

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2012

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Rio Linda/Elverta Community Water District (the District) as of June 30, 2012 and 2011 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraphs, we conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In addition, while the District did perform an inventory at June 30, 2012, they had not performed a physical inventory at June 30, 2011. We were unable to satisfy ourselves about the inventory quantities as of June 30, 2011 by means of other audit procedures, which affects the amount of expense reported during the year ended June 30, 2012.

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

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

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

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

Richardson & Company

September 19, 2012

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2012

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, 2012 (FY 2011-12).

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
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Financial Highlights

The following items are, in the opinion of District management, among the most significant in assessing the District's overall financial activities during FY 2011-12 and its financial position at the close of FY 2011-12:

- ❖ The District's assets exceeded its liabilities at the end of FY 2011-12 by \$6,546,205. About 84 percent of the District's net assets, \$5,348,202, 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 \$198,124 up from \$86,424 at the end of FY 2010-11. This increase is due primarily to revenue generated from a water rate increase combined with constrained operating and capital improvement spending in 2011-12. 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 2011-12 were \$2,144,058. About 77 percent of all revenues, \$2,791,228, came from water sales to customers. The District adopted a rate increase effective March 20, 2011 that resulted in an increase of 28 percent in the bi-monthly water bill for a typical District customer.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2012

- ❖ The District's total net long-term liabilities at the end of FY 2011-12, including the 2003 bonds payable, and State Revolving Fund Loan is \$4,754,133. This is a increase of \$2,056,033, in net long-term liabilities at the end of FY 2010-11, 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 Assets. All assets and liabilities associated with the operation of the District are included in the Statement of Net Assets.

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

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2012

Statement of Net Assets

As of June 30, 2012, the total net assets of the District were \$6,546,205. The following table summarizes assets, liabilities and net assets at June 30, 2012 and 2011:

	2012	2011
Current assets, unrestricted	\$753,409	\$ 674,871
Restricted cash and cash equivalents	999,879	386,433
Capital assets, net	10,197,335	8,309,700
Other assets	165,473	173,557
Total Assets	<u>12,116,096</u>	<u>9,544,561</u>
Current liabilities	815,758	857,004
Long-term liabilities	4,754,133	2,698,100
Total Liabilities	<u>5,569,891</u>	<u>3,555,104</u>
Net Assets		
Invested in capital assets, net of related debt	5,348,202	5,516,600
Restricted debt service	329,877	243,329
Restricted for capital improvements	670,002	143,104
Unrestricted	198,124	86,424
Total Net Assets	<u>\$ 6,546,205</u>	<u>\$5,989, 457</u>

The District's net assets reflect 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. The remaining net assets are unrestricted.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2012

Changes in Net Assets

The following table summarizes the changes in net assets for the fiscal year ended June 30, 2012 and 2011:

	2012	2011
Operating revenues	\$ 2,144,058	\$ 1,696,638
Operating expenses:		
Personnel Services	658,431	698,360
Professional Services	613,868	478,968
Transmission and distribution	31,166	53,781
Pumping and well maintenance	202,394	190,191
Transportation	25,381	16,450
Treatment	19,580	20,198
Conservation	925	1,896
Other	76,960	168,342
Depreciation and Amortization	306,646	321,697
Administration	172,595	217,313
Total operating expenses	2,107,892	2,167,196
Net Income (Loss) from Operations	36,166	(470,558)
Operating income	2,144,058	1,696,638
Net nonoperating revenues (expenses)	434,632	511,836
Net income before capital contributions	2,578,690	2,208,474
Capital contributions:		
Contributed (donated) assets	85,950	
Total capital contributions	85,950	
Change in net assets	556,748	41,278
Net assets, beginning of year	5,989,457	5,948,179
Net assets, end of year	\$ 6,546,205	\$ 5,989,457

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2012

Total net assets increased \$556,748, or 9.3 percent from the prior year. Operating revenue that exceeded operating expenses by \$36,166 accounts for most of the increase in net assets, and most of these funds were expended for the payment of prior year expenses.

The significant increase in operating revenues from 2010 to 2011 was due primarily to the rate increase implemented late in FY 2010-11. Total operating revenues increased \$447,420 or 26.4 percent from the prior year. The District levied a water rate increase of 26.4 percent for the typical residential customer as of May 20, 2011, Per Ordinance 2011-01 there was also a 3% cost of living adjustment implemented on January of 2012. This 3% cost of living adjustment will be implemented every year through January 2016.

