RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2013

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Richardson & Company

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Rio Linda/Elverta Community Water District (the District), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2013 and 2012 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Report on Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Richardson & Company

October 18, 2013

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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

1. 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

2. 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, 2013 (FY 2012-13).

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

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 2012-13 and its financial position at the close of FY 2012-13:

- The District's assets exceeded its liabilities at the end of FY 2012-13 by $6,772,710. The District's net capital assets, $4,314,977, are composed of the capital assets of the District net of related debt – the water transmission and distribution system, water production facilities, land, buildings and equipment belonging to the District. Unrestricted net assets totaled $1,128,821 up from $676,258 at the end of FY 2011-12. This is because of revenue generated from a water rate increase combined with constrained operating and capital improvement spending in 2012-13. The increase demonstrates the beginning of an effort by the District to rebuild its financial reserves after spending down millions of dollars in reserves between 2000 and 2009 to pay for water meters, groundwater wells and other capital improvements.

- The District's operating revenues for FY 2012-13 were $2,285,207. About 77 percent of all revenues, $2,954,637, came from water sales to customers. The District implemented the full rate increase in December 2012 which was adopted effective March 20, 2011. This resulted in an increase of 9 percent in the bi-monthly water bill for a typical District customer.

- The District's total net long-term liabilities at the end of FY 2012-13, including the 2003 bonds payable, and State Revolving Fund Loan is $6,407,703. This is an increase of $1,175,436, in net long-term liabilities at the end of FY 2011-12, due primarily to cost of construction in progress related to wells provided by a $7.499 million dollar loan from California Department of Public Health.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Statement of Net Position

As of June 30, 2013, the total net position of the District was $6,772,710. The following table summarizes assets, liabilities and net position at June 30, 2013 and 2012:

	2013	2012
Current assets, unrestricted	$ 865,151	$753,409
Restricted cash and cash equivalents	1,328,912	999,879
Capital assets, net	10,769,109	10,197,335
Total Assets	12,963,172	11,950,623
Deferred outflows	596,757	643,601
Total assets and Deferred outflows	13,559,929	12,594,230
Current liabilities	379,516	815,758
Long-term liabilities	6,407,703	5,232,267
Total Liabilities	6,787,219	6,048,025
Net Position		
Invested in capital assets, net of related debt	4,314,977	4,870,068
Restricted debt service	814,541	329,877
Restricted for capital improvements	469,597	670,002
Restricted for other purposes	44,774	
Unrestricted	1,128,821	676,258
Total Net Position	$ 6,772,710	$ 6,546,205

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

Changes in Net Position

The following table summarizes the changes in net assets for the fiscal year ended June 30, 2013 and 2012:

	2013	2012
Operating revenues	$ 2,285,207	$ 2,144,058
Operating expenses:		
Personnel Services	696,810	658,431
Professional Services	531,433	613,868
Transmission and distribution	64,170	31,166
Pumping and well maintenance	209,235	202,394
Transportation	24,595	25,381
Treatment	17,512	19,580
Conservation	7,551	925
Other	90,707	76,960
Depreciation and Amortization	286,202	306,646
Administration	255,943	172,595
Total operating expenses	2,184,158	2,107,892
Net Income from Operations	101,049	36,166
Non-Operating Revenues	669,430	647,170
Non-Operating Expenses	(543,974)	(212,538)
Net Non-Operating revenues	125,456	434,632
Net income before capital contributions	226,505	470,798
Capital contributions:		
Contributed (donated) assets		85,950
Total capital contributions		85,950
Change in net position	226,505	556,748
Net assets, beginning of year	6,546,205	5,989,457
Net assets, end of year	$ 6,772,710	$ 6,546,205

Total net position increased $226,505 from the prior year. Operating revenue exceeded operating expenses by $101,049, which accounts for half of the increase in net position. The write off of $360,335 in losses on wells that were not developed decreased the amount of net position.

The increase in operating revenues from 2012 to 2013 was due primarily to the full rate increase implementation enacted mid FY 2012-13. Total operating revenues increased $141,149 or 6.5 percent from the prior year. The District implemented the rest of its approved water rate increase of 9 percent for the typical residential customer as of December 2012. Per Ordinance 2011-01 there was also a 3% cost of living adjustment implemented on January of 2013. This 3% cost of living adjustment will be implemented every year through January 2016.

