ROSAMOND COMMUNITY SERVICES DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2012

ROSAMOND COMMUNITY SERVICES DISTRICT

LIST OF ELECTED AND APPOINTED OFFICIALS

JUNE 30, 2012

Elected Officials

BOARD OF DIRECTORS

Title	Director	Term Expires
President	Byron Glennan	December 2012
Vice-President	Charlene Melchers	December 2012
Director	Rick Webb	December 2014
Director	Greg Wood	December 2014
Director	Kathy Spoor	December 2014

Appointed Official

General Manager	Steve Perez

Rosamond Community Services District
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Rosamond, California 93560
(661) 256-3411 www.rosamondcsd.com

ROSAMOND COMMUNITY SERVICES DISTRICT
JUNE 30, 2012

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FINANCIAL SECTION

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ARMSTRONG

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Rosamond Community Services District
Rosamond, California

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, and each major fund of Rosamond Community Service District (District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts, as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts, as well as accounting systems prescribed by the State Controller's Office and Sate regulations governing special districts.

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

America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012, 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, 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the District's basic financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 28, 2012

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Rosamond Community Services District (District) provides an introduction to the basic financial statements of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- Net assets increased by 2.32% or $807,423 to $35,563,563 as a result of this year's operations.
- Total revenues increased by 16.75% or $973,164 due primarily to an increase in charges for services of $988,846.
- Total expenses decreased by 6.45% or $412,146 due primarily to a $403,848 decrease in salaries and benefits expense as a result of budget cuts.

Using This Financial Report

This annual report consists of a series of basic financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

Government-Wide Financial Statements

Statement of Net Assets and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting,* which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net assets* and changes in them. Think of the District's net assets, the difference between assets and liabilities, as one way to measure the District's financial health, or *financial position.* Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's property tax base and the types of grants the District applies for to assess the *overall financial health* of the District.

Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

Statement of Cash Flows

The Statement of Cash Flows is presented using the direct method of accounting and includes a reconciliation of operating cash flows to operating income. The Statement of Cash Flows basically provides detailed information about the cash received in the current and previous fiscal year and the uses of the cash received. This is the only cash basis financial statement presented and it reconciles cash receipts and cash expenditures to the beginning and ending cash on hand.

Most of the cash received by the District during the fiscal year was from customer service charges; most of the cash expenditures were for operating expenses.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 18 through 40.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning the District's major-fund budgetary information. The supplementary information can be found on pages 41 through 44.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the District's activities in a way that will help answer this question. These two statements report the net assets of the District and the changes in them. One can think of the District's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

Statement of Net Assets

To begin our analysis, a summary of the District's Statement of Net Assets is presented in the following table.

Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total District	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Assets:						
Current and other assets	$ 248,657	$ 248,508	$ 5,738,824	$ 5,220,841	$ 5,987,481	$ 5,469,349
Restricted assets		-	239,452	239,460	239,452	239,460
Noncurrent assets	(1,792,932)	(1,686,939)	6,311,689	4,960,496	4,518,757	3,273,557
Capital assets, net	1,367,119	1,410,712	34,883,351	36,309,770	36,250,470	37,720,482
Total assets	(177,156)	(27,719)	47,173,316	46,730,567	46,996,160	46,702,848
Liabilities:						
Current liabilities	68,267	76,509	1,266,782	1,154,251	1,335,049	1,230,760
Noncurrent liabilities	25,098	18,909	10,072,450	10,697,039	10,097,548	10,715,948
Total liabilities	93,365	95,418	11,339,232	11,851,290	11,432,597	11,946,708
Net assets:						
Net investment in capital assets, net of related debt	1,367,119	1,410,712	28,361,204	28,066,452	29,728,323	29,477,164
Restricted	15,141	-	239,452	239,460	254,593	239,460
Unrestricted	(1,652,781)	(1,533,849)	7,233,428	6,573,365	5,580,647	5,039,516
Total net assets	$ (270,521)	$ (123,137)	$ 35,834,084	$ 34,879,277	$ 35,563,563	$ 34,756,140

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by $35,563,563 as of June 30, 2012. Compared to prior year, net assets of the District increased 2.32% or $807,423. The District's net assets are made-up of three components: (1) net investment in capital assets, net of related debt of $29,728,323, (2) restricted net assets of $254,593 and (3) unrestricted net assets of $5,580,647.

Statement of Activities

The following table is a summary of the Statement of Activities for the year ended June 30, 2012.

Condensed Statement of Activities

	Governmental Activities		Business-Type Activities		Total District	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Revenues:						
Program revenues:						
Charges for services	$ 368,068	$ 378,582	$ 6,147,235	$ 5,147,875	$ 6,515,303	$ 5,526,457
Capital grants and contributions	9,000	105	2,676	9,065	11,676	9,170
General revenues:						
Property taxes	233,796	246,329	-	-	233,796	246,329
Interest earnings	2,585	3,403	18,721	23,558	21,306	26,961
Total revenues	613,449	628,419	6,168,632	5,180,498	6,782,081	5,808,917
Expenses:						
Salaries and benefits	263,080	376,768	1,449,306	1,739,466	1,712,386	2,116,234
Operations	430,806	430,365	1,684,447	1,640,197	2,115,253	2,070,562
Depreciation	60,954	63,527	1,713,691	1,744,545	1,774,645	1,808,072
Interest	5,993	7,083	366,381	384,853	372,374	391,936
Total expenses	760,833	877,743	5,213,825	5,509,061	5,974,658	6,386,804
Change in net assets	(147,384)	(249,324)	954,807	(328,563)	807,423	(577,887)
Net assets, beginning of year	(123,137)	126,187	34,879,277	35,207,840	34,756,140	35,334,027
Net assets, end of year	$ (270,521)	$ (123,137)	$ 35,834,084	$ 34,879,277	$ 35,563,563	$ 34,756,140

Government and business-type activities increased the District's net assets by $807,423, thereby accounting for the 2.32% increase in the net assets of the District.

The District's total revenues increased by 16.75% or $973,164, due primarily to an increase in charges for services of $988,846.

The District's total expenses decreased by 6.45% or $412,146 due primarily to a $403,848 decrease in salaries and benefits expense as a result of budget cuts.

Budgetary Highlights

The District adopts an annual budget each year to project the expected coming year's operations. The budget includes proposed expenses and the means of financing them. The District's budget remains in effect the entire year and is not revised. A 2012 budget versus actual comparison is analyzed by management throughout the year.

A 2012 budget versus actual comparison combined for all funds is presented in the table below.

Budget vs. Actual Comparison
Year Ended June 30, 2012

	Actual	Budget	Variance
Operating revenues:			
Property taxes	$ 233,796	$ 290,811	$ (57,015)
Special assessments	330,829	332,611	(1,782)
Charges for services	37,239	47,096	(9,857)
Capital grants and facility charges	9,000	15,000	(6,000)
Water consumption sales	3,289,566	2,927,380	362,186
Wastewater service charges	2,857,669	2,693,094	164,575
Total operating revenues	6,758,099	6,305,992	452,107
Operating expenses:			
Salaries and benefits	1,704,266	2,082,876	(378,610)
Operations	2,121,114	2,278,910	(157,796)
Capital outlay	17,361		17,361
Total operating expenses	3,842,741	4,361,786	(519,045)
Operating income (loss) before capital contributions	2,915,358	1,944,206	971,152
Depreciation expense	(1,713,691)		(1,713,691)
Operating income (loss)	1,201,667	1,944,206	(742,539)
Nonoperating revenue (expense):			
Interest earnings	21,306	20,500	806
Interest expense	(366,381)	(371,000)	4,619
Total nonoperating, net	(345,075)	(350,500)	5,425
Capital contributions and purchases:			
Conservation fees	1,650	-	1,650
Connection fees	1,026	-	1,026
Total capital contributions and purchases	2,676	-	2,676
Net Change	$ 859,268	$ 1,593,706	$ (734,438)

Operating revenues in total for the fiscal year ended June 30, 2012, are over budget by $452,107 due primarily to water sales and waste water revenues being more than anticipated. Water and waste water costs are under budget due to lower salaries and operation expenses. The District does not budget for depreciation.

