on long-term debt	(316,152)	(138,712)
	(127,940)	(563,714)
Cash flows from investing activities:		
Investment income received	10,810	1,527
	10,810	1,527
Net increase (decrease) in cash and cash equivalents	282,391	1,314,241
Cash and cash equivalents, beginning of year	2,970,489	1,656,248
Cash and cash equivalents, end of year	\$ 3,252,880	\$ 2,970,489
Cash and cash equivalents consist of the following:		
Unrestricted	\$ 2,008,761	\$ 1,020,616
Restricted	2,146,936	1,949,873
	\$ 4,155,697	\$ 2,970,489

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

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2015 AND 2014

Reconciliation of operating income (loss) to net cash provided by (used) by operating activities:

Operating income (loss)	\$ (40,435)	\$ 725,253
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	978,027	298,743
Changes in assets and liabilities:		
Accounts receivable	(73,089)	14,910
Inventory	(25,067)	(9,872)
Prepaid expenses	(16,560)	(1,785)
Accounts payable	(603,589)	724,834
Accrued salaries and benefits	16,316	2,894
Deposits payable	15,463	12,647
Unearned revenue	-	(600)
Compensated absences	(4,551)	2,041
Lawsuit settlement	(35,600)	(35,600)
Other post employment benefits asset/liability	2,326	(3,205)
	<u>213,241</u>	<u>1,730,260</u>
Net cash provided (used) by operating activities	\$ 213,241	\$ 1,730,260

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

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 1: 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 position 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 position is 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.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting: (continued)

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.

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 \$577,425 and \$298,743 was recorded

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets: (continued)

for the years ended June 30, 2015 and 2014, 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.

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.

Deferred Outflows and Inflows of Resources: Pursuant to GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*," the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the District that is applicable to a future reporting period. The District has two items which qualify for reporting in this category. Please refer to Note 6 for a detailed listing of the deferred outflows of resources the District has recognized.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has three items which qualify for reporting in this category. Please refer to Note 6 for a detailed listing of the deferred inflows of resources.

Unearned Revenues: Unearned revenue represents funds received for future rental income on various cell tower leases.

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

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property Taxes: (continued)

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 240 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.

New Pronouncements: The following Governmental Accounting Standards Board (GASB) Statements were implemented during the 2015 fiscal year:

GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27 – The provisions of this statement are effective for financial statements for fiscal years beginning after June 15, 2014.

GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No 27. The provisions of this statement are effective for financial statements for fiscal years beginning after June 15, 2014.

NOTE 2: CASH AND INVESTMENTS

Cash and investments as June 30, 2015 and 2014 are classified in the accompanying financial statements as follows:

	2015	2014
Cash and cash equivalents	\$ 2,008,761	\$ 1,020,616
Restricted cash and investments	2,146,936	1,949,873
Total Cash and Investments	<u>\$ 4,155,697</u>	<u>\$ 2,970,489</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 2: CASH AND INVESTMENTS - CONTINUED

Cash and investments as of June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Deposits with financial institutions	\$ 3,653,847	\$ 2,139,764
Total Cash	<u>\$ 3,653,847</u>	<u>\$ 2,139,764</u>
Investment in Local Agency Investment Fund (LAIF)	15,648	15,609
Held by Bond Trustee:		
Money market mutual fund	7,604	127,043
Local Agency Investment Fund	-	10,752
Negotiable certificates of deposits	428,455	576,949
Government agency securities	<u>50,143</u>	<u>100,372</u>
Total Investments	<u>501,850</u>	<u>830,725</u>
Total Cash and Investments	<u>\$ 4,155,697</u>	<u>\$ 2,970,489</u>

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.