Operating expenses increased $76,266, a 3.6 percent increase from the prior year, due in part to facility repairs and the preparation of the District's urban water management plan.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013, the District's investment in capital assets, net of related debt, was $4,314,977, 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.

Well #15 construction was completed which represented the largest addition to the District's capital assets during 2012-13. Additional information on the District's capital assets can be found in Note C, Capital Assets, of the notes to the basic financial statements.

Debt Administration

The District continues to meet its debt obligations under its 2003 Water Revenue Refunding Bonds. Through scheduled debt service payments during 2012-13, principal on its collective debt was reduced by $95,000 during the year. The District's total debt from its 2003 issuance now stands at approximately $3.12 million.

The District made interest payments to the California Department of Public Health State Revolving Fund Loan for interest accrued on monies received to date at the end of fiscal year 2012-13 in the amount of $27,114. Principal payments will be made once the loan project is completed.

Compensated absences, composed of vacation hours earned by employees that are payable upon termination or retirement, are valued at $25,112 at the end of 2012-13, an increase of $1,014 from the 2011-12 year-end amount of $24,098.

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

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

The District adopted a lean budget for FY 2013-14 with an overall increase of 1 percent compared with the FY 2012-13 Operating Budget. This budget includes:

- Increased regulatory compliance costs such as permitting, NPDES, air quality and water conservation;
- An increase of $187,000 in water sales due to implementation of full rate increase.
- An increase in employee compensation and benefit costs of $128,036 due to the hiring of 3 additional full time staff to perform duties needed for the proper operation of the District.
- A total of $319,000 in funds allocated to rebuilding financial reserves for capital improvement and employment-related benefits.
- Increased fuel and electrical costs

A 2012-13 Operating Budget Summary is included at the conclusion of this Management's Discussion and Analysis to provide an overview of the District's operating budget.

In fiscal year 2012-13 the District opened a separate designated account for capital improvements. The District was able to accumulate $72,034 in this reserve. It is hoped that an additional $319,000 can be put into this account in FY 2013-14. The total capital improvement budget for 2013-14 is $4,587,673 compared with $211,000 in 2012-13. This amount includes $250,000 funded by the Elverta Specific Plan, $4,337,673 funded by the State Revolving Fund and $290,000 of District funded projects. A 2013-14 Capital Improvement Budget Summary is included at the conclusion of this Management's Discussion and Analysis to provide an overview of the District's capital improvement budget.

A significant portion of the District's budget continues to be repayment of long-term debt financing in the form of Water Revenue Bonds issued in 2003. The annual debt service for this issuance was budgeted at $240,263 for 2012-13, representing about 12.4 percent of the District's 2013 Operating Budget.

All lawsuits were settled in fiscal year 2012-13 thus reducing the District's legal costs significantly.

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

The District Engineer is currently updating the District's master plan which will determine future rate increases needed for facilities construction and replacement.

2013-14 OPERATING BUDGET SUMMARY

Expense Category	*2013-14 Adopted Budget*
Wages & Benefits	$ 813,765
Customer Service & Administration	384,452
Debt Service	360,088
Capital Improvement	319,000
Pumping and Well Maintenance	195,500
Transmission and Distribution	43,000
Water Demand Management	117,894
	$ 2,233,699

2013-14 CAPITAL PROJECTS BUDGET SUMMARY

Category	**2013-14 Adopted**
Plant paving-slurry	$ 10,000
Well 9 electric panel upgrade	40,000
Well 10 electric panel upgrade	40,000
Miscellaneous Pump replacements	20,000
Miscellaneous Projects - Miscellaneous CIP	144,000
Well 3 upgrade fencing	6,000
Well 2a construct spoils bins	20,000
Elverta Specific Plan	250,000
Street paving replacements	5,000
System valve replacements	5,000
State Revolving Fund Loan	4,018,673
Contingency	29,000
Total	$4,337,673

