

Richardson & Company

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

December 14, 2011

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

We have audited the financial statements of the Rio Linda/Elverta Community Water District (the District) for the year ended June 30, 2010, and have issued our report thereon dated December 14, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

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

As part of our audit, we considered the internal control of the District. Such considerations are solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we also performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant. However, the objective of our audit is not to provide an opinion on compliance with such.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. However, the following items related to the application of accounting principles were noted for the year ended June 30, 2010. Because of the pervasiveness of these items, we disclaimed our opinion on the financial statements of the District.

- The District was required to implement Government Accounting Standards Board Statement No. 45, which requires that a liability be recorded for healthcare benefits provided to retirees. Because the calculation of the liability is performed by an actuary and the District did not have an actuarial valuation performed, the District has not accrued this liability. The liability could be significant, but the impact could not be determined.

- The District did not perform a physical inventory observation of its supplies inventory, so the amount of inventory reflected as of June 30, 2010 is the same as for June 30, 2009. Because the District does not have a perpetual inventory system, the inventory balance could not be determined by other means.
- The District has disclosed that there have been allegations of fraud and that investigations by outside organizations are being performed. Because we do not know the outcome of those investigations and the potential impact on the financial statements, this uncertainty is described in the audit opinion.
- Note L of the financial statements refers to the doubt about the District's ability to continue as a going concern, primarily related to the operating losses the District has been experiencing.

We noted no transaction entered into by the District during the year for which there is a lack of authoritative guidance or consensus. We noted significant transactions have been recognized in the financial statements in a different period than when the transaction occurred. However, audit adjustments were made to ensure the transactions were recorded in the proper period.

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

Difficulties Encountered in Performing the Audit

The material weaknesses in internal control encountered in completing our audit as documented in the internal control report and the large number of adjustments during the audit process resulted in significant delays and additional time needed to complete the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements except three minor amounts. The attached schedule summarizes these uncorrected misstatements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. However, our internal control recommendations include evaluating the causes of these differences and making adjustments at some point. Audit adjustments included 28 entries needed to correct balances of the accounts and transactions not reconciled or analyzed prior to the start of our audit as listed in the internal letter. This large number of adjustments indicates that the District's reporting processes and closing procedures need to be strengthened to ensure these types of adjustments are identified and recorded prior to the start of the audit so they do not have a significant effect on the District's financial reporting process. A list of these adjustments is attached.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing

matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 14, 2011.

Management Consultations With Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Richardson & Company

December 14, 2011

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
SUMMARY OF UNADJUSTED DIFFERENCES
YEAR ENDED JUNE 30, 2010

Description (Nature) of Audit Difference	Financial Statement Effect - Amount of Overstatement (Understatement) of:						
	Total Assets	Total Liabilities	Net Assets	Net Operating Income	Non-Operating Revenue/Exp	Capital Revenue	Total Net Income
Overstatement of water sale receivable compared to detail list from billing system	\$ 5,984		\$ 5,984	\$ 5,984			\$ (5,984)
Overstatement of deposits compared to detail list from billing system.		\$ 3,417	(3,417)	3,417			(3,417)
To record 12 payments of tower lease revenue for the year	(2,773)		(2,773)		\$ (2,773)		(2,773)
Net Unadjusted Audit Differences - This Year	<u>3,211</u>	<u>3,417</u>	<u>(206)</u>		<u>(2,773)</u>		<u>(12,174)</u>
Financial Statement Caption Totals	\$ 9,098,621	\$ 3,153,473	\$ 5,945,148	\$ (198,563)	\$ 277,623	\$ -	\$ (79,069)
Net Audit Differences as % of Financial Statement Captions	0.04%	0.11%	0.00%	0.00%	(1.00%)	0.00%	15.40%

Overstatement of water sale receivable compared to detail list from billing system

Overstatement of deposits compared to detail list from billing system.

To record 12 payments of tower lease revenue for the year

Net Unadjusted Audit Differences - This Year

Financial Statement Caption Totals

Net Audit Differences as % of Financial Statement Captions

Client: **RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT**
 Engagement: **2010 AUD - RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT**
 Period Ending: **6/30/2010**
 Workpaper: **TB-2 - Adjusting Journal Entries Report**

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Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1				
Client entry.				
2600	2003 Bond Issue		85,000.00	
7001	NON-OPERATING EXPENDITURES:Debt Service:Revenue Bond 2003-Principle			85,000.00
Total			<u><u>85,000.00</u></u>	<u><u>85,000.00</u></u>
Adjusting Journal Entries JE # 2				
Client entry.				
5416	OPERATING EXPENDITURES:Office Operations:Office Equipment Maintenance:Photocopy Maintenance		166.00	
1601	Prepaid Expenses:Prepays 09/10			166.00
Total			<u><u>166.00</u></u>	<u><u>166.00</u></u>
Adjusting Journal Entries JE # 3				
Client entry.				
5219	OPERATING EXPENDITURES:Contractual Services/Agreements:Memberships:AWWA		177.00	
1601	Prepaid Expenses:Prepays 09/10			177.00
Total			<u><u>177.00</u></u>	<u><u>177.00</u></u>
Adjusting Journal Entries JE # 4				
Client entry.				
5414	OPERATING EXPENDITURES:Office Operations:Office Equipment Maintenance:Billing Software Maintenance		1,268.00	
1601	Prepaid Expenses:Prepays 09/10			1,268.00
Total			<u><u>1,268.00</u></u>	<u><u>1,268.00</u></u>
Adjusting Journal Entries JE # 5				
Client entry.				
5410	OPERATING EXPENDITURES:Office Operations:Postage		85.00	
1601	Prepaid Expenses:Prepays 09/10			85.00
Total			<u><u>85.00</u></u>	<u><u>85.00</u></u>
Adjusting Journal Entries JE # 6				
Client entry.				
5204	OPERATING EXPENDITURES:Contractual Services/Agreements:Memberships:ACWA		3,310.00	
1601	Prepaid Expenses:Prepays 09/10			3,310.00
Total			<u><u>3,310.00</u></u>	<u><u>3,310.00</u></u>
Adjusting Journal Entries JE # 7				
Client entry.				
5407	OPERATING EXPENDITURES:Office Operations:ATM/Credit Card Service/Direct		1,125.00	
1601	Prepaid Expenses:Prepays 09/10			1,125.00
Total			<u><u>1,125.00</u></u>	<u><u>1,125.00</u></u>