Operating expenses decreased \$59,304, a 2.7 percent decrease from the prior year, due in part to continued cost-cutting measures in District operations, customer service and administration. This decrease, combined with increased operating revenues, is an important part of the District's strategy to rebuild its financial reserves.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2012, the District's investment in capital assets, net of related debt, was \$5,348,202, 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.

Installation of almost a mile of 12" and 16" pipeline along Q Street between 24th and 30th at a cost of \$1,015,220 and the beginning of our Well #15 construction, represented the largest addition to the District's capital assets during 2011-12. 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 2011-12, 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 \$3.215 million.

The District also made its first interest payment to the California Department of Public Health State Revolving Fund Loan for interest accrued through April 2012 on monies received to date at the end of fiscal year 2011-12 in the amount of \$16,243.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2012

Compensated absences, composed of leave hours earned by employees that are payable upon termination or retirement, are valued at \$24,098 at the end of 2011-12, an increase of \$8,864 from the 2010-11 year-end amount of \$15,234.

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 2012-13 with an overall increase of 0.1 percent compared with the FY 2011-12 Operating Budget. This budget includes:

- ❖ Increased regulatory compliance costs such as permitting, NPDES, air quality and water conservation;
- ❖ A slight reduction of \$32,450 in water sales due to increased amount of unoccupied homes.
- ❖ Decreases in employee compensation and benefit costs from lack of funds budgeted for merit increases, representing a total aggregate compensation decrease of 0.006% below 2011-12 salaries;
- ❖ A total of \$90,000 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 2011-12 the District opened a separate designated account for capital improvements. The District was able to accumulate \$182,320 in this reserve. It is hoped that an additional \$90,000 can be put into this account in FY 2012-13. The total capital improvement budget for 2012-13 is about \$211,200 compared with \$218,000 in 2011-12. This amount includes about \$72,200 in carry-over projects from 2011-12, and \$139,000 in new projects for 2012. A 2012-13 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 defense of the District in a variety of lawsuits and repayment of long-term debt financing in the form of Water Revenue Bonds issued in 2003. The annual debt service for this issuance is budgeted at \$240,263 for 2012-13, representing about 12.4 percent of the District's 2012 Operating Budget.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2012

The District's Board of Directors did not seek to implement the full rate increase approved in Ordinance 2011-1. It has been recommended by staff that the Board implement the full rate increase to cover our escalating legal fees and debt service.

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.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis
June 30, 2012

2012-13 OPERATING BUDGET SUMMARY

<i>Expense Category</i>	<i>2012-13 Adopted Budget</i>	<i>% Change 2012-13 vs. 2011-12</i>
Wages & Benefits	\$ 691,321	-0.01%
Customer Service & Administration	552,789	-3.2%
Debt Service	240,263	0%
Capital Improvement	90,000	-62.6%
Pumping and Well Maintenance	185,500	10.8%
Transmission and Distribution	57,000	0%
Water Demand Management	114,450	15.8%
	\$ 1,931,323	-8.26%

2012-13 CAPITAL PROJECTS BUDGET SUMMARY

Category	2012-13 Adopted
Plant paving-slurry	\$ 10,000
Chlorine feed system upgrades	10,000
Well 15 Offsite drainage improvements	4,000
Miscellaneous Pump replacements	15,000
Miscellaneous Projects - Miscellaneous CIP	55,000
Well 3 gate valves	6,200
Urban Water Management Plan	40,000
Elverta Booster Station (Well 5) alternative design	26,000
Street paving replacements	25,000
System valve replacements	20,000
	<u>\$ 211,200</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