Capital Asset Administration

Capital Assets

	Governmental Activities		Business-Type Activities		Total District	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Capital assets:						
Non-depreciable assets	$ 749,972	$ 732,611	$ 14,535,313	$ 14,248,042	$ 15,285,285	$ 14,980,653
Depreciable assets	920,384	920,384	50,345,166	50,345,166	51,265,550	51,265,550
Total capital assets	1,670,356	1,652,995	64,880,479	64,593,208	66,550,835	66,246,203
Accumulated depreciation	(303,237)	(242,283)	(29,997,128)	(28,283,438)	(30,300,365)	(28,525,721)
Total capital assets, net	$ 1,367,119	$ 1,410,712	$ 34,883,351	$ 36,309,770	$ 36,250,470	$ 37,720,482

At the end of fiscal year 2012, the District's investment in capital assets amounted to $36,250,470 (net of accumulated depreciation). This investment in capital assets includes land, buildings, building improvements, furnishings and equipment, street lighting, collection and distribution systems, tanks, wells, water treatment facilities, and construction-in-process. Major capital asset additions in the business-type activities area included constructing the District's new wastewater treatment plant. A significant portion of these additions were constructed by sub-contractors will be transferred out of construction-in-process upon completion of these various projects. The capital assets of the District are more fully analyzed in Note 8 to the basic financial statements.

Long-Term Debt Administration

Long-Term Debt

	Business-Type Activities	
	2012	**2011**
Long-term debt:		
Notes payable	$ 10,522,147	$ 11,243,318

Long-term debt decreased due to authorizing repayments of $721,171 in note payables during the fiscal year. The long-term debt position of the District is more fully analyzed in Note 10 of the basic financial statements.

Conditions Affecting Current Financial Position

In order to conserve cash reserves and reduce operating expenses, management implemented layoffs at the end of August 2010. Furloughs were initiated in September resulting in a 10% reduction in salaries and a 4 day work week for all employees with the District offices being closed every Friday. Furloughs ended on July 1, 2011. Customers may only conduct business in person at the District offices on Monday through Thursday from 8:00 am to 4:30 pm. Employees were assigned a 4-10 work week and a split shift to initiate coverage 7 days a week and have reduced overtime expense. Offices are closed for lunch from 11:30 am to 12:00 pm. Parks and Recreation programs have been minimized. Operating expenses are being closely monitored to ensure only essential expenditures are made. Several capital projects have been placed on hold. These changes have been instituted in order to continue core functions of the District. Future budgets will also be affected in the near-term.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 3179 35th Street West, Rosamond, California 93560 or (661) 256-3411.

BASIC FINANCIAL STATEMENTS

ROSAMOND COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

Assets	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash and cash equivalents (Note 2)	$ 75,354	$ 4,237,837	$ 4,313,191
Restricted - cash and cash equivalents (Note 2 and 3)		-	-
Accrued interest receivable	605	2,554	3,159
Accounts receivable - utilities, net (Note 4)	7,856	647,703	655,559
Accounts receivable - other	151,748	436,040	587,788
Property taxes and assessments receivable	577	-	577
Materials and supplies inventory	-	225,660	225,660
Prepaid expenses and other deposits	12,517	189,030	201,547
Total current assets	248,657	5,738,824	5,987,481
Noncurrent assets:			
Restricted - cash and cash equivalents (Note 2 and 3)	-	239,452	239,452
Banked water inventory (Note 6)	-	518,757	518,757
Internal balances (Note 5)	(1,792,932)	1,792,932	-
Investment in water banking - JPA (Note 7)	-	4,000,000	4,000,000
Capital assets, not being depreciated (Note 8)	749,972	14,535,313	15,285,285
Depreciable capital assets, net (Note 8)	617,147	20,348,038	20,965,185
Total noncurrent assets	(425,813)	41,434,492	41,008,679
Total assets	$ (177,156)	$ 47,173,316	$ 46,996,160
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$ 28,115	$ 290,390	$ 318,505
Accrued wages and related payables	16,786	61,978	78,764
Customer deposits and deferred revenue	15,000	154,292	169,292
Accrued interest on long-term debt	-	53,663	53,663
Long-term liabilities - due within one year:			
Compensated absences (Note 9)	8,366	64,190	72,556
Notes payable (Note 10)	-	642,269	642,269
Total current liabilities	68,267	1,266,782	1,335,049
Noncurrent liabilities:			
Long-term liabilities - due in more than one year:			
Compensated absences (Note 9)	25,098	192,572	217,670
Notes payable (Note 10)	-	9,879,878	9,879,878
Total noncurrent liabilities	25,098	10,072,450	10,097,548
Total liabilities	93,365	11,339,232	11,432,597
Net assets: (Note 11)			
Net investment in capital assets, net of related debt	1,367,119	28,361,204	29,728,323
Restricted	15,141	239,452	254,593
Unrestricted	(1,652,781)	7,233,428	5,580,647
Total net assets	$ (270,521)	$ 35,834,084	$ 35,563,563

See accompanying notes to the basic financial statements.

ROSAMOND COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities:							
Parks and recreation	$ 657,602	$ 271,205	$ -	$ 9,000	$ (377,397)	$ -	$ (377,397)
Street lighting	103,231	96,863	-	-	(6,368)	-	(6,368)
Total governmental activities	760,833	368,068	-	9,000	(383,765)	-	(383,765)
Business-type activities:							
Water	3,651,948	3,289,566	-	(45)	-	(362,427)	(362,427)
Sewer	1,561,877	2,857,669	-	2,721	-	1,298,513	1,298,513
Total business-type activities	5,213,825	6,147,235	-	2,676	-	936,086	936,086
Total	$ 5,974,658	$ 6,515,303	$ -	$ 11,676	(383,765)	936,086	552,321
		General revenues:					
		Property taxes			233,796	-	233,796
		Interest earnings			2,585	18,721	21,306
		Total general revenues			236,381	18,721	255,102
		Change in net assets			(147,384)	954,807	807,423
		Net assets, beginning of year			(123,137)	34,879,277	34,756,140
		Net assets, end of year			$ (270,521)	$ 35,834,084	$ 35,563,563

See accompanying notes to the basic financial statements.

ROSAMOND COMMUNITY SERVICES DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	Parks and Recreation	Street Lighting	Total Governmental Activities
Assets:			
Cash and cash equivalents (Note 2)	$ 4,506	$ 55,707	$ 60,213
Restricted - cash and cash equivalents (Note 2 and 3)	-	15,141	15,141
Accrued interest receivable	571	34	605
Accounts receivable - utilities, net (Note 4)	1,778	6,078	7,856
Accounts receivable - other	151,748	-	151,748
Property taxes and assessments receivable	577	-	577
Prepaid expenses and other deposits	12,517	-	12,517
Total assets	$ 171,697	$ 76,960	$ 248,657
Liabilities:			
Accounts payable and accrued expenses	$ 19,993	$ 8,122	$ 28,115
Accrued wages and related payables	16,786	-	16,786
Customer deposits and deferred revenue	-	15,000	15,000
Due to other funds (Note 5)	1,792,932	-	1,792,932
Total liabilities	1,829,711	23,122	1,852,833
Fund balances (deficit):			
Nonspendable	12,517	-	12,517
Assigned	-	53,838	53,838
Unassigned	(1,670,531)	-	(1,670,531)
Total fund balances (deficit)	(1,658,014)	53,838	(1,604,176)
Total liabilities and fund balances (deficit)	$ 171,697	$ 76,960	$ 248,657

See accompanying notes to the basic financial statements.