Client: **RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT**
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 Period Ending: **6/30/2010**
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Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 8				
Client entry.				
5403	OPERATING EXPENDITURES:Office Operations:Subscriptions/Licensing:Corelogic On Line Service		271.00	
5403	OPERATING EXPENDITURES:Office Operations:Subscriptions/Licensing:Corelogic On Line Service		677.00	
1601	Prepaid Expenses:Prepays 09/10			948.00
Total			948.00	948.00
Adjusting Journal Entries JE # 9				
Client entry.				
5312	OPERATING EXPENDITURES:Field Operations:Permit/Certification/Inspection		175.00	
5312	OPERATING EXPENDITURES:Field Operations:Permit/Certification/Inspection		2,765.00	
1601	Prepaid Expenses:Prepays 09/10			2,940.00
Total			2,940.00	2,940.00
Adjusting Journal Entries JE # 10				
Client entry.				
5010	OPERATING EXPENDITURES:Wages & Benefits:Retirees Insurance		4.00	
5010	OPERATING EXPENDITURES:Wages & Benefits:Retirees Insurance		558.00	
1601	Prepaid Expenses:Prepays 09/10			562.00
Total			562.00	562.00
Adjusting Journal Entries JE # 11				
Client entry.				
5316	OPERATING EXPENDITURES:Field Operations:Pumping:Electricity		1,736.00	
1601	Prepaid Expenses:Prepays 09/10			1,736.00
Total			1,736.00	1,736.00
Adjusting Journal Entries JE # 12				
Audit adjustment to adjust for current portion of compensated absences and eliminate long term portion due to policy change.				
2510	Accumulated Sick/Vacation:Compensated Absences Long Term		42,794.00	
2610	Accumulated Sick/Vacation - Short Term		27,404.00	
2610	Accumulated Sick/Vacation - Short Term			42,794.00
5002	OPERATING EXPENDITURES:Wages & Benefits:Salary:Staff Regular Pay			27,404.00
Total			70,198.00	70,198.00
Adjusting Journal Entries JE # 13				
Client entry.				
7000	NON-OPERATING EXPENDITURES:Debt Service:Revenue Bond 2003-Interest		25,169.00	
2005	BOND INTEREST PAYABLE			25,169.00
Total			25,169.00	25,169.00
Adjusting Journal Entries JE # 14				
Client entry.				
9000	ENDING RESERVES/RESTRICTED FUND:Depreciation Expense		8,084.00	
1855	2003 Bond Debt Issuance Cost:2003 Bond Cost-Accum Amort			8,084.00
Total			8,084.00	8,084.00
Adjusting Journal Entries JE # 15				
Client entry.				
1220	Accrued Revenues		191,466.00	
4000	OPERATING REVENUES:Water Service Rates:Basic Service Charge			187,394.00
4002	OPERATING REVENUES:Water Service Rates:Backflow Charge			3,158.00
4003	OPERATING REVENUES:Water Service Rates:Fire Protection/Hydrant Meter			914.00
Total			191,466.00	191,466.00

Client: **RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT**
 Engagement: **2010 AUD - RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT**
 Period Ending: **6/30/2010**
 Workpaper: **TB-2 - Adjusting Journal Entries Report**

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Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 16				
Client entry.				
1210	Restricted Accrued Revenue Surc		44,654.00	
3310	SURCHARGE 2009-03 CAPITAL PROG			44,654.00
Total			<u>44,654.00</u>	<u>44,654.00</u>
Adjusting Journal Entries JE # 17				
Client entry				
		CC-2		
2601	2003 Bond Issue-ST portion		5,000.00	
2500	2003 Bond Issue-ST			5,000.00
Total			<u>5,000.00</u>	<u>5,000.00</u>
Adjusting Journal Entries JE # 18				
Client entry				
		CC-2		
7000	NON-OPERATING EXPENDITURES:Debt Service:Revenue Bond 2003-Interest		38,766.00	
1850	1994 Debt Deferred Refunding:1994 Debt Deferred-Accum Amort			38,766.00
Total			<u>38,766.00</u>	<u>38,766.00</u>
Adjusting Journal Entries JE # 19				
Client entry				
		C-4		
3310	SURCHARGE 2009-03 CAPITAL PROG		14,475.00	
4000	OPERATING REVENUES:Water Service Rates:Basic Service Charge		210,073.00	
1210	Restricted Accrued Revenue Surc			14,475.00
1220	Accrued Revenues			210,073.00
Total			<u>224,548.00</u>	<u>224,548.00</u>
Adjusting Journal Entries JE # 20				
Audit adjustment to accrue accounts payable for the Cal Dept Public Health fee for July 1, 2009 through June 30, 2010.				
		AA-3		
5312	OPERATING EXPENDITURES:Field Operations:Permit/Certification/Inspection		32,588.00	
2000	Accounts Payable			32,588.00
Total			<u>32,588.00</u>	<u>32,588.00</u>
Adjusting Journal Entries JE # 21				
Reclassifying entry to record clearwire revenue form misc revenue to tower lease revenue.				
		10-1		
6004	NON-OPERATING REVENUES:Miscellaneous Non-Operating		5,000.00	
6001	NON-OPERATING REVENUES:Tower Leases			5,000.00
Total			<u>5,000.00</u>	<u>5,000.00</u>
Adjusting Journal Entries JE # 22				
Audit adjustment to record accrued LAIF interest and interest income for funds held in the Bank of NY account.				
		A-6		
1310	Accrued Interest-BNY-LAIF		288.00	
6002	NON-OPERATING REVENUES:Earnings on Monies			288.00
Total			<u>288.00</u>	<u>288.00</u>
Adjusting Journal Entries JE # 23				
Audit adjustment to reverse prepaid amounts and record as expenses for FY9/10.				
		E-2		
5208	OPERATING EXPENDITURES:Contractual Services/Agreements:Insurance:Liability/Vehicle		6,366.00	
5209	OPERATING EXPENDITURES:Contractual Services/Agreements:Insurance:Property		3,095.00	
1602	Prepaid Insurance			9,461.00
Total			<u>9,461.00</u>	<u>9,461.00</u>