BALANCE SHEETS

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and investments	\$ 284,791	\$ 280,622
Accounts receivable	378,008	329,629
Accrued interest receivable	18	18
Inventory	62,366	45,894
Prepaid expenses	28,226	18,708
TOTAL CURRENT ASSETS	<u>753,409</u>	<u>674,871</u>
RESTRICTED ASSETS		
Restricted cash and investments	999,879	386,433
CAPITAL ASSETS, NET	10,197,335	8,309,700
OTHER NONCURRENT ASSETS		
Deferred bond issuance costs	165,473	173,557
TOTAL ASSETS	<u>\$ 12,116,096</u>	<u>\$ 9,544,561</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 587,770	\$ 653,042
Accrued salaries and benefits	17,587	21,055
Accrued interest payable	33,047	24,719
Deposits payable	26,402	25,922
Retention payable	29,112	
Deferred revenue	2,742	22,032
Current portion of compensated absences	24,098	15,234
Current portion of bonds payable	95,000	95,000
TOTAL CURRENT LIABILITIES	<u>815,758</u>	<u>857,004</u>
LONG-TERM LIABILITIES		
Bonds payable	4,754,133	2,698,100
TOTAL LONG-TERM LIABILITIES	<u>4,754,133</u>	<u>2,698,100</u>
TOTAL LIABILITIES	5,569,891	3,555,104
NET ASSETS		
Invested in capital assets, net of related debt	5,348,202	5,516,600
Restricted for debt service	329,877	243,329
Restricted for capital improvements	670,002	143,104
Unrestricted	198,124	86,424
TOTAL NET ASSETS	<u>6,546,205</u>	<u>5,989,457</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,116,096</u>	<u>\$ 9,544,561</u>

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

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Water sales	\$ 1,948,287	\$ 1,546,497
Account service charges	113,820	136,453
Other water service fees	81,951	2,955
Other		10,733
TOTAL OPERATING REVENUES	2,144,058	1,696,638
OPERATING EXPENSES		
Personnel services	658,431	698,360
Professional services	613,868	478,968
Field operations:		
Transmission and distribution	31,166	53,781
Pumping	202,394	190,191
Transportation	25,381	16,450
Treatment	19,580	20,198
Other	76,906	168,342
Conservation	925	1,896
Administration	172,595	217,313
Depreciation and amortization	306,646	321,697
TOTAL OPERATING EXPENSES	2,107,892	2,167,196
NET INCOME (LOSS) FROM OPERATIONS	36,166	(470,558)
NON-OPERATING (EXPENSES) REVENUES		
Surcharge	510,577	462,681
Interest income	464	575
Miscellaneous income	284	3,319
Property tax	60,439	63,296
Rental income	75,406	69,464
Lawsuit settlement		102,057
Interest expense	(210,838)	(186,898)
Other non-operating expenses	(1,700)	(2,658)
TOTAL NON-OPERATING REVENUES (EXPENSES)	434,632	511,836
CAPITAL CONTRIBUTIONS		
Contributed assets	85,950	
TOTAL CAPITAL CONTRIBUTIONS	85,950	
CHANGE IN NET ASSETS	556,748	41,278
Net assets, beginning of year	5,989,457	5,948,179
NET ASSETS AT END OF YEAR	\$ 6,546,205	\$ 5,989,457

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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 2,096,755	\$ 1,663,958
Cash paid to suppliers for goods and services	(1,224,255)	(679,227)
Cash paid to employees for services	(653,035)	(718,606)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>219,465</u>	<u>266,125</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Miscellaneous income	284	3,319
Property taxes received	60,439	63,296
Rental income received	75,406	69,464
Non-operating expense paid	(1,700)	(2,658)
Settlements received		102,057
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>134,429</u>	<u>235,478</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Surcharge received	509,981	448,737
Payments on long-term debt	(95,000)	(90,000)
Purchase and construction of property	(2,100,247)	(399,553)
Proceeds from the issuance of long-term debt	2,112,267	
Interest paid on long-term debt	(163,744)	(148,582)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>263,257</u>	<u>(189,398)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	464	866
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>464</u>	<u>866</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	617,615	313,071
Cash and cash equivalents at beginning of year	<u>667,055</u>	<u>353,984</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,284,670</u>	<u>\$ 667,055</u>
Cash and cash equivalents consist of the following:		
Unrestricted	\$ 284,791	\$ 280,622
Restricted	999,879	386,433
	<u>\$ 1,284,670</u>	<u>\$ 667,055</u>

(Continued)