ROSAMOND COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Reconciliation:

Fund balance (deficit) of governmental funds	$ (1,604,176)
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the governmental funds balance sheet. However, the statement of net assets includes those capital assets among the assets of the District as a whole.	1,367,119
Long-term liabilities applicable to the District are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets as follows:	
Compensated absences	(33,464)
Net assets of governmental activities	$ (270,521)

See accompanying notes to the basic financial statements.

ROSAMOND COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Parks and Recreation	Street Lighting	Total Governmental Activities
Revenues:			
Property taxes	$ 233,796	$ -	$ 233,796
Special assessments	233,966	96,863	330,829
Charges for services	37,239	-	37,239
Capital grants and facility charges	9,000	-	9,000
Interest earnings	2,439	146	2,585
Total revenues	516,440	97,009	613,449
Expenditures:			
Parks and recreation	588,396	-	588,396
Street lighting	-	103,231	103,231
Capital outlay	17,361	-	17,361
Total expenditures	605,757	103,231	708,988
Net change in fund balances (deficit)	(89,317)	(6,222)	(95,539)
Fund balances (deficit), beginning of year	(1,568,697)	60,060	(1,508,637)
Fund balances (deficit), end of year	$ (1,658,014)	$ 53,838	$ (1,604,176)

See accompanying notes to the basic financial statements.

ROSAMOND COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

Reconciliation:

Net change in fund balances (deficit) of total governmental funds	$	(95,539)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital outlay		17,361
Depreciation expense		(60,954)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenses in governmental funds as follows:		
Change in compensated absences		(8,252)
Change in net assets of governmental activities	$	(147,384)

See accompanying notes to the basic financial statements.

ROSAMOND COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
JUNE 30, 2012

Assets	Water	Wastewater	Total Business-Type Activities
Current assets:			
Cash and cash equivalents (Note 2)	$ 176,387	$ 4,061,450	$ 4,237,837
Accrued interest receivable	-	2,554	2,554
Accounts receivable - utilities, net (Note 4)	409,650	238,053	647,703
Accounts receivable - other	369,168	66,872	436,040
Materials and supplies inventory	225,660	-	225,660
Prepaid expenses and other deposits	159,914	29,116	189,030
Total current assets	1,340,779	4,398,045	5,738,824
Noncurrent assets:			
Restricted - cash and cash equivalents (Note 2 and 3)	212,394	27,058	239,452
Banked water inventory (Note 6)	518,757	-	518,757
Due from other funds (Note 5)	202,583	1,590,349	1,792,932
Investment in water banking - JPA (Note 7)	4,000,000	-	4,000,000
Capital assets, not being depreciated (Note 8)	2,359,930	12,175,383	14,535,313
Capital assets, being depreciated, net (Note 8)	18,769,204	1,578,834	20,348,038
Total noncurrent assets	26,062,868	15,371,624	41,434,492
Total assets	$ 27,403,647	$ 19,769,669	$ 47,173,316
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$ 251,338	$ 39,052	$ 290,390
Accrued wages and related payables	42,770	19,208	61,978
Customer deposits and deferred revenue	153,492	800	154,292
Accrued interest on long-term debt	4,880	48,783	53,663
Long-term liabilities - due within one year:			
Compensated absences (Note 9)	31,937	32,253	64,190
Notes payable (Note 10)	208,604	433,665	642,269
Total current liabilities	693,021	573,761	1,266,782
Noncurrent liabilities:			
Long-term liabilities - due in more than one year:			
Compensated absences (Note 9)	95,813	96,759	192,572
Notes payable (Note 10)	2,505,434	7,374,444	9,879,878
Total noncurrent liabilities	2,601,247	7,471,203	10,072,450
Total liabilities	3,294,268	8,044,964	11,339,232
Net assets: (Note 11)			
Net investment in capital assets	22,415,096	5,946,108	28,361,204
Restricted	212,394	27,058	239,452
Unrestricted	1,481,889	5,751,539	7,233,428
Total net assets	$ 24,109,379	$ 11,724,705	$ 35,834,084

See accompanying notes to the basic financial statements.

ROSAMOND COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Water	Wastewater	Total Business-Type Activities
Operating revenues:			
Water consumption sales	$ 3,289,566	$ -	$ 3,289,566
Sewer service charges	-	2,857,669	2,857,669
Total operating revenues	3,289,566	2,857,669	6,147,235
Operating expenses:			
Salaries and benefits	821,902	627,404	1,449,306
Operations	1,173,992	510,455	1,684,447
Total operating expenses	1,995,894	1,137,859	3,133,753
Operating income before depreciation	1,293,672	1,719,810	3,013,482
Depreciation expense	(1,514,200)	(199,491)	(1,713,691)
Operating income (loss)	(220,528)	1,520,319	1,299,791
Nonoperating revenue (expense):			
Interest earnings	2,428	16,293	18,721
Interest expense	(141,854)	(224,527)	(366,381)
Total nonoperating, net	(139,426)	(208,234)	(347,660)
Capital contributions and purchases:			
Conservation fees	-	1,650	1,650
Connection fees	(45)	1,071	1,026
Total capital contributions	(45)	2,721	2,676
Change in net assets	(359,999)	1,314,806	954,807
Net assets, beginning of year	24,469,378	10,409,899	34,879,277
Net assets, end of year	$ 24,109,379	$ 11,724,705	$ 35,834,084

See accompanying notes to the basic financial statements.

ROSAMOND COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Water	Wastewater	Total Business-Type Activities
Cash flows from operating activities:			
Cash receipts from customers	$ 3,177,671	$ 2,797,046	$ 5,974,717
Cash paid to employees for salaries and benefits	(784,302)	(622,978)	(1,407,280)
Cash paid to vendors and suppliers	(1,376,516)	(532,869)	(1,909,385)
Net cash provided by operating activities	1,016,853	1,641,199	2,658,052
Cash flows from capital and related financing activities:			
Acquisitions and construction of capital assets	(388,041)	(94,655)	(482,696)
Write-off construction in progress	157,292	38,132	195,424
Proceeds from capital contributions	(45)	2,721	2,676
Internal cash advanced	162,765	(268,758)	(105,993)
Cash received from notes payable	-	-	-
Principal payments on notes payable	(299,835)	(421,336)	(721,171)
Interest payments on notes payable	(142,022)	(225,377)	(367,399)
Net cash used by capital and related financing activities	(509,886)	(969,273)	(1,479,159)
Cash flows from investing activities:			
Interest earnings	2,428	16,901	19,329
Payment for investment in water banking - JPA	(1,000,000)	-	(1,000,000)
Net cash provided (used) by investing activities	(997,572)	16,901	(980,671)
Net Increase (decrease) in cash and cash equivalents	(490,605)	688,827	198,222
Cash and cash equivalents, beginning of year	879,386	3,399,681	4,279,067
Cash and cash equivalents, end of year	$ 388,781	$ 4,088,508	$ 4,477,289

	Water	Wastewater	Total Business-Type Activities
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ (220,528)	$ 1,520,319	$ 1,299,791
Depreciation expense	1,514,200	199,491	1,713,691
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable - utilities, net	(64,725)	(39,149)	(103,874)
Accounts receivable - other	(83,153)	(21,474)	(104,627)
Materials and supplies inventory	(12,785)	-	(12,785)
Prepaid expenses and other deposits	(75,102)	(23,973)	(99,075)
Banked water inventory	(245,200)	-	(245,200)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	130,563	1,559	132,122
Accrued wages and related payables	18,948	(490)	18,458
Customer deposits and deferred revenue	35,983	-	35,983
Compensated absences	18,652	4,916	23,568
Total adjustments	1,237,381	120,880	1,358,261
Net cash provided by operating activities	$ 1,016,853	$ 1,641,199	$ 2,658,052

See accompanying notes to the basic financial statements.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Operations of the Reporting Entity

The Rosamond Community Services District (District) serves as the local government for the City of Rosamond, California. The District is similar to a city government, supplying such services as parks and recreation, potable water, wastewater treatment and street lighting. The District exists under California State law governing special districts (Government Code, Sec. 61000 et. seq.). The District was established by resolution of the Kern County Board of Supervisors for the purpose of providing infrastructure services for the newly developing community of Rosamond. The District is governed by a five-member Board of Directors who serve four-year terms and are elected at large. The directors entrust the responsibility for the efficient execution of District policies to their designated representative, the General Manager.