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 24		30-		
Audit adjustment to close out capital epense accounts into the capital asset accounts.				
1700	Construction in Process Well 15		281,326.00	
1702	SCADA System Under Development		5,885.00	
1703	General Plant		9,996.00	
1716	CIP Well 16		76,848.00	
1717	CIP Well 17		66,279.00	
5436	OPERATING EXPENDITURES: Office Ops: Building Storage		3,643.00	
5323	OPERATING EXPENDITURES:Field Operations:Fixed Assets:Utility Truck			9,996.00
8000	CAPITAL EXPENDITURES:Capital Acquistion/Improvement:Well #15			281,326.00
8001	CAPITAL EXPENDITURES:Capital Acquistion/Improvement:Well #16			76,848.00
8002	CAPITAL EXPENDITURES:Capital Acquistion/Improvement:Well #17			66,279.00
8003	CAPITAL EXPENDITURES:Capital Acquistion/Improvement:Building and Site Improvements			3,643.00
8004	CAPITAL EXPENDITURES:Capital Acquistion/Improvement:Scada			5,885.00
Total			<u>443,977.00</u>	<u>443,977.00</u>
Adjusting Journal Entries JE # 25		F-2		
Audit adjustment to reclassify capital asset balances to agree to capital asset support documentation.				
1703	General Plant		21,242.00	
5300	OPERATING EXPENDITURES:Field Operations		7,658.00	
1705	Transmission & Distribution			28,900.00
Total			<u>28,900.00</u>	<u>28,900.00</u>
Adjusting Journal Entries JE # 26		F-2.1		
Audit adjustment to record annual capital asset depreciation and intangible asset amortization.				
1706	Land		1.00	
9000	ENDING RESERVES/RESTRICTED FUND:Depreciation Expense		16,876.00	
9000	ENDING RESERVES/RESTRICTED FUND:Depreciation Expense		282,049.00	
1753	Accumulated Depreciation:General Plant			11,867.00
1755	Accumulated Depreciation:Tranmission & Distribution			270,171.00
1950	Annexation-Boundary Maps:Accum. Amortization Annexation			4,279.00
1951	Master Plan:Accumulated Amortization-Master			8,717.00
1952	Regional Master Plan:Accum. Amortization Regional MP			1,003.00
1953	Standard Improvement:Accum. Amortization-Standards			2,877.00
5300	OPERATING EXPENDITURES:Field Operations			1.00
5300	OPERATING EXPENDITURES:Field Operations			11.00
Total			<u>298,926.00</u>	<u>298,926.00</u>
Adjusting Journal Entries JE # 27		ZZ-2		
Audit adjustment to true up net asset account balances.				
3200	Restricted Fund Balances:2003 Bond Reserve with Trustee		4,515.00	
3210	Restricted for Surcharge		25,221.00	
3300	Retained Earnings		349,816.00	
3100	Capital Assets, Net			379,552.00
Total			<u>379,552.00</u>	<u>379,552.00</u>
Adjusting Journal Entries JE # 28				
Audit adjustment to accrue PERS expense				
5008	OPERATING EXPENDITURES:Wages & Benefits:PERS:PERS Retirement		19,216.00	
2105	Payroll Liabilities:Pers Payable			19,216.00
Total			<u>19,216.00</u>	<u>19,216.00</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2010

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2010

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Richardson & Company

550 Howe Avenue, Suite 210
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Telephone: (916) 564-8727
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Rio Linda/Elverta Community Water District (the District) as of June 30, 2010 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the District as of and for the year ended June 30, 2009 were audited by other auditors whose report dated March 16, 2010, expressed an unqualified opinion on those statements.

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

The District has not adopted Governmental Accounting Standards Board Statement (GASBS) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and accordingly has not recorded a liability for post-employment benefits. Accounting principles generally accepted in the United States of America require the liability to be recorded as of June 30, 2010, which would decrease net assets and increase expenses of the District. The amount by which this departure would affect the net assets and expenses of the District is not readily determinable. Disclosures required by generally accepted accounting principles related to the post-employment benefits and related liability has also been omitted.

In addition, the District did not perform a physical inventory at June 30, 2010 and, accordingly, has not adjusted the inventory balance since June 30, 2009. We were unable to satisfy ourselves about the inventory quantities by means of other audit procedures.

The District has disclosed that there have been allegations of fraud and that investigations by outside organizations are being performed. The outcome of these investigations is not known.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note J to the financial statements, the District has suffered recurring losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note J. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Because of the significance of the matters described in the preceding paragraphs, we are unable to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

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

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The District has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic financial statements.

Richardson & Company

December 14, 2011

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

BALANCE SHEETS

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 102,720	\$ 90,235
Accounts receivable	287,572	261,671
Accrued interest receivable	309	979
Inventory	45,894	45,894
Prepaid expenses	27,708	21,800
TOTAL CURRENT ASSETS	<u>464,203</u>	<u>420,579</u>
RESTRICTED ASSETS		
Restricted cash and investments	251,264	286,435
CAPITAL ASSETS, NET	8,223,760	8,082,351
OTHER NONCURRENT ASSETS		
Deferred bond issuance costs	181,641	189,725
TOTAL ASSETS	<u>\$ 9,120,868</u>	<u>\$ 8,979,090</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 194,130	\$ 118,673
Accrued salaries and benefits	36,353	263
Accrued interest payable	25,169	
Deposits payable	30,489	33,879
Deferred revenue	22,032	22,032
Current portion of compensated absences	20,182	42,794
Current portion of bonds payable	90,000	85,000
TOTAL CURRENT LIABILITIES	<u>418,355</u>	<u>302,641</u>
LONG-TERM LIABILITIES		
Bonds payable	2,754,334	2,805,568
Compensated absences		4,793
TOTAL LONG-TERM LIABILITIES	<u>2,754,334</u>	<u>2,810,361</u>
TOTAL LIABILITIES	3,172,689	3,113,002
NET ASSETS		
Invested in capital assets, net of related debt	5,357,179	4,977,627
Restricted for debt service	242,485	247,000
Restricted for capital improvements	8,779	34,000
Unrestricted	339,736	607,461
TOTAL NET ASSETS	<u>5,948,179</u>	<u>5,866,088</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,120,868</u>	<u>\$ 8,979,090</u>

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

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Water sales	\$ 1,420,153	\$ 1,484,015
Account service charges	123,907	113,506
Other water service fees	2,180	1,785
Other	10,097	818
TOTAL OPERATING REVENUES	<u>1,556,337</u>	<u>1,600,124</u>
OPERATING EXPENSES		
Personnel services	688,774	971,438
Professional services	174,163	134,057
Field operations:		
Transmission and distribution	100,181	146,128
Pumping	176,198	170,879
Transportation	17,695	14,513
Treatment	15,611	11,254
Other	84,655	49,827
Conservation	3,505	5,161
Administration	184,078	197,650
Depreciation and amortization	307,009	339,427
TOTAL OPERATING EXPENSES	<u>1,751,869</u>	<u>2,040,334</u>
NET (LOSS) INCOME FROM OPERATIONS	(195,532)	(440,210)
NON-OPERATING (EXPENSES) REVENUES		
Surcharge	364,204	58,800
Interest income	1,469	8,528
Miscellaneous income	8,032	2,374
Property tax	63,348	80,447
Rental income	58,859	51,715
Lawsuit settlement		123,158
Interest expense	(216,223)	(193,604)
Loss on abandonment of well #14		(802,674)
Other non-operating expenses	(2,066)	(8,503)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>277,623</u>	<u>(679,759)</u>
CHANGE IN NET ASSETS	82,091	(1,119,969)
Net assets, beginning of year, as previously reported	<u>5,866,088</u>	<u>6,986,057</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,948,179</u>	<u>\$ 5,866,088</u>