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

BALANCE SHEETS

June 30, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and investments	$ 327,336	$ 284,791
Accounts receivable	474,068	378,008
Accrued interest receivable		18
Inventory	41,940	62,366
Prepaid expenses	21,807	28,226
TOTAL CURRENT ASSETS	865,151	753,409
RESTRICTED ASSETS		
Restricted cash and investments	1,328,912	999,879
CAPITAL ASSETS, NET	10,769,109	10,197,335
TOTAL ASSETS	12,963,172	11,950,623
DEFERRED OUTFLOWS		
Deferred bond issuance costs	157,389	165,473
Deferred amount from refunding debt	439,368	478,134
TOTAL DEFERRED OUTFLOWS	596,757	643,607
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 13,559,929	$ 12,594,230
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 148,622	$ 587,770
Accrued salaries and benefits	4,945	17,587
Accrued interest payable	37,935	33,047
Deposits payable	26,702	26,402
Retention payable		29,112
Unearned revenue	600	2,742
Current portion of compensated absences	25,112	24,098
Current portion of long-term liabilities	135,600	95,000
TOTAL CURRENT LIABILITIES	379,516	815,758
LONG-TERM LIABILITIES		
Bonds, loans and settlements payable	6,407,703	5,232,267
TOTAL LONG-TERM LIABILITIES	6,407,703	5,232,267
TOTAL LIABILITIES	6,787,219	6,048,025
NET POSITION		
Invested in capital assets, net of related debt	4,314,977	4,870,068
Restricted for debt service	814,541	329,877
Restricted for capital improvements	469,597	670,002
Restricted for other purposes	44,774	
Unrestricted	1,128,821	676,258
TOTAL NET POSITION	6,772,710	6,546,205
TOTAL LIABILITIES AND NET POSITION	$ 13,559,929	$ 12,594,230

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

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Water sales	$ 2,165,708	$ 1,948,287
Account service charges	102,306	113,820
Other water service fees	17,193	81,951
TOTAL OPERATING REVENUES	2,285,207	2,144,058
OPERATING EXPENSES		
Personnel services	696,810	658,431
Professional services	531,433	613,868
Field operations:		
Transmission and distribution	64,170	31,166
Pumping	209,235	202,394
Transportation	24,595	25,381
Treatment	17,512	19,580
Other	90,707	76,906
Conservation	7,551	925
Administration	255,943	172,595
Depreciation and amortization	286,202	306,646
TOTAL OPERATING EXPENSES	2,184,158	2,107,892
NET INCOME FROM OPERATIONS	101,049	36,166
NON-OPERATING REVENUES (EXPENSES)		
Surcharge	517,201	510,577
Interest income	797	464
Miscellaneous income	2,626	284
Property tax	71,198	60,439
Rental income	77,608	75,406
Interest expense	(181,774)	(210,838)
Loss on abandonment of wells #14, 16 and 17	(360,335)	
Other non-operating expenses	(1,865)	(1,700)
TOTAL NON-OPERATING REVENUES	125,456	434,632
CAPITAL CONTRIBUTIONS		
Contributed assets		85,950
TOTAL CAPITAL CONTRIBUTIONS		85,950
CHANGE IN NET POSITION	226,505	556,748
Net position, beginning of year	6,546,205	5,989,457
NET POSITION AT END OF YEAR	$ 6,772,710	$ 6,546,205

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, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 2,190,822	$ 2,096,755
Cash paid to suppliers for goods and services	(1,555,703)	(1,224,255)
Cash paid to employees for services	(708,267)	(653,035)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(73,148)	219,465
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Miscellaneous income	2,626	284
Property taxes received	71,198	60,439
Rental income received	77,608	75,406
Non-operating expenses paid	(1,865)	(1,700)
Γ CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	149,567	134,429
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Surcharge revenue received	515,826	509,981
Payments on long-term debt	(95,000)	(95,000)
Purchase and construction of property	(1,210,227)	(2,100,247)
Proceeds from the issuance of long-term debt	1,221,865	2,112,267
Interest paid on long-term debt	(138,120)	(163,744)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	294,344	263,257
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	815	464
NET CASH PROVIDED BY INVESTING ACTIVITIES	815	464
NET INCREASE IN CASH AND CASH EQUIVALENTS	371,578	617,615
Cash and cash equivalents at beginning of year	1,284,670	667,055
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,656,248	$ 1,284,670
Cash and cash equivalents consist of the following:		
Unrestricted	$ 327,336	$ 284,791
Restricted	1,328,912	999,879
	$ 1,656,248	$ 1,284,670