The criteria used in determining the scope of the District is based on the provisions of Governmental Accounting Standards Board Statements No. 14, *The Financial Reporting Entity,* and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and, 1) it is able to impose its will on that organization, or 2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The District has no blended or discretely-presented component units.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-Wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-like activities. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as unbilled but utilized utility services revenues and expenses, are recorded at year-end. The Statement of Activities demonstrates the degree to which the operating expenses of a given function are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function. The types of transactions reported as operating revenues for the District are charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by the District. Taxes, operating grants and other items not properly included among operating revenues are reported instead as nonoperating revenues. Contributed capital and capital grants are included as capital contributions.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the Government-Wide Financial Statements.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current fiscal year. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The accrual basis of accounting is followed by the proprietary enterprise funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as unbilled but utilized utility services, are recorded at year-end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues and expenses, such as water sales, wastewater service, solid waste collection, and purchases of water, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories, such as interest income and interest expense, are reported as nonoperating revenues and expenses.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and propriety fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operation fund of the District or meets the following criteria:

a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Fund Financial Statements (Continued)

b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.

c) The District has determined that a fund is important to the financial statement user.

The funds of the District are described below:

Governmental Funds

Parks and Recreation – This fund is used to account for all parks and recreation activities within the District.

Street Lighting – This fund is used to account for all street lighting activities within the District.

Enterprise Funds

Water – This fund accounts for the water transmission and distribution operations of the District.

Wastewater – This fund accounts for the wastewater service operations of the District.

C. Financial Statement Elements

1. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

2. Accounts Receivable

The District extends credit to customers in the normal course of operations. Management reviews all accounts receivable as collectible.

3. Property Taxes and Assessments

The Kern County Assessor's Office assesses all real and personal property within Kern County each year. The Kern County Tax Collector's Office bills and collects the District's share of property taxes and/or tax assessments. The Kern County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes and assessments receivable at year-end are related to property taxes and special assessments collected by Kern County, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Financial Statement Elements (Continued)

4. Prepaid Expenses

   Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

5. Banked Water Inventory

   The amount of banked water is recorded at historical cost.

6. Capital Assets

   Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation and/or historical cost. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

   Governmental Activities

   - Infrastructure, street lighting – 30 to 40 years
   - Vehicles and equipment – 5 to 10 years

   Business-Type Activities

   - Facility and systems – 10 to 40 years
   - Vehicles and equipment – 5 to 10 years

7. Materials and Supplies Inventory

   Materials and supplies inventory consists primarily of meters and registers, valves and hydrants. Inventory is recorded using an estimate of the amounts available on hand.

8. Net Assets/Fund Balances

   The government-wide financial statements utilize a net assets presentation. Net assets categories are as follows:

   - Net Investment in Capital Assets – This component of net assets consists of capital assets, net of accumulated depreciation, and reduced by any outstanding debt against the acquisition, construction, or improvement of those assets.
   - Restricted Net Assets – This component of net assets consists of net assets that are restricted for a specific use and are not available for the general use of the District.
   - Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets.*

   In the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the Commission is bound to honor constraints on how specific amounts can be spent.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Financial Statement Elements (Continued)

8. Net Assets/Fund Balances (Continued)

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact. Amounts reported in the balance sheet are reported for prepaid expenses and other deposits.

- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

- Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Board) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

- Assigned fund balance – amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose. The amounts reflected in the balance sheet represent funds assigned due to the purpose of the fund.

- Unassigned fund balance – the residual classification for the District's governmental funds that include amounts not contained in the other classifications.

The Board of Directors establishes, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through the adoption of the budget and subsequent budget amendments that occur throughout the year. As of June 30, 2012, the Board of Directors had not made a determination of the individual(s) authorized to assign fund balance amounts.

As of June 30, 2012, the District did not have a formal policy on whether to first apply committed resources or assigned when an expenditure is incurred for purposes for which any amounts in any of these restricted fund balance classifications could be used.

9. Fund Balance Deficit

The deficit in the Parks and Recreation Fund as of June 30, 2012, in the amount of $1,658,014 is expected to be covered in the near term with inter-fund transfers. In the future, the District is contemplating a parcel tax, that if it goes through, would cover operations.

10. Utility Sales

Utility sales are billed on a monthly basis. Estimated unbilled utility revenue through June 30 has been accrued at year-end for the Enterprise Funds.

11. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital connection expenditures or capacity commitment.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Financial Statement Elements (Continued)

12. Budgetary Policies

The District follows specific procedures in establishing the budgetary data reflected in the basic financial statements. In accordance with District Ordinance 078-1, prior to May 1st, each year the District Manager submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them for the upcoming year. Public hearings are conducted to obtain taxpayer comments. Prior to June 30th the budget is legally enacted through passage of a Board of Directors resolution. Budgets for the Enterprise Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

The Board of Directors must approve all supplemental appropriations to the budget and transfers between funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the General Fund and all major special revenue funds.

13. California State Water Project (SWP)

The SWP is a water storage and delivery system of reservoirs, aqueducts, power plants and pumping plants. Its main purpose is to store water and distribute it to 29 urban and agricultural water suppliers in Northern California, the San Francisco Bay Area, the San Joaquin Valley, the Central Coast and Southern California. Of the contracted water supply, 70 percent goes to urban users and 30 percent goes to agricultural users. The District at times will purchase water from a SWP contractor depending on availability and allocations.

14. Use of Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

15. Date of Management's Review

Subsequent events were evaluated through November 28, 2012, which is the date the basic financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2012, are classified by fund as follows:

Governmental activity funds:		
Parks and recreation	$	4,506
Street lighting		70,848
Total		75,354
Business-type activity funds:		
Water		388,781
Wastewater		4,088,508
Total		4,477,289
Total cash and cash equivalents	$	4,552,643

Cash and cash equivalents as of June 30, 2012, consist of the following:

Cash on hand	$	350
Deposits held with financial institutions		214,706
Deposit of note proceeds held with financial institutions		239,452
Certificate of deposit		42,899
Investment Fund (LAIF)		4,055,236
Total	$	4,552,643

Deposits and Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements *	92 days	None	None
Medium-Term Notes ****	5 years	30%	None
Mutual Funds	N/A	None	None

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Deposits and Investments Authorized by the California Government Code and the District's Investment Policy (Continued)

Money Market Mutual Funds **	N/A	15%	None
Mortgage Pass-Through Securities ***	5 years	30%	None
County Pooled Investment Funds	N/A	100%	None
Local Agency Investment Fund (LAIF)	N/A	None	None

* Must be at least 102% of market value.
** Must carry the highest ratings of at least two of the three largest national rating agencies.
*** Must be rated "AA" or better by a nationally recognized rating service.
**** Must be rated "A" or better by Moody's or Standard and Poor's (S&P) rating service.

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 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. The District had deposits with a bank balance of $352,932 as of June 30, 2012. Of the bank balances, up to $250,000 for 2012 is federally insured and the remaining balance of $102,932 is collateralized by the bank with pledged securities.

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 contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the California Government Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

Investment Type	Total	Remaining Maturity 12 Months or Less
Certificates of Deposit	$ 42,899	$ 42,899
Local Agency Investment Fund (LAIF)	4,055,236	4,055,236
	$ 4,098,135	$ 4,098,135

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Deposits and Investments Authorized by the California Government Code and the District's Investment Policy (Continued)

Credit Risk

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.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End AAA	Rating as of Year-End Not Rated
Certificates of Deposit	$ 42,899	N/A	$ 42,899	$ -	$ -
Local Agency Investment Fund (LAIF)	4,055,236	N/A	-	-	4,055,236
	$ 4,098,135		$ 42,899	$ -	$ 4,055,236

Concentration of Credit Risk

The District's investment policy does not contain various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with governmental agencies such as the Local Agency Investment Fund (LAIF) was 89% of the District's total depository and investment portfolio as of June 30, 2012.