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

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 1,557,225	\$ 1,598,134
Cash paid to suppliers for goods and services	(686,537)	(983,426)
Cash paid to employees for services	(680,089)	(696,872)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>190,599</u>	<u>(82,164)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Miscellaneous income	8,032	2,374
Property taxes received	63,348	80,447
Rental income received	58,859	51,715
Non-operating expense paid	(2,066)	(8,503)
Settlements paid		123,158
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>128,173</u>	<u>249,191</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Surcharge received	334,025	44,325
Payments on long-term debt	(85,000)	(85,000)
Purchase of property	(440,334)	(344,614)
Interest paid on long-term debt	(152,288)	(154,838)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(343,597)</u>	<u>(540,127)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	2,139	12,886
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,139</u>	<u>12,886</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(22,686)	(360,214)
Cash and cash equivalents at beginning of year	<u>376,670</u>	<u>736,884</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 353,984</u>	<u>\$ 376,670</u>
Cash and cash equivalents consist of the following:		
Unrestricted	\$ 102,720	\$ 90,235
Restricted	<u>251,264</u>	<u>286,435</u>
	<u>\$ 353,984</u>	<u>\$ 376,670</u>

(Continued)

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income from operations	\$ (195,532)	\$ (440,210)
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	307,009	339,427
Changes in assets and liabilities:		
Accounts receivable	4,278	(2,934)
Inventory		(4,550)
Prepaid expenses and other assets	(5,908)	(3,225)
Accounts payable	75,457	30,810
Accrued salaries and benefits	36,090	
Deposits payable	(3,390)	(3,221)
Compensated absences	(27,405)	(39)
Unearned revenue		1,778
	<u> </u>	<u> </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 190,599</u>	<u>\$ (82,164)</u>

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES

Write-down of well #14 due to impairment	\$ 802,674
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The accompanying notes are an integral part of these financial statements.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Rio Linda/Elverta Community Water District (District) have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. As allowed by the GASB, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989. The more significant of the District's accounting policies are described below.

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

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

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

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

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principle operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expense 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.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

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

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.

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. The District does not have a Board approved Investment Policy.

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

Capital Assets: Capital assets are recorded at historical cost. Donated assets are valued at estimated fair value on the date received. Self-constructed assets are recorded based on the amount of direct labor, material, and certain overhead charged to the asset construction. Depreciation is calculated using the straight-line method over estimated useful lives of 8 to 60 years for transmission and distribution and 3 to 50 years for general plant assets. Depreciation expense in the amount of \$298,925 and \$331,343 was recorded for the years ended June 30, 2010 and 2009, 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.

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

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

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

Property Taxes: Property tax in California is levied in accordance with Article XIII A of State Constitution at 1% of countywide assessed valuations. The property taxes are placed in a pool and are then allocated to the local governmental units based upon complex formulas. The County of Sacramento is responsible for collection of property tax, and the District recognizes property taxes when received from or collected by the County. Amounts levied but not collected at June 30 (delinquent property taxes) have not been reported since these amounts could not be readily determined.

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. The District does not accrue sick leave.

Reclassifications: Certain reclassifications have been made to 2009 amounts to conform to the 2010 presentation. Such reclassifications did not affect the change in net assets.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

NOTE B – CASH AND INVESTMENTS

Cash and investments as June 30, 2010 and 2009 are classified in the accompanying financial statements as follows:

	2010	2009
Cash and cash equivalents	\$ 102,720	\$ 90,235
Restricted cash and investments	251,264	286,435
Total cash and investments	\$ 353,984	\$ 376,670

Cash and investments as of June 30, 2010 and 2009 consisted of the following:

	2010	2009
Cash on hand	\$ 1,013	\$ 507
Deposits with financial institutions	95,107	68,594
Total cash	96,120	69,101
Investments in Local Agency Investment Fund (LAIF)	15,379	55,080
Held by bond trustee:		
Money market mutual fund	34,844	252,489
LAIF	207,641	
Total investments	257,864	307,569
Total cash and investments	\$ 353,984	\$ 376,670

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 for the District by the California Government Code that address interest rate risk, credit risk, and concentration of credit risk. 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, 2010, the District's permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Local Agency Bonds	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
State of California obligations	None	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	40%	10%
Negotiable Certificates of Deposits	None	30%	None
Repurchase Agreements	92 days	None	None
Medium Term Corporate Notes	None	30%	None
Money Market Mutual Funds	N/A	20%	10%
Mortgage pass-through securities	5 years	20%	None
LAIF	N/A	None	None

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

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

NOTE B – CASH AND INVESTMENTS (Continued)

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. All of the District's investments mature within 12 months.

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	Ratings as of Year End		
	Legal Rating	Total	AAA	Not Rated
LAIF	N/A	\$ 15,379		\$ 15,379
Held by bond trustee:				
Money market mutual fund	N/A	34,844	\$ 34,844	
LAIF	N/A	207,641		207,641
		\$ 257,864	\$ 34,844	\$ 223,020

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived 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.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

NOTE B – CASH AND INVESTMENTS (Continued)

At June 30, 2010, the carrying amount of the District's deposits were \$95,107 and the balances in financial institutions were \$163,912. Of the balance in financial institutions, the entire amount of \$163,912 was covered by federal depository insurance. As of June 30, 2010, District investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the District to buy the securities:

Reported Investment Type	Amount
Money market mutual funds	\$ 34,844
LAIF	207,641

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is \$69,555,776,591 managed by the State Treasurer. Of that amount, 5.42% is invested in structured notes and asset-back securities. No amounts were invested in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2010 and 2009 are as follows:

	Balance July 1, 2009	Additions	Disposals	Adjustments	Balance June 30, 2010
Capital assets not being depreciated:					
Land	\$ 410,723				\$ 410,723
Construction in progress	200,975	\$ 430,338			631,313
Total capital assets, not being depreciated	611,698	430,338			1,042,036
Capital assets being depreciated:					
Transmission and distribution	11,273,400				11,273,400
General plant assets	782,017	9,996			792,013
Intangible assets	363,185				363,185
Total capital assets, being depreciated	12,418,602	9,996			12,428,598
Less accumulated depreciation for:					
Transmission and distribution	(4,117,026)	(270,171)			(4,387,197)
General plant assets	(681,894)	(11,878)			(693,772)
Intangible assets	(149,029)	(16,876)			(165,905)
Total accumulated depreciation	(4,947,949)	(298,925)			(5,246,874)
Total capital assets, being depreciated, net	7,470,653	(288,929)			7,181,724
Capital assets, net	\$ 8,082,351	\$ 141,409	\$ -	\$ -	\$ 8,223,760