(Continued)

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended June 30, 2013 and 2012

	2013	2012
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income from operations	$ 101,049	$ 36,166
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	286,202	306,646
Changes in assets and liabilities:		
Accounts receivable	(94,685)	(47,783)
Inventory	20,426	(16,472)
Prepaid expenses and other assets	6,419	(9,518)
Accounts payable	(439,148)	(65,272)
Accrued salaries and benefits	(12,642)	(3,468)
Deposits payable	300	480
Retention payable	(29,112)	29,112
Unearned revenue	(2,142)	(19,290)
Compensated absences	1,014	8,864
Lawsuit settlement	89,000	
Other post employment benefits liability	171	
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$ (73,148)	$ 219,465
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Receipt of contributed assets		$ 85,950
Abandonment of fixed assets	$ (360,335)	

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

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Assets: Capital assets are recorded at historical cost. Donated assets are valued at estimated fair value on the date received. Self-constructed assets are recorded based on the amount of direct labor, material, and certain overhead charged to the asset construction. Depreciation is calculated using the straight-line method over estimated useful lives of 8 to 60 years for transmission and distribution and 3 to 50 years for general plant assets. Depreciation expense in the amount of $278,118 and $298,562 was recorded for the years ended June 30, 2013 and 2012, respectively, and is included with depreciation and amortization expense.

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

Interest costs incurred during the year and capitalized on construction projects was $76,948 in 2013.

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

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

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

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

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

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

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

Reclassifications: Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation. These reclassifications had no effect on previously reported changes in net position or in the net position.

New Pronouncements: Effective January 1, 2012, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement provides financial reporting guidance for deferred outflows and inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as consumptions of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. This Statement amends the net assets reporting requirements of Statement No. 34 and other pronouncements by incorporating deferred inflows and outflows into the definitions of the required components of residual measure and be renaming that measure as net position, rather than net assets. As a result of the implementation of this GASB Statement, $439,368 of deferred amount from refunding debt has been reclassified from a component of long-term liabilities to a separate line item of deferred outflow.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. Previous to GASB 65, bond issuance costs were classified as an asset and amortized over the life of the related debt issuance. Under GASB 65, bond issuance costs will be classified as a current-period outflow of resources and expensed. The implementation of this GASB Statement is effective for the District's June 30, 2014 financial statements and will result in the write-off of bond issuance costs totaling $157,389.

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

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

NOTE B – CASH AND INVESTMENTS

Cash and investments as June 30, 2013 and 2012 are classified in the accompanying financial statements as follows:

	2013	2012
Cash and cash equivalents	$ 327,336	$ 284,791
Restricted cash and investments	1,328,912	999,879
Total cash and investments	$ 1,656,248	$ 1,284,670

Cash and investments as of June 30, 2013 and 2012 consisted of the following:

		2013	2012
Cash on hand			$ 200
Deposits with financial institutions		$ 1,308,135	939,130
	Total cash	1,308,135	939,330
Investments in Local Agency Investment Fund (LAIF)		15,571	15,463
Held by bond trustee:			
Money market mutual fund		122,309	120,651
LAIF		210,233	209,226
	Total investments	348,113	345,340
	Total cash and investments	$ 1,656,248	$ 1,284,670

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

NOTE B – CASH AND INVESTMENTS (Continued)

This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy. During the year ended June 30, 2013, the District's permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Local Agency Bonds	None	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	75%	None
State of California obligations	None	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	180 days	20%	10%
Negotiable Certificates of Deposits	180 days	20%	None
Repurchase Agreements	92 days	20%	None
Medium Term Corporate Notes	5 years	25%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage pass-through securities	5 years	20%	None
LAIF	N/A	$50m	None
Bank Savings Account	N/A	25%	None

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

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

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

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. All of the District's investments mature within 12 months.

NOTE B – CASH AND INVESTMENTS (Continued)

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
LAIF	N/A	$ 15,771		$ 15,771
Held by bond trustee:				
Money market mutual fund	N/A	122,309	$ 122,309	
LAIF	N/A	210,233		210,233
		$ 348,313	$ 122,309	$ 226,004

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.