NOTE 3 – RESTRICTED CASH AND CASH EQUIVALENTS

Restricted funds of $212,394 in the Water Fund and $27,058 in the Sewer Fund are included in noncurrent assets. These include funds on deposit with Zions Bank and are held for new construction projects in the District and may not be spent on repairs and maintenance. The restricted funds in the Streets Light Fund of $15,141 represent funds on deposit for various street light projects.

NOTE 4 – ACCOUNTS RECEIVABLE – UTILITIES, NET

The accounts receivable – utilities balance consists of the following balances as of June 30, 2012:

	Parks and Recreation	Street Lighting	Water	Wastewater	Total
Accounts receivable - utilities	$ 1,778	$ 6,078	$ 409,650	$ 238,053	$ 655,559
Allowance for uncollectible receivables	-	-	-	-	-
Accounts receivable - utilities, net	$ 1,778	$ 6,078	$ 409,650	$ 238,053	$ 655,559

NOTE 5 – INTERNAL BALANCES

Due To/From Other Funds

Internal balances consist of the following at June 30, 2012:

	Funds		
Purpose	**Receivable**	**Payable**	**Amount**
Loan	Water	Parks and Recreation	$ 202,583
Loan	Wastewater	Parks and Recreation	1,590,349
			$ 1,792,932

On January 7, 2009, the Board of Directors adopted a third internal loan agreement between funds. The Water and Wastewater Funds will provide assistance in the form of a revolving credit line, up to a maximum amount of $500,000, to the governmental funds to meet their operating needs. The interest rate will be based on the Local Agency Investment Fund (LAIF) rate, established by the Treasurer of the State of California, and be adjusted quarterly. The maturity date for this line of credit is January 7, 2014.

On June 9, 2010, the Board of Directors adopted a sixth internal loan agreement between funds. The Water and Wastewater Funds will provide assistance in the form of a revolving credit line, up to a maximum amount of $500,000, to the governmental funds to meet their operating needs. The interest rate will be based on the LAIF rate, established by the Treasurer of the State of California, and be adjusted quarterly. The maturity date for this line of credit is June 30, 2015.

On October 26, 2011, the Board of Directors adopted a seventh internal agreement between funds. The Water and Wastewater Funds will provide assistance in the form of a revolving line of credit, up to a maximum amount of $750,000, to the governmental funds to meet their operating needs. The interest rate will be based on the LAIF rate, established by the Treasurer of the State of California, and be adjusted quarterly. The maturity date for this line of credit is October 26, 2016.

As of June 30, 2012, the Board of Directors has approved a total of $1,750,000 internal borrowing between funds, in accordance to the agreements referenced above. As of June 30, 2012, the Parks Fund has borrowed from the Water Fund and Wastewater Fund a total of $202,583 and $1,590,349, respectively. These balances shall be paid back in accordance to the parameters mentioned above.

NOTE 6 – BANKED WATER INVENTORY

The Department of Water Resources (DWR) makes SWP allocations to California water contractors. In 2010, the District was allocated 796 acre-feet of SWP dry year water from Antelope Valley East Kern Water Agency (AVEK). Of the total 796 acre-feet of allocated water, the District received 622 acre-feet, and of this, 503 acre-feet was banked with the Semitropic-Rosamond Water Banking Authority (SRWBA) as part of the District's participation in water banking programs with SRWBA. Pursuant to their long-term groundwater banking program agreement, 90% of the water deliveries to SRWBA, less any losses in transportation, is considered recoverable. Therefore, after transportation losses and evaporation, the District had available 445 acre-feet of banked water with SRWBA. The cost of this water was $233,557.

NOTE 6 – BANKED WATER INVENTORY (Continued)

In 2011, the District delivered 112 acre-feet of dry year water to SRWBA for banking. as part of the District's participation in water banking programs with SRWBA. After transportation losses and evaporation, the District had available 99 acre-feet of banked water with SRWBA. The cost of this water was $273,557. During the fiscal year 2012, the District delivered 875 acre-feet of Dry Year Water to SRWBA for banking. Pursuant to the District's agreement for a long-term groundwater banking program, 90% of water delivered to SRWBA, less any losses in transportation is considered recoverable. Thus, the after transportation losses and evaporation the District has available 1,419 acre-feet banked in SRWBA. The total cost of this water for the District was $518,757.

The following is a summary of the changes in banked water recorded as inventory as of June 30, 2012:

	AVEK	
	Acre-Feet	**Total Cost**
Balance at June 30, 2011	544	$ 273,557
Additions during the year	875	245,200
Deletions during the year	-	-
Balance at June 30, 2012	1,419	$ 518,757

NOTE 7 – INVESTMENT IN WATER BANKING – JOINT POWERS AGREEMENT (JPA)

On July 28, 2008, the District entered into a JPA with Semitropic Water Storage District and Valley Mutual Water Company, LLC, to create the SRWBA to engage in the development, construction and operation of ground water storage and related facilities for the benefit of their members and/or customers.

The foregoing interests of the JPA Members are to be operated in combination as the SRWBA, a single and insofar as practical integrated water bank for (1) the primary purpose of enhancing the reliability of the JPA Members' water supplies for their respective service areas and memberships, and (2) the secondary purpose of providing surplus capacity by contract to third-party customers throughout the State and region.

The Members, their respective percentage of ownership, and capital contributed are:

Semitropic Water Storage District (SWSD), 57% - contributed capacity rights in SWSD's Stored Water Recovery Unit (SWRU) valued at $20,000,000. SWSD maintains direct ownership of SWRU assets related to capacity rights contributed.

Valley Mutual Water Company, LLC (VMWC), 40% - contributed capacity rights in the Antelope Valley Water Bank (AVWB) and property and equipment valued at $18,300,000. VMWC maintains direct ownership of AVWB assets related to capacity rights contributed.

The District, 3% - contributed intellectual property.

Initially, the SRWBA is to consist of a "First Priority Right" to the following interests in the District's SWRU banking project that will provide: (1) 33,333 acre-feet/year of SWRU Delivery Capacity, (2) 300,000 acre-feet of SWRU storage capacity, and (3) 100,000 acre-feet/year of SWRU recovery and return capacity, together with rights to certain unused capacities in the SWRU and other elements of the Semitropic Water Bank, and the following rights in AVWB: (1) 100,000 acre-feet/year of AVWB Delivery Capacity, (2) 500,000 acre-feet of AVWB Storage Capacity, and (3) 100,000 acre-feet/year of AVWB Recovery and Return Capacity.

NOTE 7 – INVESTMENT IN WATER BANKING – JOINT POWERS AGREEMENT (JPA) (Continued)

The District, as a JPA Member of SRWBA, has agreed to acquire 6,000 SRWBA Shares for the amount of $6,000,000 under the JPA. The District made an initial payment of $1,000,000 to SRWBA upon the execution of the JPA and beginning January 1, 2009, the District started making payments of $500,000 to SRWBA every six months (January 1st and July 1st) and will continue to do so until the total payments by the District, including the initial payment, equal $6,000,000. As of June 30, 2012, the District has paid SRWBA $4,000,000.

These shares grant the District the right to deliver, store and recover and return capacities. In addition to the capital component, the District is required to pay an annual management and maintenance fee and delivery and recovery fees. During the year, the District paid $79,680 and $66,000 of management and maintenance fees, respectively. The delivery and recovery fees are stated separately for delivery of water into storage and recovery and return of water from storage.