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, 2015, the District’s permissible investments included the following instruments:

<u>Authorized Investment Type</u>	<u>Maximum Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Investment in One Issuer</u>
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

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 2: CASH AND INVESTMENTS - CONTINUED

Investment policy: (continued)

Authorized Investment Type	Maximum Maximum Maturity	Maximum Percentage of Portfolio*	Investment in One Issuer
Local Agency Bonds	None	None	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.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 2: CASH AND INVESTMENTS - CONTINUED

Investment policy: (continued)

Information about the sensitivity of the fair value 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:

	Total	12 Months Or Less	13-24 Months	25-60 Months
Local Agency Investment Fund	\$ 15,648	\$ 15,648	\$	\$
Held by Bond Trustee:				
Money market mutual fund	7,604	7,604		
Negotiable certificates of deposits	428,455		100,445	328,010
Government agency securities	50,143			50,143
Total Cash	<u>\$ 501,850</u>	<u>\$ 23,252</u>	<u>\$ 100,445</u>	<u>\$ 378,153</u>

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	\$ 15,648	\$	\$ 15,648
Held by Bond Trustee:				
Money market mutual fund	N/A	7,604		7,604
Negotiable certificates of deposits	N/A	428,455		428,455
Government agency securities	A	50,143	50,143	
Total Cash		<u>\$ 501,850</u>	<u>\$ 50,143</u>	<u>\$ 451,707</u>

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:

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 2: CASH AND INVESTMENTS - CONTINUED

Custodial credit risk – (continued):

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

At June 30, 2015, the carrying amount of the District’s deposits were \$4,155,697 and the balances in financial institutions were \$4,161,767. Of the balance in financial institutions, \$1,249,264 was covered and \$2,912,503 was not covered by federal depository insurance. As of June 30, 2015, 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:

<u>Reported Investment Type</u>	<u>Amount</u>
Money market mutual funds	\$ 7,604
Negotiable certificates of participation	428,455
Government agency securities	50,143

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 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.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements June 30, 2015 and 2014

NOTE 3: CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2015 and 2014 are as follows:

	Balance July 1, 2014 <u>Restated</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Adjustments</u>	Balance June 30, 2015 <u>2015</u>
Capital assets not being depreciated:					
Land	\$ 496,673	\$	\$	\$	\$ 496,673
Construction in progress	<u>1,167,567</u>	<u>3,069,542</u>	<u></u>	<u>(3,605,275)</u>	<u>631,834</u>
Total Capital Assets not being depreciated	<u>1,664,240</u>	<u>3,069,542</u>	<u></u>	<u>(3,605,275)</u>	<u>1,128,507</u>
Capital assets being depreciated:					
Water System Facilities	15,192,373	240,607		3,663,470	19,096,450
General plant assets	727,008	39,173	(98,154)	(64,060)	603,967
Intangible assets	<u>407,225</u>	<u></u>	<u></u>	<u></u>	<u>407,225</u>
Total capital assets being depreciated	<u>16,326,606</u>	<u>279,780</u>	<u>(98,154)</u>	<u>3,599,410</u>	<u>20,107,642</u>
Less accumulated depreciation for:					
Water System Facilities	(5,830,847)	(546,186)		(36,152)	(6,413,185)
General plant assets	(658,974)	(17,648)	98,154	73,405	(505,063)
Intangible assets	<u>(212,531)</u>	<u>(13,591)</u>	<u></u>	<u></u>	<u>(226,122)</u>
Total accumulated depreciation	<u>(6,702,352)</u>	<u>(577,425)</u>	<u>98,154</u>	<u>37,253</u>	<u>(7,144,370)</u>
Total capital assets being depreciated, net	<u>9,624,254</u>	<u>(297,645)</u>	<u></u>	<u>3,636,663</u>	<u>12,963,272</u>
Capital assets, net	<u>\$ 11,288,494</u>	<u>\$ 2,771,897</u>	<u>\$</u>	<u>\$ 31,388</u>	<u>\$ 14,091,779</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 3: CAPITAL ASSETS - CONTINUED

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

NOTE 4: LONG-TERM LIABILITIES

2015 Water Revenue Refunding Bonds: On April 1, 2015, the District entered into a loan agreement with Umpqua Bank to issue Series 2015 Water Revenue Refunding Bonds at an interest rate of 3.61%, the proceeds of which were used to provide financing for the refunding and defeasance of the District's 2003 Water Revenue Refunding Bonds. These 2003 Bonds were issued to refund debt used to finance certain capital improvements to the District's water system. Semi-annual principal payments, ranging from \$48,776 to \$136,000, and semi-annual interest payments, ranging from \$1,210 to \$40,642, are due on May 1 and November 1 through November 1, 2031.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 4: LONG-TERM LIABILITIES - CONTINUED

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. The project was completed in June 2015. Semi-annual principal payments, ranging from \$133,913 to \$222,778, and semi-annual interest payments, ranging from \$2,863 to \$90,514, are due on January 1 and July 1 through July 1, 2035. As of June 30, 2015, the District's loan balance was \$6,984,552. The District received additional loan proceeds subsequent to June 30, 2015 in the amount of \$194,521, which brings the loan balance up to \$7,179,073.