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF NET INCOME FROM OPERATIONS TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income from operations	\$ 36,166	\$ (470,558)
Adjustments to reconcile net income from operations to		
net cash provided by operating activities:		
Depreciation and amortization	306,646	321,697
Changes in assets and liabilities:		
Accounts receivable	(47,783)	(28,113)
Inventory	(16,472)	
Prepaid expenses and other assets	(9,518)	9,000
Accounts payable	(65,272)	458,912
Accrued salaries and benefits	(3,468)	(15,298)
Deposits payable	480	(4,567)
Retention payable	29,112	
Unearned revenue	(19,290)	
Compensated absences	8,864	(4,948)
	<u>219,465</u>	<u>266,125</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 219,465	\$ 266,125
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Receipt of contributed assets	\$ 85,950	

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

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012 and 2011

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

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

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

Capital Assets: Capital assets are recorded at historical cost. Donated assets are valued at estimated fair value on the date received. Self-constructed assets are recorded based on the amount of direct labor, material, and certain overhead charged to the asset construction. Depreciation is calculated using the straight-line method over estimated useful lives of 8 to 60 years for transmission and distribution and 3 to 50 years for general plant assets. Depreciation expense in the amount of \$298,562 and \$313,613 was recorded for the years ended June 30, 2012 and 2011, respectively, and is included with depreciation and amortization expense.

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

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

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

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

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

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

Compensated Absences: The District has a policy whereby employees can accrue up to a maximum of 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.

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

June 30, 2012 and 2011

NOTE B – CASH AND INVESTMENTS

Cash and investments as June 30, 2012 and 2011 are classified in the accompanying financial statements as follows:

	2012	2011
Cash and cash equivalents	\$ 284,791	\$ 280,622
Restricted cash and investments	999,879	386,433
Total cash and investments	\$ 1,284,670	\$ 667,055

Cash and investments as of June 30, 2012 and 2011 consisted of the following:

	2012	2011
Cash on hand	\$ 200	\$ 200
Deposits with financial institutions	939,130	408,126
Total cash	939,330	408,326
Investments in Local Agency Investment Fund (LAIF)	15,463	15,400
Held by bond trustee:		
Money market mutual fund	120,651	34,608
LAIF	209,226	208,721
Total investments	345,340	258,729
Total cash and investments	\$ 1,284,670	\$ 667,055

Investment policy: California statutes authorize districts to invest idle, surplus or reserve funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized by the District's investment policy and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. The District's investment policy is more restrictive than the California Government Code, as it limits the length of maturity and/or the maximum percentage at the portfolio of several investment types. 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, 2012, the District's permissible investments included the following instruments:

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

June 30, 2012 and 2011

NOTE B – CASH AND INVESTMENTS (Continued)

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.

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	\$ 15,463		\$ 15,463
Held by bond trustee:				
Money market mutual fund	N/A	120,651	\$ 120,651	
LAIF	N/A	209,226		209,226
		<u>\$ 345,340</u>	<u>\$ 120,651</u>	<u>\$ 224,689</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012 and 2011

NOTE B – CASH AND INVESTMENTS (Continued)

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The 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, 2012, the carrying amount of the District’s deposits were \$939,130 and the balances in financial institutions were \$1,010,811. Of the balance in financial institutions, \$892,395 was covered and \$118,416 was not covered by federal depository insurance. As of June 30, 2012, District investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the District to buy the securities:

<u>Reported Investment Type</u>	<u>Amount</u>
Money market mutual funds	\$ 120,651
LAIF	209,226

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 \$60,588,263,603 managed by the State Treasurer. Of that amount, 3.47% 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.

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

June 30, 2012 and 2011

NOTE C – CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2012 and 2011 are as follows:

	Balance July 1, 2011	Additions	Disposals	Adjustments	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	<u>1,429,805</u>	<u>2,157,654</u>			<u>3,587,459</u>
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	<u>12,440,382</u>	<u>28,543</u>			<u>12,468,925</u>
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	<u>(5,560,487)</u>	<u>(298,562)</u>			<u>(5,859,049)</u>
Total capital assets, being depreciated, net	<u>6,879,895</u>	<u>(270,019)</u>			<u>6,609,876</u>
Capital assets, net	<u>\$ 8,309,700</u>	<u>\$ 1,887,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,197,335</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012 and 2011

NOTE C – CAPITAL ASSETS (Continued)