NOTE 8 – CAPITAL ASSETS

Governmental Activities

Changes in capital assets for the year were as follows:

	Balance 2011	Additions	Deletions/ Transfers	Balance 2012
Non-depreciable assets:				
Land	$ 678,441	$ -	$ -	$ 678,441
Construction-in-progress	54,170	17,361	-	71,531
Total non-depreciable assets	732,611	17,361	-	749,972
Depreciable assets:				
Park improvements	842,563	-	-	842,563
Vehicles and equipment	77,821	-	-	77,821
Total depreciable assets	920,384	-	-	920,384
Accumulated depreciation:				
Park improvements	(181,873)	(49,114)	-	(230,987)
Vehicles and equipment	(60,410)	(11,840)	-	(72,250)
Total accumulated depreciation	(242,283)	(60,954)	-	(303,237)
Total depreciable assets, net	678,101	(60,954)	-	617,147
Total capital assets, net	$ 1,410,712	$ (43,593)	$ -	$ 1,367,119

Construction-in-Progress

The balance at June 30 consists of the following projects:

	2012	2011
Felsite park design	$ 54,594	$ 54,170
Pool pump and filter	16,937	-
	$ 71,531	$ 54,170

NOTE 8 – CAPITAL ASSETS (Continued)

Depreciation Expense

Depreciation expense under governmental activities was allotted as follows for the year ended June 30, 2012:

	Depreciation Expense
Parks and recreation	$ 60,954

Business-Type Activities

Changes in capital assets for the year were as follows:

	Balance 2011	Additions	Deletions/ Transfers	Balance 2012
Non-depreciable assets:				
Land	$ 2,468,515	$ -	$ -	$ 2,468,515
Construction-in-progress	11,779,527	482,695	(195,424)	12,066,798
Total non-depreciable assets	14,248,042	482,695	(195,424)	14,535,313
Depreciable assets:				
Facilities system	48,226,447	-	-	48,226,447
Vehicles and equipment	2,118,719	-	-	2,118,719
Total depreciable assets	50,345,166	-	-	50,345,166
Accumulated depreciation:				
Facilities system	(26,549,073)	(1,551,425)	-	(28,100,498)
Vehicles and equipment	(1,734,365)	(162,265)	-	(1,896,630)
Total accumulated depreciation	(28,283,438)	(1,713,690)	-	(29,997,128)
Total depreciable assets, net	22,061,728	(1,713,690)	-	20,348,038
Total capital assets, net	$ 36,309,770	$ (1,230,995)	$ (195,424)	$ 34,883,351

Construction-in-Progress

The balance at June 30 consists of the following projects:

	2012	2011
Wastewater treatment plant	$ 11,315,753	$ 11,315,753
Various projects <$100,000	751,045	463,774
Construction-in-progress	$ 12,066,798	$ 11,779,527

NOTE 8 – CAPITAL ASSETS (Continued)

Depreciation Expense

Depreciation expense under business-type activities was allotted as follows for the year ended June 30, 2012:

	Depreciation Expense
Water facility and systems	$ 1,514,200
Wastewater facility and systems	199,490
	$ 1,713,690

A summary of changes of capital assets per Enterprise Funds are as follows:

Water Enterprise	Balance 2011	Additions	Deletions/ Transfers	Balance 2012
Non-depreciable assets:				
Land	$ 1,943,923	$ -	$ -	$ 1,943,923
Construction-in-progress	185,259	388,040	(157,292)	416,007
Total non-depreciable assets	2,129,182	388,040	(157,292)	2,359,930
Depreciable assets:				
Water transmission and distribution	42,421,306	-	-	42,421,306
Vehicles and equipment	1,455,875	-	-	1,455,875
Total depreciable assets	43,877,181	-	-	43,877,181
Accumulated depreciation:				
Water transmission and distribution	(22,448,300)	(1,384,966)	-	(23,833,266)
Vehicles and equipment	(1,145,478)	(129,233)	-	(1,274,711)
Total accumulated depreciation	(23,593,778)	(1,514,199)	-	(25,107,977)
Total depreciable assets, net	20,283,403	(1,514,199)	-	18,769,204
Total capital assets, net	$ 22,412,585	$ (1,126,159)	$ (157,292)	$ 21,129,134

Depreciation expense for the year ended June 30, 2012, was $1,514,199.

NOTE 8 – CAPITAL ASSETS (Continued)

Wastewater Enterprise	Balance 2011	Additions	Deletions/ Transfers	Balance 2012
Non-depreciable assets:				
Land	$ 524,591	$ -	$ -	$ 524,591
Construction-in-progress	11,594,269	94,655	(38,132)	11,650,792
Total non-depreciable assets	12,118,860	94,655	(38,132)	12,175,383
Depreciable assets:				
Wastewater system	5,805,140	-	-	5,805,140
Vehicles and equipment	662,846	-	-	662,846
Total depreciable assets	6,467,986	-	-	6,467,986
Accumulated depreciation:				
Wastewater system	(4,100,773)	(166,459)	-	(4,267,232)
Vehicles and equipment	(588,888)	(33,032)	-	(621,920)
Total accumulated depreciation	(4,689,661)	(199,491)	-	(4,889,152)
Total depreciable assets, net	1,778,325	(199,491)	-	1,578,834
Total capital assets, net	$ 13,897,185	$ (104,836)	$ (38,132)	$ 13,754,217

Depreciation expense for the year ended June 30, 2012, was $199,491.

NOTE 9 – COMPENSATED ABSENCES

Compensated absences for vacation leave are accrued as follows:

Years of Service	Days
0 – 3	13
4 – 15	20
more than 15	25

Employees also receive thirteen days of sick leave each year. Sick leave has no accumulation limits and can be carried over from year to year.

- The District’s obligation relating to employees’ rights to receive compensation for future absences is attributable to employees’ services already rendered.
- The obligation related to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonably estimated.

NOTE 9 – COMPENSATED ABSENCES (Continued)

Changes in compensated absences as of June 30, 2012, were as follows:

	Governmental Activities	Business-Type Activities
Compensated absences, beginning	$ 25,212	$ 233,194
Current year employee earnings	29,795	133,380
Employee vacation time taken	(21,543)	(109,812)
Compensated absences, ending	33,464	256,762
Less: current portion payable	(8,366)	(64,190)
Long-term portion payable	$ 25,098	$ 192,572

NOTE 10 – NOTES PAYABLE

Business-type activities:	Balance 2011	Additions	Payments	Adjustments	Balance 2012
Water Fund:					
LaSalle National Bank Note	$ 466,530	$ -	$ (109,621)	$ -	$ 356,909
Zions Bank Note	2,447,343	-	(90,214)	-	2,357,129
Albers Note	100,000	-	(100,000)	-	-
Wastewater Fund:					
LaSalle National Bank Note	311,020	-	(73,080)	-	237,940
Zions Bank Note	311,781	-	(11,493)	-	300,288
State Water Pollution Control Note	7,606,644	-	(336,763)	-	7,269,881
Total	11,243,318	$ -	$ (721,171)	$ -	10,522,147
Less: current portion due	(721,174)				(642,269)
Long-term portion due	$ 10,522,144				$ 9,879,878

La Salle National Bank Note

In May 2003, the District obtained a $2,000,000 note with La Salle National Bank at an interest rate of 4.11% per annum in order to complete the construction of the new administration and operations buildings. The District has split the loan 60/40 between the Water and Wastewater Funds, whereas the Water Fund was obligated $1,200,000 and the Wastewater Fund was obligated $800,000. The note is scheduled to mature in fiscal year 2015. Principal and interest semi-annual installments of $106,402 are payable on November 22nd and May 22nd each year. Annual debt service requirements on the loan are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 190,290	$ 22,514	$ 212,804
2014	198,192	14,612	212,804
2015	206,367	6,437	212,804
Total	594,849	$ 43,563	$ 638,412
Less: current	(190,290)		
Long-term	$ 404,559		

NOTE 10 – NOTES PAYABLE (Continued)