At June 30, 2013, the carrying amount of the District's deposits were $1,308,135 and the balances in financial institutions were $1,363,605. Of the balance in financial institutions, $250,000 was covered and $1,113,605 was not covered by federal depository insurance. As of June 30, 2013, 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	$ 122,309
LAIF	210,233

NOTE B – CASH AND INVESTMENTS (Continued)

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 $8,852,094,221 managed by the State Treasurer. Of that amount, 1.96% 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, 2013 and 2012 are as follows:

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

NOTE C – CAPITAL ASSETS (Continued)

	Balance July 1, 2011	Additions	Disposals	Adjustment	Balance June 30, 2012
Capital assets not being depreciated:					
Land	$ 410,723	$ 85,950			$ 496,673
Construction in progress	1,019,082	2,071,704			3,090,786
Total capital assets, not being depreciated	1,429,805	2,157,654			3,587,459
Capital assets being depreciated:					
Transmission and distribution	11,285,184	17,863			11,303,047
General plant assets	792,013				792,013
Intangible assets	363,185	10,680			373,865
Total capital assets, being depreciated	12,440,382	28,543			12,468,925
Less accumulated depreciation for:					
Transmission and distribution	(4,659,020)	(267,710)			(4,926,730)
General plant assets	(723,038)	(20,596)			(743,634)
Intangible assets	(178,429)	(10,256)			(188,685)
Total accumulated depreciation	(5,560,487)	(298,562)			(5,859,049)
Total capital assets, being depreciated, net	6,879,895	(270,019)			6,609,876
Capital assets, net	$8,309,700	$ 1,887,635	$ -	$ -	$ 10,197,335

NOTE D – LONG-TERM LIABILITIES

<u>2003 Water Revenue Refunding Bonds</u>: On January 22, 2003, the District issued $3,970,000 of Water Revenue Refunding Bonds with interest ranging from 3.50% to 4.75%. These 2003 Bonds were issued to refund debt used to finance certain capital improvements to the District's water system. Annual principal payments, ranging from $100,000 to $235,000 are due on November 1 through November 1, 2032 and semi-annual interest payments, ranging from $5,581 to $70,950 are due on May 1 and November 1 through November 1, 2032.

<u>Safe Drinking Water State Revolving Fund Loan</u>: On June 30, 2011, the District finalized the Safe Drinking Water Loan funding agreement in the amount of $7,499,045 at an interest rate of 2.5707% to be paid over 20 years. The loan proceeds will assist the District in complying with the State safe drinking water standards. Principal payments are not due until completion of the construction projects required to meet the drinking water standards. Interest accrues and is payable semi-annually on January 1, and July 1 on the outstanding loan balance. As of June 30, 2013, the District's loan balance was $3,334,132.

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

NOTE D – LONG-TERM LIABILITIES (Continued)

The activity of the District's long-term liabilities during the years ended June 30, 2013 and 2012 was as follows:

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

	Balance July 1, 2011	Additions	(Reductions)	Balance June 30, 2012	Due Within One Year
State Safe Drinking Water Loan		$ 2,112,267		$ 2,112,267	
2003 Water Revenue Bonds	$ 3,310,000		$ (95,000)	3,215,000	$ 95,000
	3,310,000	2,112,267	(95,000)	5,327,267	95,000
Compensated absences	15,234	8,864		24,098	24,098
	$ 3,325,234	$ 2,121,131	$ (95,000)	$ 5,351,365	$ 119,098

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, 2013 and 2012, net of accumulated amortization of $415,530 and $376,764, respectively. This deferred amount on refunding, reported in the accompanying financial statements as a deferred outflow, is being charged to operations over the remaining life of the 2003 Water Revenue Bonds.