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.

The activity of the District's long-term liabilities during the years ended June 30, 2015 and 2014 was as follows:

	Balance July 1, 2014			Balance June 30, 2015	Due Within One Year
	<u>Restated</u>	<u>Additions</u>	<u>(Reductions)</u>		
State safe drinking water loan	\$ 3,685,345	\$ 3,299,207	\$	\$ 6,984,552	\$ 133,913
2003 water revenue refunding	3,020,000		(3,020,000)		
2015 water revenue refunding		2,688,622		2,688,622	210,000
Legal settlement	53,400		(35,600)	17,800	17,800
Compensated absences	27,153		(4,551)	22,602	22,602
Net pension liability	882,635		(184,354)	698,281	
Other post-employment benefits	(3,034)	25,492	(23,166)	(708)	
	<u>\$ 7,665,499</u>	<u>\$ 6,013,321</u>	<u>\$ (3,267,671)</u>	<u>\$ 10,411,149</u>	<u>\$ 384,315</u>

	Balance July 1, 2013			Balance June 30, 2014	Due Within One Year
		<u>Additions</u>	<u>(Reductions)</u>		
State safe drinking water loan	\$ 3,334,132	\$ 351,213	\$	\$ 3,685,345	\$
2003 water revenue refunding	3,120,000		(100,000)	3,020,000	105,000
Legal settlement	89,000		(35,600)	53,400	35,600
Compensated absences	25,112	2,041		27,153	27,153
Other post-employment benefits	171	25,492	(28,697)	(3,034)	
	<u>\$ 6,568,415</u>	<u>\$ 378,746</u>	<u>\$ (164,297)</u>	<u>\$ 6,782,864</u>	<u>\$ 167,753</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 4: LONG-TERM LIABILITIES - CONTINUED

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, net of accumulated amortization of \$454,296. Due to the 2015 refunding of the 2003 Bonds, the net deferred amount on refunding, \$400,602, reported in the prior year financial statements as a deferred outflow, was expensed in the current year.

The annual requirements to amortize the outstanding debt for the 2015 Water Refunding Loan as of June 30, 2015 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 210,000	\$ 78,803	\$ 288,803
2017	124,776	73,382	198,158
2018	129,077	69,616	198,693
2019	133,163	65,726	198,889
2020	139,015	61,717	200,732
2021-2025	765,490	242,679	1,008,169
2026-2030	905,894	119,566	1,025,460
2031-2033	281,207	8,417	289,624
	<u>\$ 2,688,622</u>	<u>\$ 719,906</u>	<u>\$ 3,408,528</u>

The annual requirements to amortize the outstanding debt for the Safe Drinking Water State Revolving Fund Loan as of June 30, 2015 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 133,913	\$ 90,514	\$ 224,427
2017	274,497	174,357	448,854
2018	281,599	167,255	448,854
2019	288,885	159,969	448,854
2020	296,359	152,495	448,854
2021-2025	1,600,852	643,418	2,244,270
2026-2030	1,818,937	425,333	2,244,270
2031-2035	2,066,731	177,539	2,244,270
2036	222,779	2,862	225,641
	<u>\$ 6,984,552</u>	<u>\$ 1,993,742</u>	<u>\$ 8,978,294</u>

Pledged Revenue: The District pledged future water system revenues, net of specified expenses, to repay the 2015 Water Revenue Refunding Bonds in the original amount of \$2,688,622. 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 2031. Annual principal and interest

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 4: LONG-TERM LIABILITIES - CONTINUED

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 \$3,408,528 and \$4,563,169 at June 30, 2015 and 2014, 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 \$228,557 and the total surcharge fee revenues were \$565,286 for the year ended June 30, 2015. 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, 2015 and 2014.

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, 2015 and 2014.