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

NOTE C – CAPITAL ASSETS (Continued)

	Balance July 1, 2008	Additions	Disposals	Adjustments	Balance June 30, 2009
Capital assets not being depreciated:					
Land	\$ 112,183			\$ 298,540	\$ 410,723
Construction in progress	1,011,603	\$ 290,586	\$ (1,101,214)		200,975
Total capital assets, not being depreciated	<u>1,123,786</u>	<u>290,586</u>	<u>(1,101,214)</u>	<u>298,540</u>	<u>611,698</u>
Capital assets being depreciated:					
Transmission and distribution	11,273,400				11,273,400
General plan assets	707,509	74,508			782,017
Intangible assets	363,185				363,185
Total capital assets, being depreciated	<u>12,344,094</u>	<u>74,508</u>			<u>12,418,602</u>
Less accumulated depreciation for:					
Transmission and distribution	(3,842,129)	(274,897)			(4,117,026)
General plan assets	(642,324)	(39,570)			(681,894)
Intangible assets	(132,153)	(16,876)			(149,029)
Total accumulated depreciation	<u>(4,616,606)</u>	<u>(331,343)</u>			<u>(4,947,949)</u>
Total capital assets, being depreciated, net	<u>7,727,488</u>	<u>(256,835)</u>			<u>7,470,653</u>
Capital assets, net	<u>\$ 8,851,274</u>	<u>\$ 33,751</u>	<u>\$ (1,101,214)</u>	<u>\$ 298,540</u>	<u>\$ 8,082,351</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

NOTE D – LONG-TERM LIABILITIES

Long-term liabilities consist of the following:

2003 Water Revenue Refunding Bonds: On January 22, 2003, the District issued \$3,970,000 of Water Revenue Refunding Bonds with interest ranging from 3.00% to 4.75%. These 2003 Bonds were issued to finance certain capital improvements to the District's water system. Annual principal payments, ranging from \$90,000 to \$235,000 are due on November 1 through November 1, 2032 and semi-annual interest payments, ranging from \$5,581 to \$75,506 are due on May 1 and November 1 through November 1, 2032.

The activity of the District's long-term liabilities during the years ended June 30, 2010 and 2009 was as follows:

	Balance July 1, 2009	Additions	(Reductions)	Balance June 30, 2010	Due Within One Year
2003 Water Revenue Refunding Bonds	\$ 3,485,000		\$ (85,000)	\$ 3,400,000	\$ 90,000
Less: Deferred amount on refunding	(594,432)		38,766	(555,666)	
	<u>2,890,568</u>		<u>(46,234)</u>	<u>2,844,334</u>	<u>90,000</u>
Compensated absences	47,587		(27,405)	20,182	20,182
	<u>\$ 2,938,155</u>	<u>\$ -</u>	<u>\$ (73,639)</u>	<u>\$ 2,864,516</u>	<u>\$ 110,182</u>
	Balance July 1, 2008	Additions	(Reductions)	Balance June 30, 2009	Due Within One Year
2003 Water Revenue Bonds	\$ 3,570,000		\$ (85,000)	\$ 3,485,000	\$ 85,000
Less: Deferred amount on refunding	(633,198)		38,766	(594,432)	
	<u>2,936,802</u>		<u>(46,234)</u>	<u>2,890,568</u>	<u>85,000</u>
Compensated absences	47,626		(39)	47,587	42,794
	<u>\$ 2,984,428</u>	<u>\$ -</u>	<u>\$ (46,273)</u>	<u>\$ 2,938,155</u>	<u>\$ 127,794</u>

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, 2010 and 2009, net of accumulated amortization of \$299,232 and \$260,466, respectively. This deferred amount on refunding, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations over the remaining life of the 2003 Water Revenue Bonds.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

NOTE D – LONG-TERM LIABILITIES (Continued)

The annual requirements to amortize the outstanding debt as of June 30, 2010 are as follows:

For the Year Ended June 30:	2003 Water Revenue Refunding Bonds		
	Principal	Interest	Total
2011	\$ 90,000	\$ 149,663	\$ 239,663
2012	95,000	146,769	241,769
2013	95,000	143,562	238,562
2014	100,000	140,087	240,087
2015	105,000	136,175	241,175
2016-2020	580,000	612,978	1,192,978
2021-2025	730,000	469,947	1,199,947
2026-2030	930,000	275,025	1,205,025
2031-2033	675,000	49,044	724,044
	<u>\$ 3,400,000</u>	<u>\$ 2,123,250</u>	<u>\$ 5,523,250</u>

Pledged Revenue: The District pledged future water system revenues, net of specified expenses, to repay the 2003 Water Revenue Refunding Bonds in the original amount of \$3,970,000. Proceeds of the Bonds funded the acquisition and construction of certain facilities, as indicated above. The Bonds are payable solely from water customer net revenues and are payable through November, 2032. Annual principal and interest payments on the Bonds are expected to require less than 80% of net revenues. Total principal and interest remaining to be paid on the Bonds was \$5,523,250 and \$5,705,937 at June 30, 2010 and 2009, respectively.

Total principal and interest paid on all debt payable from net revenues was \$237,288 and \$239,838 and the total water system net revenues were \$716,442 and \$163,378 for the years ended June 30, 2010 and 2009, respectively. At June 30, 2010 and 2009, the District's net revenues were 302% and 68% of debt service payments, respectively.

NOTE E – ARBITRAGE REBATE LIABILITY

Section 148(f) of the Internal Revenue Code requires issuers of tax-exempt state and local bonds to remit to the federal government amounts equal to (a) the excess of the actual amounts earned on all "Non-purpose Investments" allocable to "Gross Proceeds" of an issue of municipal obligations less the amount that would have been earned if the investments bore a rate equal to the amount that would have been earned if the investments bore a rate equal to the yield on the issue, plus (b) all income attributable to the excess. Issuers must make rebate payments at least once every five years and upon final retirement or redemption of the bonds. There was no arbitrage liability at June 30, 2010 and 2009.

NOTE F – NET ASSETS

Restrictions: Restricted net assets consist of constraints placed on net asset 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 assets consisted of the following at June 30:

	2010	2009
Debt service reserve on 2003 Water Revenue Refunding Bonds	\$ 242,485	\$ 247,000
Restricted for capital improvement projects	8,779	34,000
Total restricted net assets	<u>\$ 251,264</u>	<u>\$ 281,000</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

NOTE F – NET ASSETS (Continued)

The restrictions for debt service represent debt service and other reserves required by the related debt covenants. The restriction for capital improvement projects 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.