	Balance July 1, 2010	Additions	Disposals	Adjustment	Balance June 30, 2011
Capital assets not being depreciated:					
Land	\$ 410,723				\$ 410,723
Construction in progress	631,313	\$ 387,769			1,019,082
Total capital assets, not being depreciated	1,042,036	387,769			1,429,805
Capital assets being depreciated:					
Transmission and distribution	11,273,400	11,784			11,285,184
General plant assets	792,013				792,013
Intangible assets	363,185				363,185
Total capital assets, being depreciated	12,428,598	11,784			12,440,382
Less accumulated depreciation for:					
Transmission and distribution	(4,387,197)	(271,823)			(4,659,020)
General plant assets	(693,772)	(29,266)			(723,038)
Intangible assets	(165,905)	(12,524)			(178,429)
Total accumulated depreciation	(5,246,874)	(313,613)			(5,560,487)
Total capital assets, being depreciated, net	7,181,724	(301,829)			6,879,895
Capital assets, net	<u>\$ 8,223,760</u>	<u>\$ 85,940</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,309,700</u>

NOTE D – LONG-TERM LIABILITIES

2003 Water Revenue Refunding Bonds: On January 22, 2003, the District issued \$3,970,000 of Water Revenue Refunding Bonds with interest ranging from 3.50% to 4.75%. These 2003 Bonds were issued to finance certain capital improvements to the District's water system. Annual principal payments, ranging from \$95,000 to \$235,000 are due on November 1 through November 1, 2032 and semi-annual interest payments, ranging from \$5,581 to \$72,613 are due on May 1 and November 1 through November 1, 2032.

Safe Drinking Water State Revolving Fund Loan: On June 30, 2011, the District finalized the Safe Drinking Water Loan funding agreement in the amount of \$7,499,045 at an interest rate of 2.5707% to be paid over 20 years. The loan proceeds will assist the District in complying with the State safe drinking water standards. Principal payments are not due until completion of the construction projects required to meet the drinking water standards. Interest accrues and is payable semi-annually on January 1, and July 1 on the outstanding loan balance. As of June 30, 2012, the District's loan balance was \$2,112,267.

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

June 30, 2012 and 2011

NOTE D – LONG-TERM LIABILITIES (Continued)

The activity of the District's long-term liabilities during the years ended June 30, 2012 and 2011 was as follows:

	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 Refunding Bonds	\$ 3,310,000		\$ (95,000)	3,215,000	\$ 95,000
Less: Deferred amount on refunding	(516,900)		38,766	(478,134)	
	<u>2,793,100</u>	<u>2,112,267</u>	<u>(56,234)</u>	<u>4,849,133</u>	<u>95,000</u>
Compensated absences	15,234	8,864		24,098	24,098
	<u>\$ 2,808,334</u>	<u>\$ 2,121,131</u>	<u>\$ (56,234)</u>	<u>\$ 4,873,231</u>	<u>\$ 119,098</u>
	Balance July 1, 2010	Additions	(Reductions)	Balance June 30, 2011	Due Within One Year
2003 Water Revenue Bonds	\$ 3,400,000		\$ (90,000)	\$ 3,310,000	\$ 95,000
Less: Deferred amount on refunding	(555,666)		38,766	(516,900)	
	<u>2,844,334</u>		<u>(51,234)</u>	<u>2,793,100</u>	<u>95,000</u>
Compensated absences	20,182		(4,948)	15,234	15,234
	<u>\$ 2,864,516</u>	<u>\$ -</u>	<u>\$ (56,182)</u>	<u>\$ 2,808,334</u>	<u>\$ 110,234</u>

The advance refunding of the 1999 Certificates of Participation with the 2003 Water Revenue Refunding Bonds resulted in differences between the reacquisition price and the net carrying amount of the outstanding debt of \$854,898 at June 30, 2012 and 2011, net of accumulated amortization of \$376,764 and \$337,998, respectively. This deferred amount on refunding, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations over the remaining life of the 2003 Water Revenue Bonds.