NOTE 5: UNEARNED REVENUE

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. The District will recognize the revenue from this agreement over a period of 20 years, or \$49,255 annually. The balance of unearned revenue at June 30, 2015 was \$ 952,072.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 6: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63 (defined in footnote No. 1), the District recognized deferred outflows of resources in the financial statements. These items are a consumption of net position by the District that is applicable to a future reporting period.

As of June 30, 2015, the District reported \$100,881 as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the year-end June 30, 2016.

The District also recognized deferral inflows of resources on the Statement of Net Position. This is an acquisition of net position by the District that is applicable to a future reporting period. The District had one item related to pensions that is captured as a deferred inflow of resources. The sum total at June 30, 2015 was \$167,690.

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 40,837
2017	40,837
2018	41,561
2019	44,455
Total	<u>\$ 167,690</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 7: 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:

	<u>2015</u>	<u>2014</u>
Debt service reserve on 2015 Water Revenue Refunding Bonds	\$ 39,997	\$ 335,654
Debt service reserve on State Loan	486,202	481,999
Restricted for State Loan repayment and compliance projects	<u>1,620,738</u>	<u>1,132,220</u>
Total Restricted Net Position	<u>\$ 2,146,937</u>	<u>\$ 1,949,873</u>

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.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 8: 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 a 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 \$14,329 for the year ended June 30, 2015 and \$14,436 for the year ended June 30, 2014. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for fiscal year 2014/2015, 2013/2014 and 2012/2011 was 19.600%, 17.106%, and 16.273%, 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, 2015, 2014 and 2013 were \$76,957, \$62,660, and \$56,782, respectively, which were equal to the required contributions each year.

At June 30, 2015 the District reported a liability of \$698,281 in the Statement of Net Position for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, which was actuarially determined.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 8: DEFINED BENEFIT PENSION PLAN - CONTINUED

For the fiscal year ended June 30, 2015 the District recognized pension expense of \$53,339 in its Government-Wide financial statements. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

- Discount Rate/Rate of Return – 7.5%, net of investment expense
- Inflation Rate – 2.75%
- Salary increases – Varies by Entry Age and Service
- COLA Increases – up to 2.75%
- Post-Retirement Mortality – Derived using CalPERS’ Membership Data for all Funds

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2013.

The long-term expected rate of return on pension plan investments (7.5%) was determined using a building-block method in which best-estimate ranges of expected future real rates of return (Expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	47.0%	5.71%
Global Fixed Income	19.0%	2.43%
Inflation Sensitive	6.0%	3.36%
Private Equity	12.0%	6.95%
Real Estate	11.0%	5.13%
Infrastructure and Forestland	3.0%	5.09%
Liquidity	2.0%	(1.05)%

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 8: DEFINED BENEFIT PENSION PLAN – CONTINUED

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund’s fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease 6.50%	Discount Rate 7.5%	1% Increase 8.5%
District’s proportionate share of the net pension plan liability	\$ 1,134,341	\$ 698,281	\$ 336,393

Detailed information about the pension fund’s fiduciary net position is available in the separately issued CALPERS comprehensive annual financial report which may be obtained by contacting PERS.

NOTE 9: 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.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY - CONTINUED

Plan Description: (continued)

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:

<u>Years of Service</u>	<u>Hired on or After January 1</u>
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20	100%

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 (UAAL) over a period not to exceed 30 years.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY - CONTINUED

Funding Policy: (continued)

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, 2015 and 2014, the amount actually contributed to the plan (including administrative costs), and changes in the District’s Net OPEB Obligation:

	2015	2014
Annual required contributions	\$ 25,492	\$ 25,492
Annual OPEB cost (expense)	25,492	25,492
Contributions made	<u>(23,166)</u>	<u>(28,697)</u>
Increase in net OPEB obligations	2,326	(3,205)
Net OPEB obligations – beginning of year	(3,034)	171
Net OPEB (asset) obligation – end of year	<u>\$ (708)</u>	<u>\$ (3,034)</u>

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, 2015 and 2014 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)
6/30/2015	25,492	23,166	90.88%	(708)

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:

Actual 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%

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY - CONTINUED

Funded Status and Funding Progress: (continued)

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, 2014 was 30 years.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 10: 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 official’s liability, employment practices liability, property damage and fidelity insurance. 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
Employment Practices Liability	2,000,000		
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 11: PRIOR PERIOD ADJUSTMENT

A prior period adjustment was recorded in an amount totaling \$813,602 to decrease the beginning net position. The adjustment was made to reflect the prior period costs related to the implementation of the net pension liability.