NOTE G – DEFINED BENEFIT PENSION PLAN

Plan description: The District contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. The District participates in the miscellaneous 2% at 55 risk pool. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS require agencies with less than 100 active members in the plan to participate in the risk pool. All full and part-time District employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times the monthly average salary of their highest twelve consecutive months full-time equivalent monthly pay. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by 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 are required to contribute 7% of their annual covered salary. The District made contributions required of District employees on their behalf and for their account up through October 2009. The contribution made by the District on behalf of the employees was \$6,449 for the year ended June 30, 2010 and \$20,482 for the year ended June 30, 2009. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for 2009/10 and 2008/09 was 13.097% and 14.278%, 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, 2010, 2009 and 2008 were \$39,513, \$88,291, and \$115,606, respectively, which were equal to the required contributions each year.

NOTE H – COMMITMENTS AND CONTINGENCIES

The District is party to various claims, legal actions, and complaints that arise in the normal course of business. Management and the District's legal counsel believe that there are no material loss contingencies that would have a material adverse impact on the financial position of the District.

Commitment amounts on contracts in effect at June 30, 2010 totaled \$107,000.

NOTE I – INSURANCE

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) a public entity risk pool of California water agencies, for general and auto liability, public officials liability, property damage and fidelity insurance. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which group purchased commercial excess insurance is obtained.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

NOTE I – INSURANCE (Continued)

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)	\$ 1,000,000	\$ 61,000,000	None
Property Damage	50,000	100,000,000	\$ 500 - 25,000
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 J – GOING CONCERN

The financial statements for the years in question have been prepared assuming that the District will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The District has suffered reoccurring operating losses and diminishing working capital since 2007 through the period ended June 30, 2010. As a result of these factors, there is doubt about the District's ability to continue as a going concern. The District has reduced personnel expenses, plans to increase revenue through an increase in the capital surcharge and in water rates, and plans to obtain a State safe drinking water loan to finance additional wells. The District is addressing reorganization, receivership and other options, but the outcome cannot be assured at this time.

NOTE K – SUBSEQUENT EVENTS

On November 19, 2007 the District received the California Department of Public Health Compliance Order 01-09-07-CO-004 with a full compliant date of December 31, 2008. The Compliance Order documents finding or facts about the water source capacity and low-pressure problems observed in the District, and includes nine Directives to accurately characterize the problems, evaluate solution options, and implement interim measures towards the complete resolution of the water source capacity and low-pressure problems. On October 13, 2008, the District requested and received an extension to March 31, 2009 from the Department of Public Health to become fully compliant with Compliance Order No. 01-09-07-CO-004. On November 23, 2010, the District's application was accepted for a \$7,499,045 State safe drinking water loan to finance the drilling of new wells to meet the requirements stipulated in the Department of Public Health Compliance Orders. No amounts were received as of the date of this report. The District was required to adopt an increase in water rates of \$5.46 per month per connection effective within two years after the date of execution of the funding agreement to repay the loan. The loan will be required to be repaid over 20 years, starting after completion of the project. The interest rate on the loan will be 2.5707 percent, with semi-annual payments of \$240,959 required. Funding of the loan is contingent upon timely compliance with the Notice of Acceptance of Application Terms and Conditions.

Richardson & Company

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

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 the financial statements of the Rio Linda/Elverta Community Water District (the District) as of and for the year ended June 30, 2010 and have issued our report thereon dated December 14, 2011. We did not express an opinion on the District because of the departures from generally accepted accounting principles and uncertainties described in the audit opinion. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 over financial reporting that might be deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting, that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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*.

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

We noted certain other matters that we reported to management of the District in a separate letter dated December 14, 2011.

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

Richardson & Company

December 14, 2011

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF FINDINGS

June 30, 2010

Finding 2010-1: Other Post-Employment Benefits Accrual

In April 2004, the Governmental Accounting Standards Board issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*, which was required to be implemented during the year ended June 30, 2010. The Statement requires that the District establish a liability for other post-employment benefits (OPEB) to be measured and reported according to certain parameters. Because the District did not have an actuarial study performed, an OPEB liability could not be recorded at June 30, 2010. Since the District is currently expensing the premiums paid for retirees as they are paid, the implementation of this Statement will result in the District being required to accrue an OPEB liability, which could be a significant amount. This Statement does not require the plan to be funded. In order to comply with generally accepted accounting principles, the District will need to have an actuarial valuation performed to determine the amount of liability to accrue.

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

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 indicate 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.
- b. Until recently, the District had not been entering invoices in the accounts payable module as they were received, only as they were paid. As a result, the District had no way of knowing the amounts owed to vendors as of a given point in time. The District entered the invoiced owed but unpaid as of June 30, 2010 in preparation for the audit. Going forward, the District needs to generate an accounts payable trail balance and compare it to the general ledger on a regular basis.
- c. Procedures for accounting for long-term debt and related accounts needs to be established including: calculation and recording of interest payable on long-term debt, maintaining supporting documentation for the amounts recorded for the amortization of deferred amount on refunding and issuance costs related to the debt issuances of the District.
- d. The restricted net asset balances were not adjusted to agree to the corresponding restricted cash accounts. Procedures need to be established for adjusting restricted net assets to their proper balances.
- 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 needs to be established.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF FINDINGS (Continued)

June 30, 2010

- f. We noted that not all twelve months of cell tower lease revenue was recorded. The District needs to ensure the proper tracking of cell tower lease payments to ensure amounts are received on a timely basis or are accrued to ensure completeness of revenue.
- g. Prepaid expenses had not been adjusted since the prior fiscal year end. Procedures need to be established to ensure prepaid balances are expensed over the period for which the services were provided.
- h. The District had not performed a physical inventory count of its supplies inventory since June 30, 2009. Since a perpetual inventory system is not maintained, the inventory balance as of June 30, 2010 has not been revised. The District needs to ensure that a physical inventory count is performed at least annually so that the general ledger balance can be adjusted.
- i. A number of accrual adjustments were not reflected in the general ledger prior to the audit. These adjustments include accruing a receivable for the portion of the July water billings that relate to June, and May, accruing a liability for compensated absences and accruing the PERS retirement payments owed as of June 30.

We recommend that the District develop an accounting procedures manual to ensure continuity in processes when staff turnover occurs. Procedures should be in place to prepare the required reconciliations at year-end and throughout the year and post entries needed to close the books prior to the start of the audit.