NOTE D – LONG-TERM LIABILITIES (Continued)

The annual requirements to amortize the outstanding debt as of June 30, 2013 are as follows:

	2003 Water Revenue Refunding Bonds		
For the Year Ended June	Principal	Interest	Total
2014	$ 100,000	$ 140,088	$ 240,088
2015	105,000	136,175	241,175
2016	110,000	131,875	241,875
2017	110,000	127,475	237,475
2018	115,000	122,903	237,903
2019-2023	665,000	533,234	1,198,234
2024-2028	840,000	359,100	1,199,100
2029-2033	1,075,000	132,406	1,207,406
	$ 3,120,000	$ 1,683,256	$ 4,803,256

Pledged Revenue: The District pledged future water system revenues, net of specified expenses, to repay the 2003 Water Revenue Refunding Bonds in the original amount of $3,970,000. Proceeds of the refunded bonds funded the acquisition and construction of certain facilities, as indicated above. The Bonds are payable solely from water customer net revenues and are payable through November, 2032. Annual principal and interest payments on the Bonds are expected to require less than 80% of net revenues. Total principal and interest remaining to be paid on the Bonds was $4,803,256 and $5,041,817 at June 30, 2013 and 2012, respectively.

Total principal and interest paid on all debt payable from net revenues was $238,563 and $241,769 and the total water system net revenues were $539,480 and $479,405 for the years ended June 30, 2013 and 2012, respectively. At June 30, 2013 and 2012, the District's net revenues were 221% and 198% of debt service payments, respectively.

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

Total interest paid on the loan from surcharge fees was $27,114 and the total surcharge fee revenues were $517,201 for the year ended June 30, 2013. 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, 2013 and 2012.

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, 2013 and 2012.

NOTE F – NET POSITION

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

	2013	2012
Debt service reserve on 2003 Water Revenue Refunding Bonds	$ 332,542	$ 329,877
Restricted for State Loan repayment and loan-related projects	951,596	670,002
Restricted for other purposes	44,774	
Total restricted net position	$ 1,328,912	$ 999,879

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

NOTE G – DEFINED BENEFIT PENSION PLAN

Plan description: The District contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. The District participates in the miscellaneous 2% at 55 risk pool. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS require agencies with less than 100 active members in the plan to participate in the risk pool. All full and part-time District employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times the monthly average salary of their highest twelve consecutive months full-time equivalent monthly pay. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through District resolution. PERS issues a separate

NOTE G – DEFINED BENEFIT PENSION PLAN (Continued)

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 $13,248 for the year ended June 30, 2013 and $7,807 for the year ended June 30, 2012. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for fiscal year 2012/2013, 2011/2012 and 2011/2010 was 16.273%, 14.841%, and 12.813%, 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, 2013, 2012 and 2011 were $56,782, $46,357, and $40,146, respectively, which were equal to the required contributions each year.

NOTE H - OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY

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

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

Tier 1: Hired prior to January 1, 2003: Eligible for District-paid retiree health benefits after the later of age 50 and 5 years of service. Coverage will be for retiree and one eligible dependent, up to $466/month for retiree and $675/month for retiree plus one coverage.

Tier 2: Hired on or after January 1, 2003 but prior to May 1, 2004: The District contributes a percentage of the premium for retiree and one eligible dependent, up to a maximum of $466/month for retiree and $675/month for retiree plus one coverage, based on years of service at retirement, as follows:

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

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

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

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

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

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

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

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

	2013
Annual Required Contributions	$ 25,492
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contributions	-
Annual OPEB cost (expense)	25,492
Contributions made	(25,321)
Increase in Net OPEB Obligation	171
Net OPEB Obligation – beginning of year	
Net OPEB Obligation – end of year	$ 171

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

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	$25,492	$25,321	99.30%	$171

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

Funded Status and Funding Progress: The funded status of the plan as of the June 30, 2013, the end of the first year of GASB 45 implementation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Projected Unit Credit Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2012	$0	$233,310	$233,310	0.00%	$284,775	81.9%

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

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

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

NOTE I – COMMITMENTS AND CONTINGENCIES

The District 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.

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

NOTE I – COMMITMENTS AND CONTINGENCIES (Continued)

and implement interim measures towards the complete resolution of the water source capacity and low-pressure problems. On October 13, 2008, the District requested and received an extension to March 31, 2009 from the Department of Public Health to become fully compliant with Compliance Order No. 01-09-07-CO-004. On June 30, 2011, the District was awarded a $7,499,045 State Safe Drinking Water loan to finance the drilling of new wells to meet the requirements stipulated in the Department of Public Health Compliance Orders. Well #15 was completed in mid 2013 and is producing sufficient water to stabilize the District's water flow and pressure. The remaining requirement, the design and construction of a water tank to meet emergency water quantity requirements, is in process and is expected to be completed in late fiscal year 2013/14.