Zions Bank Note

In December 2008, the District obtained a $3,000,000 installment sale note with Zions Bank with interest rates ranging between 3.090% to 5.060% per annum in order to complete the construction of various District projects. The District had originally split the loan 80/20 between the Water and Wastewater Funds, whereas the Water Fund was obligated $2,400,000 and the Wastewater Fund was obligated $600,000. Effective May 2010, the note was spilt 88.7% and 11.3% between the Water and Waste Water Funds to better reflect the outstanding amounts on the actual projects. The note is scheduled to mature in fiscal year 2029. Principal and interest semi-annual installments of $119,720 are payable on December 15th and June 15th each year. Annual debt service requirements on the loan are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 106,460	$ 132,980	$ 239,440
2014	111,760	127,680	239,440
2015	117,483	121,957	239,440
2016	123,503	115,937	239,440
2017	129,832	109,608	239,440
2018-2022	756,035	441,161	1,197,196
2023-2027	970,623	226,575	1,197,198
2028-2029	341,721	17,436	359,157
Total	2,657,417	$ 1,293,334	$ 3,950,751
Less: current	(106,460)		
Long-term	$ 2,550,957		

Albers Note

In December 2008, the District purchased a tract of land and executed a promissory note for $300,000 with an interest rate of prime plus one percent at the date of close of escrow and adjusting annually thereafter. Principal was paid annually on December 12th each year and interest was paid monthly. The note was paid off during fiscal year 2012.

NOTE 10 – NOTES PAYABLE (Continued)

State Water Pollution Control Note

In 2009, the District executed an agreement for a $8,300,000 reclamation note with the State of California Water Pollution Control Fund at an interest rate of 2.6% per annum in order to complete the construction of the new wastewater treatment plant. The note is scheduled to mature in twenty years after the wastewater treatment plant is completed. Principal and interest installments of $534,535 will be payable annually each year. Annual estimated debt service requirements on the loan are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 345,519	$ 189,016	$ 534,535
2014	354,508	180,027	534,535
2015	363,719	170,816	534,535
2016	373,176	161,359	534,535
2017	382,878	151,657	534,535
2018-2022	2,068,991	603,684	2,672,675
2023-2027	2,352,316	320,359	2,672,675
2028-2030	1,028,774	40,292	1,069,066
Total	7,269,881	$ 1,817,210	$ 9,087,091
Less: current	(345,519)		
Long-term	$ 6,924,362		

NOTE 11 – NET ASSETS

The calculations of net asset categories are as follows:

	Governmental Activities	Business-Type Activities	Total
Investment in water banking - JPA	$ -	$ 4,000,000	$ 4,000,000
Capital assets - not being depreciated	749,972	14,535,313	15,285,285
Capital assets - being depreciated, net	617,147	20,348,038	20,965,185
Note payable - current portion	-	(642,269)	(642,269)
Note payable - long-term portion	-	(9,879,878)	(9,879,878)
Net investment in capital assets	$ 1,367,119	$ 28,361,204	$ 29,728,323

	Governmental Activities	Business-Type Activities	Total
	$ 15,141	$ -	$ 15,141
Water Fund - capital improvements	-	212,394	212,394
Wastewater Fund - capital improvements	-	27,058	27,058
Restricted net assets	$ 15,141	$ 239,452	$ 254,593

NOTE 12 – DEFINED BENEFIT PENSION PLAN

Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by State statute and the District. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy

The contribution rate for plan members in the CalPERS 2.5% at 55 Risk Pool Retirement Plan is 8% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension cost (APC) percentage of payroll for fiscal years 2012, 2011, and 2010 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2012, 2011, and 2010, the District's annual contributions for the CalPERS' plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three Years CalPERS Funding Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll
2009-2010	$ 173,398	100%	$ -	12.447%
2010-2011	220,313	100%	-	12.200%
2011-2012	319,403	100%	-	14.850%

Annual Pension Cost

For 2012, the District's annual pension cost of $319,403, depending on age, service and type of employment for CalPERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary from 3.55% to 14.45%, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period is 19 years.

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Underfunded Actuarial Liability as Percentage of Covered Payroll
6/30/2008	$ 1,337,707,835	$ 1,537,909,933	$ 200,202,098	86.98%	$ 333,307,600	60.07%
6/30/2009	1,493,430,831	1,834,424,640	340,993,809	81.41%	355,150,151	96.01%
6/30/2010	1,603,482,152	1,972,910,641	369,428,489	81.27%	352,637,380	104.76%

NOTE 13 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk-sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to manage and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2012, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $2,500,000, combined single limit at $2,500,000 per occurrence. The District purchased additional excess coverage layers: $7,500,000 for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance, and destruction coverages.

- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $1.0 billion per occurrence, subject to a $25,000 deductible per occurrence.

- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to a $25,000 deductible per occurrence.

- Public officials personal liability up to $500,000 each occurrence, with an annual aggregate of $500,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of $500 per claim.

- Workers' compensation insurance up to statutory limits per occurrence and Employer's Liability Coverage up to $5 million.

- Comprehensive and collision insurance on selected vehicle with deductibles of $250/$500 or $500/$1,000, as elected.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal years 2012, 2011, and 2010. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no material IBNR claims payable as of June 30, 2012, 2011, and 2010.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Litigation – Antelope Valley Groundwater Cases

This case involves a series of consolidated cases known as the Antelope Valley Groundwater Cases regarding priority of water rights. On November 30, 2006, the court entered an order defining the boundaries of the adjudication. A second phase of trial was also conducted to determine if there was more than one distinct groundwater basin. In order to create a comprehensive adjudication of all water rights claimants within the groundwater basin, the claimants were identified by two classes, the Willis Class and the Woods Class. On November 18, 2010, the Willis Class was moved for preliminary settlement agreement, which gives the Willis Class the right to seek attorney's fees against the named "public water suppliers," which include the District. On January 24, 2011, the Willis Class served a motion to request attorney's fees against the public water suppliers in the amount of $2,300,618, costs of

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

Litigation – Antelope Valley Groundwater Cases (Continued)

$86,000 and a "lodestar" multiplier of 1.5. The motion proposes an allocation of the award between the public water suppliers based on pumping, and proposes the District pay 5.12% of the requested fees. On February 24, 2011, the courts approved the Willis Class settlement. However, there was no discussion regarding attorney's fees. On May 4, 2011, the judge awarded a total of $1,904,552 to the Willis Class attorneys. The motion proposed an allocation of the award between the PWS based upon pumping, and proposed that the District pay 5.12% of the requested fees or approximately $98,000.

On July 12, 2011, Willis filed a motion for a supplemental award of attorney's fees seeking reimbursement of fees of $209,625 allegedly incurred in 2011. On September 6, 2011, the judge granted to the attorneys an additional $160,663. On September 22, 2011, the court entered an amended final judgment approving class action settlement. The amended final judgment combined the May 4, 2011, and September 6, 2011, attorney's fees into a final judgment of $2,075,174, of which $106,099 is to be paid by the District. An agreement between Willis Class and the District was reached regarding the payment of fees. Willis Class accepted monthly payments from the District in the amount of $4,421 without interest beginning September 1, 2011, for a term of 2 years.

NOTE 15 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2012, expenditures exceeded appropriations in individual funds as follows:

Fund	Appropriations Category	Excess Expenditures
Parks and Recreation Fund	Capital Outlay	$ 17,361

NOTE 16 – FUTURE GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

Recently, the GASB issued several GASB statements as follows:

GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* modifies a number of provisions with regard to reporting of component units within a financial reporting entity. The statement is effective for periods beginning after June 15, 2012. The District has determined that is not applicable to the District's basic financial statements.

GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011. However, as the statement codifies what is in current practice, there is no net effect on the District's accounting or financial reporting upon the statement's implementation, unless removing the GASB Statement No. 20 election to follow FASB statements not in conflict, in which case "except for removal of the disclosure of the election made by the District to follow FASB, AICPA, and other statements not in conflict with GASB statements."