Finding 2010-3: Internal Controls and Separation of Duties

Certain procedures, which should be separated, are performed by the same person due to the District's small number of accounting staff. The lack of consistent segregation of duties is not unusual for small water districts; however, compensating controls need to be put in place to reduce the risk of misstatement or fraud. The following areas were identified where internal control deficiencies exist:

- a. The bookkeeper processes invoices, enters them into the accounts payable system, writes checks, has access to the general ledger, and receives the bank statements and reconciles the bank accounts, which is not an adequate segregation of duties. The previous long-time bookkeeper was also able to sign checks. To compensate for this lack of segregation of duties, the General Manager should receive all bank statements unopened and review them prior to forwarding to the bookkeeper. After completion of the monthly bank reconciliations by the bookkeeper, they should be reviewed and approved by the General Manager. Complete listings of checks written should be provided to the Board for review on a monthly basis.
- b. After accounts payable checks have been signed, they are returned to the bookkeeper, who prepares the checks for mailing. Signed checks should be mailed by someone not associated with the accounts payable function.
- c. Billing preparation, processing of customer payments, posting billing and payment information to customer accounts, making customer billing adjustments and follow-up on billing questions are all accomplished by the same employee, which is not an adequate segregation of duties. While a procedure is in place whereby the General Manager is to approve billing adjustments over \$100, the billing clerks have the ability to make these adjustments in the system without approvals. A review of all billing adjustments should be performed by the General Manager using the adjustment report generated from the system. The documentation of the authorization of billing write offs or adjustments needs to be maintained to document this approval.
- d. Currently all bank deposits are being made by the billing clerk, but this person also has access to the accounts receivable module, which is not an adequate segregation of duties. While it may not be feasible for physical bank deposits to be made by an individual who does not have access to the accounts receivable

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF FINDINGS (Continued)

June 30, 2010

module, the bookkeeper, who does not have access to the billing system, should review the documents to ensure agreement of the deposit amount to the postings to customer accounts in the billing system and then compare the deposit slip to the bank statement.

- e. We noted that entries made to the payroll system, such as changes to the pay rates, were not being reviewed. We recommend that any payroll system changes be reviewed and approved by the General Manager. In addition, the General Manager should be reviewing the payroll registers and/or check stubs and documenting this review with an initial.
- f. Regular staff meetings should be held to identify and resolve issues and provide sound guidance.

The District needs to re-evaluate its internal control system to ensure adequate segregation of duties are in place, and reconciliation and review functions are taking place.

Finding 2010-4: Financial Reporting

The District needs to establish a financial reporting system that includes the reporting of financial information to the Board on a regular basis. The District also needs to ensure that it complies with the California Government Code with regard to its investment reporting. The Government Code calls for quarterly reports on the District's financial holdings, a statement of compliance with the policy and a statement concerning the District's ability to meet its cash flow needs in the ensuing six months. We did not see where these investment reports were provided.

Finding 2010-5: Organization of Accounting Records

We noted that the District's accounting records were disorganized making records difficult to locate for the audit, partly because of the records being confiscated by the District Attorney's Office. As a result, the District was not able to locate supporting invoices for 19 out of the 85 samples of expenses we selected for testing. We recommend the District develop accounting procedures for proper filing and storing of invoices and other accounting documentation.

Finding 2010-6: Capital Asset Accounting

The District was unable to locate its capital asset listing and depreciation schedule and had to create one from the listing prepared by the prior auditor. The District needs to ensure it maintains its own capital asset listing and depreciation schedule, and that updates to the listing be made throughout the year.

The District records its capital asset additions as expenses instead of capital assets. The District needs to establish procedures to identify and record capital asset additions, including construction in progress, on the asset listing on a timely basis, to record depreciation expense and to track and record fixed asset disposals. We noted two vehicles were sold in fiscal year 2009/10, but these vehicles were not removed from the asset list. We also noted the District's capital asset listing still contained assets that had been disposed of years earlier and in several cases only a portion of the cost and accumulated depreciation of the assets was removed. Periodic inspections of capital assets needs to be performed to ensure that recorded assets still exist. Reconciliations of the capital asset list to the general ledger needs to be performed on a periodic basis, and adjustments to the general ledger need to be made timely.

We noted that the District's capital asset listing did not include intangible assets or land. As a result, amortization of the intangible assets was not calculated and recorded in the general ledger, which resulted in an audit adjustment being required. The District needs to ensure that a list of all land holdings, including those that were donated, and intangible assets is maintained as part of the capital asset listing.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF FINDINGS (Continued)

June 30, 2010

Finding 2010-7: Surcharge Cash Account

We noted the District borrowed cash totaling \$37,500 from the restricted surcharge bank account to cover low or negative balances in the operating bank account. While we noted the funds were paid back to the surcharge account, any use or transfers of restricted funds should be reviewed and approved by management or the Board of Directors.

Currently when the capital improvements surcharge is collected, it is deposited into the operating bank account before being transferred to the surcharge bank account. Because revenues received in fiscal year 2010 exceeded the total funds deposited into the surcharge account by \$16,130, this implies that not all of the funds have been transferred from the operating bank account to the surcharge bank account. We recommend the surcharge amount collected for capital improvements be deposited directly into the surcharge bank account, if practicable to do so, or at a minimum, there be a quarterly reconciliation performed that compares revenues collected for the capital improvement surcharge with amounts deposited into the surcharge bank account to ensure surcharge receipts are recorded correctly, or whether a transfer needs to be made.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS

June 30, 2010

Finding 2009 – 1: Organization of the District

Condition: The prior auditors observed the structure and the roles of the Board, management and employees and the effectiveness of the District's lines of communication. The prior auditors believed the District needs to review the tasks that have been assigned to the employees to ensure their completion but overall responsibilities of employees have not been formalized or properly defined. The prior auditors believed the District needs to rebalance the current workloads to ensure that the proper functions are performed by the proper employee, therefore ensuring proper internal control. Additionally, balanced workloads will ensure that employees have the appropriate time to dedicate to the accurate completion of their tasks and will also improve employee morale.

Status: The organization structure and workloads do not appear to have been revised since the prior audit. Special attention needs to be given to addressing the internal control issues identified in Finding 2010-3 as far as workload re-assignments.