A prior period adjustment of \$380,982 was recorded to restate the beginning balance of accumulated depreciation related to equipment that should have been depreciated in prior years.

A prior period adjustment of -\$37,256 was recorded to restate the beginning balance of equipment.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2015 and 2014

NOTE 12: SUBSEQUENT EVENT

In July 2015, the District entered into an installment purchase agreement with Holman Capital Corporation for \$499,835 at an interest rate of 3.10% to be paid over 10 years. The agreement is for the acquisition and installation of 813 meters and solar-powered data collectors that will electronically connect to the existing automatic meter reading system, and installation of a dashboard system that will provide water data analytics to detect leaks, high water users, and overall system performance.

On September 18, 2015, the District made a prepayment of \$1.5 million of the principal on the Safe Drinking Water State Revolving Fund Loan using surcharge money the District had collected from customers over the years.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Required Supplementary Information
June 30, 2015 and 2014

Rio Linda/Elverta Community Water District – Schedule of the District’s proportionate share of the Net Pension Liability:

Last 10 Fiscal years*:

	<u>FY 2014</u>
District’s proportion of the net pension liability	0.02825%
District’s proportionate share of the net pension liability	\$ 698,281
District’s covered employee payroll	377,098
District’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	185.17%
Plan Fiduciary net position as a percentage of the total pension liability	78.76%

*Amounts presented above were determined as of 6/30.
Additional years will be presented as they become available.

CALPERS - Schedule of District contributions

Last 10 Fiscal Years*:

	<u>FY 2014</u>
Actuarially determined contribution	\$ 70,003
Total actual contributions	<u>70,003</u>
Contribution deficiency (excess)	<u>\$ -</u>
District’s covered-employee payroll	\$ 377,098
Contributions as a percentage of covered employee payroll	18.56%

SINGLE AUDIT REPORTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the 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, the financial statements of the Rio Linda/Elverta Community Water District (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiency summarized in finding 2015-01 to be a significant deficiency.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

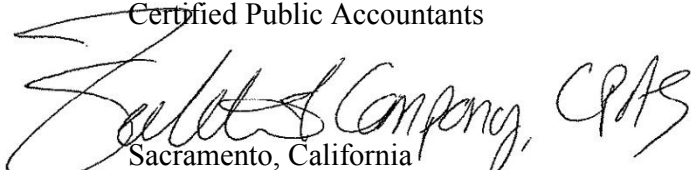
The District's Response to Findings

The District's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fechter & Company
Certified Public Accountants



Sacramento, California
December 14, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Rio Linda/Elverta Community Water District's (the District's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2015. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

The results of our auditing procedures disclosed no instances of noncompliance that are required to be reported in accordance with OMB Circular A-133.

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

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over Compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

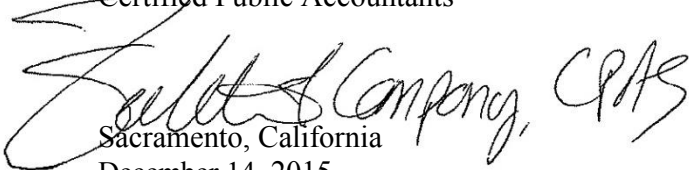
To the Board of Directors
Rio Linda/Elverta Community Water District
Rio Linda, California

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 14, 2015 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Fechter & Company
Certified Public Accountants


Sacramento, California
December 14, 2015

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2015

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>CFDA</u>	<u>Expenditures</u>
<u>State of California</u>		
Safe Drinking Water State Revolving Funds	66.468	<u>\$ 2,279,631</u>
TOTAL FEDERAL AWARDS		<u><u>\$ 2,279,631</u></u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2015

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

- | | |
|--|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal controls over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | No |
| 2. Type of auditor's report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section | No |

4. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
66.46	Safe Drinking Water State Revolving Fund

- | | |
|---|-----------|
| 5. Dollar Threshold used to distinguish between Type A and Type B programs? | \$300,000 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, 530? | No |

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2015

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2015-01 Recording of Capital Assets

Criteria: The funding agreement between the State of California Department of Public Health and the Rio Linda/Elverta Community Water District Project Number 3410018-001C, Article A-15 (a) requires its agents, contractors and subcontractors to maintain books, records, and other documents pertinent to their work in accordance with Generally Accepted Accounting Principles (GAAP). GAAP requires the cost of capital assets to be capitalized and depreciated over their useful lives in the District’s financial statements.