The annual requirements to amortize the outstanding debt as of June 30, 2012 are as follows:

For the Year Ended June 30:	2003 Water Revenue Refunding Bonds		
	Principal	Interest	Total
2013	\$ 95,000	\$ 143,562	\$ 238,562
2014	100,000	140,087	240,087
2015	105,000	136,175	241,175
2016	110,000	131,875	241,875
2017	110,000	127,475	237,475
2018-2022	635,000	561,731	1,196,731
2023-2027	800,000	398,050	1,198,050
2028-2032	1,025,000	182,281	1,207,281
2033	235,000	5,581	240,581
	<u>\$ 3,215,000</u>	<u>\$ 1,826,817</u>	<u>\$ 5,041,817</u>

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

June 30, 2012 and 2011

NOTE D – LONG-TERM LIABILITIES (Continued)

Pledged Revenue: The District pledged future water system revenues, net of specified expenses, to repay the 2003 Water Revenue Refunding Bonds in the original amount of \$3,970,000. Proceeds of the Bonds funded the acquisition and construction of certain facilities, as indicated above. The Bonds are payable solely from water customer net revenues and are payable through November, 2032. Annual principal and interest payments on the Bonds are expected to require less than 80% of net revenues. Total principal and interest remaining to be paid on the Bonds was \$5,041,817 and \$5,182,586 at June 30, 2012 and 2011, respectively.

Total principal and interest paid on all debt payable from net revenues was \$241,769 and \$239,663 and the total water system net revenues were \$479,405 and \$450,474 for the years ended June 30, 2012 and 2011, respectively. At June 30, 2012 and 2011, the District's net revenues were 198% and 188% 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 \$16,243 and the total surcharge fee revenues were \$510,577 for the year ended June 30, 2012. No principal payments were made.

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, 2012 and 2011.

NOTE F – NET ASSETS

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

	2012	2011
Debt service reserve on 2003 Water Revenue Refunding Bonds	\$ 329,877	\$ 243,329
Restricted for State Loan repayment and loan-related projects	670,002	143,104
Total restricted net assets	\$ 999,879	\$ 386,433

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. As of June 30, 2012, the District owes the restricted for State Loan repayment account \$172,245 from its unrestricted net assets because not all of the surcharge revenues were deposited in this account and certain expenditures were paid out of this account that do not appear to qualify for the use of these funds.

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

June 30, 2012 and 2011

NOTE G – DEFINED BENEFIT PENSION PLAN

Plan description: The District contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. The District participates in the miscellaneous 2% at 55 risk pool. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS require agencies with less than 100 active members in the plan to participate in the risk pool. All full and part-time District employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times the monthly average salary of their highest twelve consecutive months full-time equivalent monthly pay. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through District resolution. PERS issues a separate comprehensive annual financial report. Copies of the PERS' annual financial report may be obtained from the PERS Executive Office - 400 P Street - Sacramento, California 95814.

Funding policy: Active plan members were required to contribute 7% of their annual covered salary. The District made contributions required of District employees on their behalf and for their account up through October 2009 and 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 \$6,449 for the year ended June 30, 2010 and \$7,807 for the year ended June 30, 2012. No amounts were paid on the employees' behalf during the year ended June 30, 2011. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for 2011/12, 2010/11 and 2009/10 was 14.841%, 12.813%, and 13.007%, 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, 2012, 2011 and 2010 were \$46,357, \$40,146, and \$39,513, respectively, which were equal to the required contributions each year.

NOTE H – COMMITMENTS AND CONTINGENCIES

The District is party to various claims, legal actions, and complaints that arise in the normal course of business. Management and the District's legal counsel believe that there are no material loss contingencies that would have a material adverse impact on the financial position of the District. In August 2012, the District approved a settlement agreement for several lawsuits with a former employee, for which the District is expected to be required to pay \$30,000. The former employee has not yet approved the agreement.

The District entered into a major well construction contract during the year. The unpaid commitment amount on this contract totals \$708,700, as of June 30, 2012.

On November 19, 2007 the District received the California Department of Public Health Compliance Order 01-09-07-CO-004 with a full compliant date of December 31, 2008. The Compliance Order documents finding or facts about the water source capacity and low-pressure problems observed in the District, and includes nine Directives to accurately characterize the problems, evaluate solution options, and implement interim measures towards the complete resolution of the water source capacity and low-pressure problems. On October 13, 2008, the District requested and received an extension to March 31, 2009 from the Department of Public Health to become fully compliant with Compliance Order No. 01-09-07-CO-004. On 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. A new well is expected to be completed by late 2012, which will allow the District to meet all compliance requirements and will enable the Order to be lifted.

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

June 30, 2012 and 2011

NOTE I – INSURANCE

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) a public entity risk pool of California water agencies, for general and auto liability, public officials liability, property damage and fidelity insurance. The District no longer has employment practices liability coverage. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which group purchased commercial excess insurance is obtained.