NOTE J – INSURANCE

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) a public entity risk pool of California water agencies, for general and auto liability, public officials liability, property damage and fidelity insurance. The District did not have employment practices liability coverage as of June 30, 2013 or 2012, but this coverage will be reinstated as of October 1, 2013. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which the group purchases commercial excess insurance.

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

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

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

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October 18, 2013

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, 2013, and have issued our report thereon dated October 18, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

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

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

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

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

Planned Scope and Timing of the Audit

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

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

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note A to the financial statements. During 2013, the District implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which resulted in a change in terminology in the District's financial statements. The results of implementation is to report as deferred outflows or inflows the amounts deferred from refunding of debt and to change net assets to net position. No new accounting policies were adopted and the application of existing policies was not changed during the year.

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

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: depreciable lives and method used to depreciate capital assets, the calculation of the value of Well 15 land and the collectability of receivables. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

- Reclassify revenue and receivable related to State loan
- Correct balance for unbilled receivables
- Record other postemployment benefits liability
- Correct interest accrual on State loan
- Write off abandoned wells
- Capitalize interest on well construction
- Accrue accounts payable for June 2013 utilities

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 October 18, 2013.

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

October 18, 2013

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
SUMMARY OF UNADJUSTED DIFFERENCES
YEAR ENDED JUNE 30, 2013

Description (Nature) of Audit Difference	Financial Statement Effect - Amount of Overstatement (Understatement) of :						
	Total Assets and Deferred Outflows	Total Liabilities	Net Position	Net Operating Income	Non-Operating Revenue/Exp	Capital Contributions	Change in Net Position
To write off stale receivables over 120 days past due that do not have liens placed against them.	$ 5,888		$ 5,888	$ 5,888			$ 5,888
Net Unadjusted Audit Differences - This Year	5,888	-	5,888	5,888	-		5,888
Financial Statement Caption Totals	$ 13,559,929	$ 6,787,219	$ 6,772,710	$ 101,049	$ 125,456	$ -	$ 226,505
Net Audit Differences as % of Financial Statement Captions	0.04%	0.00%	0.09%	5.83%	0.00%	0.00%	2.60%

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

COMPLIANCE REPORTS

June 30, 2013

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

COMPLIANCE REPORTS

June 30, 2013

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Richardson & Company

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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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 18, 2013.

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.

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. However, as described in the accompanying schedule of prior year findings, we identified certain deficiencies in internal control 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. 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. We consider the uncorrected deficiencies described in the accompanying schedule of prior year findings to be material weaknesses.

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 provision 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*.

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.

Richardson & Company

October 18, 2013

Richardson & Company

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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, 2013. 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, 2013.

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

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

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.

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 18, 2013 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

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

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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Richardson & Company

October 18, 2013

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

1. Type of auditor's report issued:	Unqualified
2. Internal controls over financial reporting:	
a. Material weaknesses identified?	Yes
b. Significant deficiencies identified not considered to be considered to be material weaknesses?	No
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 considered to be material weaknesses?	No
2. Type of auditor's report issued on compliance for major programs:	Unqualified
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:	
CFDA Number	Name of Federal Program
66.468	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, Section 530?	No

FINDINGS – FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

Finding 2011-3: Internal Control and Management Review

Condition: Management review and oversight is an important internal control. During fiscal year 2010/11, the District had three general managers, with most of the fiscal year the District's legal counsel was functioning as the interim general manager. We noted several areas where review by management was not performed, or at least not documented during fiscal year 2010/11:

a. Management was not reviewing or approving journal entries prepared and entered into the general ledger by the bookkeeper.

   Status: The District corrected this finding during fiscal year 12/13 and the General Manager is reviewing journal entries.

b. There is no indication of review of the payroll registers by the General Manager.

   Status: The District corrected this finding during 2012/2013.

Finding 2010-1: Other Post-Employment Benefits Accrual

Condition: 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.

Status: The District obtained an actuarial study during fiscal year 2012/13 and recorded an OPEB liability as of June 30, 2013.