Condition: During the audit, we were provided with a depreciation schedule that showed depreciation expense that was approximately three times the amount recorded in prior years. Upon further review, it was determined that the District had transferred a few large assets from construction in progress to depreciable assets that should have been transferred at June 30, 2013 and had recorded three years of depreciation expense on these assets. Alternatively, the District should have recorded two years of depreciation expense as a prior period adjustment and recorded only one year of depreciation expense in the current year.

Cause: The District’s current year depreciation expense was not reviewed for reasonableness and accuracy prior to recording it in the general ledger.

Effect of Condition: If undetected, the current year depreciation expense would have been overstated by \$380,982.

Recommendation: We recommend that the District carefully review the capital asset transactions for reasonableness and accuracy prior to closing its books.

Management’s Response and Corrective Action Plan: The District will use QuickBooks Fixed Asset Module to record all acquisitions and manage annual depreciation schedules.

FINDINGS AND QUESTIONED COSTS – MAJOR

None

FEDERAL AWARD PROGRAMS AUDIT

None

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2015

Finding 2010-2: Year-end Closing Procedures and Account Reconciliations

Condition: This year's audit and the District's closing process was delayed because of turnover in personnel, the lack of central oversight and the lack of resources dedicated to the close-out of the general ledger and preparing for the audit. The results were delays in producing closing entries, trial balances, schedules, reconciliations, account analyses, and other financial reports needed by management and the auditors and resulted in numerous audit adjustments. The large number of adjustments identified during the course of the audit indicates that the District does not have the internal controls in place to prevent or detect misstatements on a timely basis. To facilitate the closing process, a closing procedures checklist should be developed to ensure the District has all closing entries prepared before the start of the audit. The District needs to ensure that all balance sheet reconciliations and account balance analyses are prepared and reviewed. Areas where accounts and transactions were not adequately reconciled and evaluated for proper recording prior to the start of the audit fieldwork and areas that require improvement included the following:

- a. In preparing the reconciliations of accounts receivable and deposits payable from the billing system to the general ledger at June 30, 2010, the District had unreconciled differences of \$5,984 in accounts receivable and \$3,417 in deposits payable. In addition, the billing system showed a credit balance of \$5,444 in the surcharge receivables, which would indicate overpayments were made, that needs to be investigated. Reconciliation of the billing system to the general ledger should be performed throughout the year and at year-end so that such differences can be identified and corrected on a timely basis. Evaluation of the need for an allowance for doubtful accounts also needs to be performed at least annually. At June 30, 2010, receivables over 120 days past due totaled \$10,800.

Status: Since the receivables over 120 days past due totaled were immaterial (\$11,331) as of June 30, 2015, we consider this finding to have been implemented during fiscal year 2014/15.

- b. Finding corrected during fiscal year 2010/11.
- c. Finding corrected during fiscal year 2013/14.
- d. The restricted net position balances were not adjusted to agree to the corresponding restricted cash accounts. Procedures need to be established for adjusting restricted net position to their proper balances.

Status: The District established procedures for adjusting restricted net position to their proper balances during fiscal year 2014/15. Therefore, we consider this finding to have been implemented during fiscal year 2014/15.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2015

Finding 2010-2: Year-end Closing Procedures and Account Reconciliations (continued)

- e. The District received land for well #14, but this land was not valued and recorded as an asset and contributed capital revenue in the general ledger. Procedures for identifying and quantifying donated assets need to be established.

Status: The District established procedures for identifying and quantifying donated assets during fiscal year 2014/15. Therefore, we consider this finding to have been implemented during fiscal year 2014/15.

- f. Finding corrected during fiscal year 2010/11.
- g. Finding corrected during fiscal year 2012/13.
- h. Finding corrected during fiscal year 2011/12.
- i. Finding corrected during fiscal year 2012/13.

Overall Status: All items listed above were addressed during fiscal year 2014/15 or earlier. We consider this finding to be fully implemented.