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	\$ 60,000,000	None
Property Damage	50,000	100,000,000	\$ 500 - 25,000
Fidelity	100,000		1,000

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

NOTE J – GOING CONCERN

The financial statements for the years in question have been prepared assuming that the District will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The District has suffered reoccurring operating losses and diminishing working capital since 2007 through the period ended June 30, 2011. In addition, although the balance sheet shows unrestricted net assets of \$198,124 as of June 30, 2012, because \$172,245 is owed to the restricted for capital improvements as discussed in Note F, unrestricted net assets has a balance of only \$25,879 after considering the amount that is owed. As a result of these factors, there is doubt about the District's ability to continue as a going concern. The District has reduced personnel expenses, is considering increasing revenue through an increase in the water rates, and has obtained a State safe drinking water loan to finance additional wells. The District is addressing reorganization, receivership and other options, but the outcome cannot be assured at this time.

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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 the financial statements of the Rio Linda/Elverta Community Water District (the District) as of and for the year ended June 30, 2012 and have issued our report thereon dated September 19, 2012. We did not express an opinion on the District because of the departures from generally accepted accounting principles and uncertainties described in the audit opinion. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting, that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of prior year findings to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

We noted certain other matters that we reported to management of the District in a separate letter dated September 19, 2012.

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

Richardson & Company

September 19, 2012

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS

June 30, 2012

Finding 2011-1: Payroll Accounting Entries

The District recorded salary expense net of withholdings starting in November 2010, resulting in payroll-related transactions being recorded in the incorrect expense or liability account. We also noted the District did not have separate accounts set up for some of the necessary payroll-related expenses or accrual entries. These items resulted in numerous adjusting journal entries to correct the mispostings. We recommend the District revise its entries for posting payroll transactions, establish separate expense and accrual accounts for the individual payroll-related entries and reconcile the payroll register with the general ledger accounts after each payroll period.

Status: The District corrected this finding during May 2012 when payroll was moved back in house.

Finding 2011-2: Year-end Payroll Accrual

The District did not accrue for five days for payroll expenses at the end of June that were not paid until July 15 in the next fiscal year. We recommend the District include this accrual in their year-end closing checklist.

Status: The District corrected this finding and accrued payroll expenses for the last five days of the fiscal year.

Finding 2011-3: Internal Control and Management Review

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: Finding was not corrected in fiscal year 2011/12. We recommend the journal entry summary be printed at the end of each month for the General Manager to review and initial. These reviewed journal entry summaries should be retained for auditor verification and for reference by the District. The District plans to implement this procedure starting July 2012.

- b. The General Manager was not reviewing and approving the timesheets for supervisors.

Status: Finding was corrected in fiscal year 2011/12.

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

Status: Finding was not corrected in fiscal year 2011/12. We recommend the payroll register/summary be printed after each payroll period and the General Manager review and initial for correctness. These reviewed summaries should be retained for review by the auditors. The District plans to implement this procedure starting July 2012.

- d. Many of the invoices did not have initials indicating approval by the General Manager. In addition, several check copies could not be located.

Status: Finding was corrected in fiscal year 2011/12.

Finding 2011-4: Account Reconciliations

The District had not recorded several smaller miscellaneous water billing system accounts into the general ledger accounts thereby understating water revenues. This oversight resulted in an audit adjustment to correct the revenue and receivable account balances. We recommend the billing system amounts and general ledger be compared monthly to ensure all revenues are being correctly recorded in the general ledger. We understand that the District has established this process in fiscal year 2011/12.

Status: The District corrected this finding during fiscal year 2011/12.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS (Continued)

June 30, 2012

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 has not yet had the actuarial study performed, so an OPEB liability is not recorded as of June 30, 2012 or 2011.

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 has not yet been corrected as of June 30, 2012. We noted the District had unreconciled differences of \$3,445 in water accounts receivable and \$5,621 in deposits payable. In addition, the billing system showed a credit balance of \$3,963 in the surcharge receivables, which would indicate overpayments were made, that needs to be investigated. Evaluation of the need for an allowance for doubtful accounts also needs to be performed at least annually. At June 30, 2012, receivables over 120 days past due totaled \$13,000 that needs to be investigated.