Finding 2009-2: Develop an Organization Chart

Condition: The District does not have an organization chart. There is a natural tendency to dismiss the need for an organization chart in a small business where management deals more or less directly with each employee, and where all personnel know each other and are generally aware of each other's area of responsibility. However, without an organization chart, there may be confusion about who is really accountable for particular areas and to whom employees are responsible. The result could be that some areas of operations do not receive adequate attention or that duplicative or contradictory actions are taken. A good organization chart can prevent such misunderstandings and also increase administrative efficiency and control in the following ways:

- Indicate whether there is appropriate allocation of operating and supervisory responsibility.
- Indicate whether there is an adequate separation of duties.
- Inform management, new employees, and others of the District's management and operating style.
- Provide information for management to monitor and inquire into operations and procedures, assign new duties or responsibilities that may arise, or make reassignments when employee turnover, promotions, operational needs, desire for better separation of duties, or other circumstances call for it.

The prior auditor recommended that management prepare and maintain a chart of organization in sufficient detail to indicate the District's major areas of operations, the person responsible for each area, and who each supervisor reports to as well as which employees report to each supervisor. The chart should be updated whenever there is significant employee turnover or changes in operations.

Status: An organization chart was not in place as of June 30, 2010. However, we noted management has recently developed an organization chart for Board approval.

Finding 2008-2: Computer Controls

Condition: The 2008 audit was delayed from the initially scheduled field work dates in October 2008 until December 2008 as a result of a computer hard drive crash on the Administrative Supervisors computer. Upon further investigation, it was brought to the prior auditor's attention that all of the financial records of the District are maintained on this same computer. The District's management was able to restore some of this data however; the potential loss could have been devastating to the District. In reviewing the District's computer network, the prior auditor learned that the District does not have a sufficient server capacity or routine system backups.

The prior auditor recommended that the District consider adopting one or more of the following reasonably priced alternative backup methods, which can address these shortcomings as well as address additional data security issues:

- Magnetic Tape Drive – the tape drive can hold very large amounts of data; however, it is relatively slow.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS (Continued)

June 30, 2010

- Online Storage – the District could contract with an outside vendor for online storage service, which involves sending backup data over the Internet to the host storage site.

Some of these backup-recovery service providers (BRSP) offer real-time copying of data as well as retrieval and restoration service for lost data. In addition to backing up data, the District should also back up and store operating systems, applications and the emergency startup CDs necessary for booting the computer. Also, it is important to keep these startup CDs updated for changes made to the computer hardware.

It was brought to their attention by a former general manager that as a result of a prior general manager's transition process, some sensitive data is no longer accessible within the District's computers and servers. A properly set up network will prevent the storage of documents in local computers by requiring all data to be saved on a file server. If the file server is backed up routinely, hard drive failure or removal would not cause the loss of vital data.

Status: The accounting data is now being backed up nightly on an external drive and all employee electronic documents are backed up to a server that is maintained by a computer support company.

Finding 2008-3: Budget

Condition: The auditor's opinions for the past three fiscal years have been issued with the contingency of a going concern. This states to the readers of the District's financial statements that the District's auditors have found substantial doubt about the District's ability to maintain operations at sufficient levels to remain in business. In response to their concerns, former management provided several updated budgets which were unclear in nature therefore ineffective. The fundamental purpose of budgetary control is to plan beforehand the most efficient operation and then maintain operations according to the budget.

Budgets stimulate early identification of operational problems and help ensure that timely decisions are made for resolving the problems. Budgetary control also results in better coordination and control of the District's efforts and in more effective use of the District's resources.

We believe that the District could more accurately evaluate operational performance by revising current budgeting procedures to provide for the following:

- Obtaining estimates of future operational data from field operations, and administrative personnel.
- Updating the current year's budget at least quarterly for operational changes.
- Communicating operational performance to appropriate personnel.

It is understood that the nature of the District's operations, as well as the uncertainties inherent in economic activity, makes predications of the future subject to frequent change. Thus, we recommend that the District perform periodic reviews for variances between actual and budgeted results and document the variances between actual and budgeted results. Budget variances may indicate possible problems that can be identified quickly and followed-up. Variances can also be caused by erroneous assumptions, not business or economic factors. If investigations of budget variances suggest that the budget is inaccurate, or if business conditions vary from expectations, the budget should be revised to reflect current conditions or more reasonable estimates.

Status: The District has been through numerous management changes over the past few years such that there has not been continuity in the manager's preparing the budget and monitoring variances throughout the fiscal year. As discussed in the Finding 2010-4, the District needs to ensure it has an adequate financial reporting system in place such that sound management decisions can be made.

Finding 2007-2: Accounting Policies

Condition: The prior auditor's review of internal controls brought to their attention the fact that the District has no current formal accounting policies and procedures. Having an up-to-date accounting policies and procedures manual will provide for efficient training of new staff, effective and timely financial reporting and consistency

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS (Continued)

June 30, 2010

within the Administrative department. We recommend the District prepare an accounting policies manual that should address management's risk factors in relation to financial reporting.

Status: Because the District does not have an accounting policies and procedures manual, the departure of the long-time bookkeeper has made it difficult for successor bookkeepers to ensure continuity in accounting functions and to follow the work of the predecessor bookkeeper.

Richardson & Company

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

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

In planning and performing our audit of the financial statements of the Rio Linda/Elverta Community Water District (the District) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

However, during our audit, we also became aware of the following matters that are opportunities for strengthening internal controls and operating efficiency and have been included in this letter for your consideration. A separate report dated December 14, 2011, contains our report on material weaknesses in the District's internal control. This letter does not affect our report dated December 14, 2011 on the financial statements of the District.

Fraud Reporting Procedures

We recommend the District develop and adopt a Fraud Prevention/Whistle Blower Policy. The policy or procedures should include a discussion of what types of activities constitute fraud or contracting improprieties, how an employee should report such suspected fraud or contracting improprieties and to whom or where an employee should report such activities, including reporting procedures if an employee's supervisor or a member of senior management is suspected of these activities.

Risk Assessment Plan

We recommend that the District develop a risk assessment plan to identify those risks within the District that could result in fraud or material misstatement of the financial statements, and then to implement internal controls to mitigate those identified risks. This risk assessment plan should identify potential risk areas and then ensure controls or processes are in place to mitigate those risks. This risk assessment should be performed on a periodic basis and can be incorporated into existing staff and management meetings.

Investment Policy

The District does not have an approved investment policy as required by Government Code Section 53600.3. This policy and any changes must be considered at least annually by the Board at a public meeting. We recommend that an investment policy be developed and approved by the Board.

Standby Fees

The District paid out \$13,985 of standby pay, which is paid out at a rate of \$20 per day. We noted that each pay period, at least two and sometimes three employees were on call. The District should evaluate whether there is a need for having two to three employees on call every day.

We will review the status of these comments during our next audit engagement. We have already mentioned these comments and suggestions with various company personnel, and we will be pleased to discuss them in further detail at your convenience or to assist you in implementing the recommendations.

* * * * *

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

Richardson & Company

December 14, 2011