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: Finding related to evaluating the need for an allowance for doubtful accounts has not yet been corrected as of June 30, 2013. At June 30, 2013, receivables over 120 days past due that need to be investigated totaled $9,257. In addition, the billing system showed credit balances totaling $1,842 in the surcharge receivables, which would indicate overpayments were made, that needs to be investigated. The finding related to unreconciled differences in the water accounts receivable and deposits payable was corrected as of June 30, 2013.

b. Finding corrected during fiscal year 2010/11.

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.

   Status: Procedures for fiscal year 2012/13 have improved but amortization schedules still need to be established.

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.

   Status: The District has developed procedures and documentation for adjusting restricted 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 need to be established.

   Status: While the land for Well #14 was recorded during the fiscal year 2010/11 audit, we noted the District had also received donated land for Well #15 that had not been recorded in the general ledger. We recommend a procedure for identifying and quantifying donated assets be established to ensure proper amounts are recorded in the general ledger.

f. Finding corrected during fiscal year 2010/11.

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.

   Status: The District corrected this finding during fiscal year 2012/13 and no adjustments were needed at year end.

h. Finding corrected during fiscal year 2011/12.

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.

   Status: The District addressed all these findings during fiscal year 2012/13.

We recommend that the District develop an accounting procedures manual to ensure continuity in processes when staff turnover occurs. We also recommend the District develop a closing procedures checklist to ensure all the appropriate closing and accrual entries are identified and recorded at year-end and prior to the start of the audit. In addition, procedures should be in place to perform and prepare the required reconciliations at year-end and throughout the year to enable the posting of entries needed to close the books prior to the start of the audit.

Overall Status: Items c, d, g, h and i were addressed during fiscal year 2012/13. The remaining items, a and e, still need to be addressed.

Finding 2010-3: Internal Controls and Separation of Duties

Condition: 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.

   Status: The District implemented all recommendations during fiscal year 2012/13.

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.

   Status: This recommendation was implemented during fiscal year 2012/13. The checks are returned to the billing clerk for mailing.

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.

Status: Finding was corrected during fiscal year 2012/13. The General Manger now reviews and approves billing adjustments.

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 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.

   Status: Finding was corrected in fiscal year 2012/13.

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.

   Status: This finding was implemented during fiscal year 2012/13.

f. Finding was corrected during fiscal year 2011/12.

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.

Status: The District addressed item f in fiscal year 2011/12 and all remaining were addressed during fiscal year 2012/13.

Finding 2010-6: Capital Asset Accounting

Condition: 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 need to be performed to ensure that recorded assets still exist. Reconciliations of the capital asset list to the general ledger need 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.

Status: The District did not correct these findings during fiscal year 2012/13. We noted the District still does not have a separate asset listing for its land or its intangible assets. The District has now removed items from their listings that have been disposed or are no longer in use.

Finding 2010-7: Surcharge Cash Account

Condition: 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.

Status: The District believes it is not practical to deposit daily receipts into the surcharge account, and starting in fiscal year 2011/12, the District implemented a process whereby monthly, the billing system amounts are reconciled with the general ledger and the surcharge receipts for the month are transferred into the surcharge account from the District's operating account. In our prior audits, we noted that revenues had not been recorded in the surcharge account and expenditures were paid out of the surcharge account that do not appear to be qualifying expenditures. As a result, it appears the operating account owed the surcharge account approximately $172,244 as of June 30, 2012. We noted the District performed a reconciliation between the surcharge revenue and surcharge cash accounts to ensure the proper amounts of surcharge revenues are being posted to the restricted surcharge cash account for fiscal year 2012/13 and has a plan to repay the shortfall owed to the surcharge account over 5 years. At June 30, 2013 we noted the shortfall has been reduced to $132,985.

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 District implemented these recommendations as of June 30, 2013.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED JUNE 30, 2013

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 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: This finding remains open as of June 30, 2013. The District still needs to develop an accounting policies and procedures manual to ensure continuity in accounting functions. Included in this policies and procedures manual and to be developed first, should be a month, quarter, and year-end closing checklist to include all the accruals and closing entries required to quickly and accurately close the accounting records for each of the time periods.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Expenditures
MAJOR FEDERAL AWARDS:		
State of California		
Safe Drinking Water State Revolving Funds	66.468	$ 1,221,915
TOTAL MAJOR FEDERAL AWARDS		$ 1,221,915

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

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.