- 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: Finding was not corrected in fiscal year 2011/12. Several closing journal entries had to be made after initially receiving the general ledger. We recommend the District develop a closing checklist that includes all the entries required for the bonds and State loan.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS (Continued)

June 30, 2012

- 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: Finding not corrected in fiscal year 2011/12. We recommend these type entries be added to the closing checklist to ensure all entries are made prior to the start of the audit.

- 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 had not corrected this finding as an adjustment was made during the June 30, 2012 audit.

- h. The District had not performed a physical inventory count of its supplies inventory since June 30, 2009. Since a perpetual inventory system is not maintained, the inventory balance as of June 30, 2010 has not been revised. The District needs to ensure that a physical inventory count is performed at least annually so that the general ledger balance can be adjusted.

Status: The District performed an inventory count as of June 30, 2012.

- 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: While the District did record a water billing receivable as of year-end, the District still required several accruals for accounts payable, the PERS retirement accrual and the compensated absences to be recorded after the start of the audit.

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: The District addressed items b and f during the fiscal year 2010/11 audit. Item h was addressed during fiscal year 2011/12. The remaining items 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:

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SCHEDULE OF PRIOR YEAR FINDINGS (Continued)

June 30, 2012

- 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 has implemented our above recommendations to mitigate the segregation of duties issue except for the General Manager reviewing the completed bank reconciliations. We recommend the GM receive the completed bank reconciliations, review them for reasonableness and completeness, initial as evidence of review and retain for auditor review at year end.

- 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 has not yet been implemented, but the District plans to address separation of duties issues during the 2012/13 fiscal year.

- 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 remains open as the District had no documentation of the General Manger's review and approval of billing adjustments. We recommend the District print a billing adjustment summary monthly for the General Manager's review and approval and subsequent retention for auditor review.

- 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: We understand the bookkeeper performs a review on a sample basis. We recommend these sample reviews of the deposits to the bank statements be initialed by the bookkeeper and retained for auditor review.

- 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 has not been implemented as of June 30, 2012. We recommend the District implement a payroll status sheet to be located in each employee's folder that documents payroll-related items and the General Manager's review and approval of all payroll-related changes.

- f. Regular staff meetings should be held to identify and resolve issues and provide sound guidance.

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SCHEDULE OF PRIOR YEAR FINDINGS (Continued)

June 30, 2012

Status: This finding has been implemented and the General Manager holds a staff meeting for all employees every Monday morning.

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: Due to the timing of when this finding was first reported, the subsequent fiscal years were already past or nearly past, so most of these internal controls have not yet been put into place.

Finding 2010-4: Financial Reporting

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

Status: Finding has been implemented as financial reports have been provided to the Board members during fiscal year 2011/12.

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: During the fiscal year 2011/12 audit, we noted the District performed a capital asset inventory for insurance purposes, but this inventory has not been compared to the capital asset listing. In addition, the District still does not have a separate asset listing for its land nor its intangible assets. This resulted in an adjustment having to be made in fiscal year 2011/12 to record the donated land for Well #15 and to record accumulated depreciation for a new intangible asset. In addition, the District needs to review their capital asset listings, especially the equipment listing, and remove items 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.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS (Continued)

June 30, 2012

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 fiscal year 2010/11 audit, we noted that revenues of approximately \$17,729 had not been recorded in the surcharge account. In addition, in fiscal year 2010/11, \$105,856 of expenditures were paid out of the surcharge account that do not appear to be qualifying expenditures. In fiscal year 2011/12, we noted that revenues of approximately \$26,000 had not been recorded in the surcharge account. As a result of the three year totals, it appears the operating account owes the surcharge account approximately \$172,244 as of June 30, 2012. We recommend the District perform periodic reconciliations 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.

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: While this finding is still open as of June 30, 2012, with the completion of the 2012 audit the District plans to review the organizational structure and address workload reassignments to improve internal control issues identified in Finding 2010-3.

Finding 2009-2: Develop an Organization Chart

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

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

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SCHEDULE OF PRIOR YEAR FINDINGS (Continued)

June 30, 2012

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

Status: This item has been implemented and the District now has an organizational chart.

Finding 2008-3: Budget

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

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

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

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

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

Status: During fiscal year 2011/12, the District implemented a timely budget process and is providing financial information and budget to actual reviews to the Board of Directors at least quarterly.

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, 2012. 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.