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* modifies current financial reporting of those elements. The largest change will be the replacement of the current Statement of Net (Plan if retirement entity) Assets with a Statement of Net (Plan) Position and a Statement of Changes in Net Position instead of the current Statement of Changes in (Plan) Net Assets upon implementation for periods beginning after December 15, 2011. The District has elected not to early implement and has not determined its effects on the District's basic financial statements.

NOTE 16 – <u>FUTURE GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS</u> (Continued)

GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions* amends current accounting and financial reporting related to terminations of swap agreements due to default or other termination events. In certain instances where swap counterparties or credit support providers are replaced, hedge accounting may continue, rather than cease. The provisions of GASB Statement No. 64 are effective for basic financial statements beginning after June 15, 2011. Because the District does not enter into hedge agreements with swap providers for the purpose of managing risk beyond investment return, GASB Statement No. 64 will not apply.

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities* was released in March 2012. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term "deferred" in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The District has not elected to early implement this statement.

GASB Statement No. 66 – *Technical Corrections—An Amendment of GASB Statements No. 10 and No. 62,* was also released in March 2012. GASB Statement No. 66 resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 66 amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. GASB Statement No. 66 also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The District has not elected to early implement this statement.

GASB Statement No. 67 – *Financial Reporting for Pension Plans—An amendment of GASB Statement No. 25,* released in June 2012, will not apply to the District as the District is not a defined benefit pension plan.

NOTE 16 – FUTURE GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS (Continued)

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, also released in June 2012, will apply to the District in as far as pension expense and liability will be cost-allocated to the District either directly via covered payroll or indirectly through contract. GASB Statement No. 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB Statement No. 68 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. In addition, GASB Statement No. 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. GASB Statement No. 68 also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan. Various new note disclosures and required supplementary information will be presented. GASB Statement No. 68 is effective for fiscal years beginning after June 15, 2014. The District will not early implement GASB Statement No. 68.

NOTE 17 – SUBSEQUENT EVENTS

The District has a JPA agreement with SRWBA (refer to Note 7 – Investment in Water Banking – Joint Powers Agreement (JPA) for further details). As a result of this agreement, the District was required to acquire 6,000 shares for the amount of $6,000,000. Semiannual payments of $500,000 were required until the entire amount of shares were purchased. As of June 30, 2012, the District's outstanding commitment amounted to $2,000,000.

On July 21, 2008, the JPA Board voted to change the payment schedule to reflect a payment of $250,000 every 6 months at a 1% + LAIF (0.348%) rate. Due to the lack of a signed amendment this vote was reaffirmed on October 17, 2012, with the 1st $250,000 installment to be due on July 1, 2013, and repeated every 6 months.

REQUIRED SUPPLEMENTARY INFORMATION

ROSAMOND COMMUNITY SERVICES DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL (By Object)
PARKS AND RECREATION FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Adopted Original Budget	Board Approved Changes	Revised Final Budget	Actual Budgetary Basis	Variance
Revenues:					
Property taxes	$ 290,811	$ -	$ 290,811	$ 233,796	$ (57,015)
Special assessments	231,000	-	231,000	233,966	2,966
Charges for services	40,196	-	40,196	37,239	(2,957)
Capital grants and facility charges	-	-	-	9,000	9,000
Interest earnings	1,100	-	1,100	2,439	1,339
Other	6,900	-	6,900	-	(6,900)
Total revenues	570,007	-	570,007	516,440	(53,567)
Expenditures:					
Salaries	376,733	-	376,733	254,960	121,773
Operations	373,790	-	373,790	333,436	40,354
Capital outlay	-	-	-	17,361	(17,361)
Interest	8,000	-	8,000	-	8,000
Total expenditures	758,523	-	758,523	605,757	152,766
Net change in fund deficit	(188,516)	-	(188,516)	(89,317)	$ 99,199
Fund deficit, beginning of year	(1,568,697)	-	(1,568,697)	(1,568,697)	
Fund deficit, end of year	$ (1,757,213)	$ -	$ (1,757,213)	$ (1,658,014)	

ROSAMOND COMMUNITY SERVICES DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL (By Object)
STREET LIGHTING FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Adopted Original Budget	Board Approved Changes	Revised Final Budget	Actual Budgetary Basis	Variance
Revenues:					
Special assessment	$ 101,611	$ -	$ 101,611	$ 96,863	$ (4,748)
Interest earnings	100	-	100	146	46
Total revenues	101,711	-	101,711	97,009	(4,702)
Expenditures:					
Operations	134,400	-	134,400	103,231	31,169
Total expenditures	134,400	-	134,400	103,231	31,169
Net change in fund balance	(32,689)	-	(32,689)	(6,222)	$ 26,467
Fund balance, beginning of year	60,060	-	60,060	60,060	
Fund balance, end of year	$ 27,371	$ -	$ 27,371	$ 53,838	

SUPPLEMENTARY INFORMATION

ROSAMOND COMMUNITY SERVICES DISTRICT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
WATER FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Adopted Original Budget	Board Approved Changes	Revised Final Budget	Actual Budgetary Basis	Variance
Operating revenues:					
Water consumption sales	$ 2,927,380	$ -	$ 2,927,380	$ 3,289,566	$ 362,186
Total operating revenues	2,927,380	-	2,927,380	3,289,566	362,186
Operating expenses:					
Salaries and benefits	931,882	-	931,882	821,902	109,980
Operations	1,088,005	-	1,088,005	1,173,992	(85,987)
Total operating expenses	2,019,887	-	2,019,887	1,995,894	23,993
Operating income before capital contributions	907,493	-	907,493	1,293,672	386,179
Depreciation expense	-	-	-	(1,514,200)	(1,514,200)
Operating income (loss)	907,493	-	907,493	(220,528)	(1,128,021)
Nonoperating revenue (expense):					
Interest earnings	1,200		1,200	2,428	1,228
Interest expense	(152,000)		(152,000)	(141,854)	10,146
Total nonoperating revenue (expense), net	(150,800)	-	(150,800)	(139,426)	11,374
Capital contributions and purchases:					
Connection fees			-	(45)	(45)
Capital grants	15,000	-	15,000	-	(15,000)
Total capital contributions and purchases	15,000	-	15,000	(45)	(15,045)
Change in net assets	771,693	-	771,693	(359,999)	$ (1,131,692)
Net assets, beginning of year	24,469,378	-	24,469,378	24,469,378	
Net assets, end of year	$ 25,241,071	$ -	$ 25,241,071	$ 24,109,379	

ROSAMOND COMMUNITY SERVICES DISTRICT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
WASTEWATER FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Adopted Original Budget	Board Approved Changes	Revised Final Budget	Actual Budgetary Basis	Variance
Operating revenues:					
Wastewater service charges	$ 2,693,094	$ -	$ 2,693,094	$ 2,857,669	$ 164,575
Total operating revenues	2,693,094	-	2,693,094	2,857,669	164,575
Operating expenses:					
Salaries and benefits	774,261	-	774,261	627,404	146,857
Operations	682,715	-	682,715	510,455	172,260
Total operating expenses	1,456,976	-	1,456,976	1,137,859	319,117
Operating income before capital contributions	1,236,118	-	1,236,118	1,719,810	483,692
Depreciation expense	-	-	-	(199,491)	(199,491)
Operating income	1,236,118	-	1,236,118	1,520,319	284,201
Nonoperating revenue (expense):					
Interest earnings	18,100	-	18,100	16,293	(1,807)
Interest expense	(211,000)	-	(211,000)	(224,527)	(13,527)
Total nonoperating revenue (expense), net	(192,900)	-	(192,900)	(208,234)	(15,334)
Capital contributions and purchases:					
Conservation fees	-	-	-	1,650	1,650
Connection fees	-	-	-	1,071	1,071
Total capital contributions and purchases	-	-	-	2,721	2,721
Change in net assets	1,043,218	-	1,043,218	1,314,806	$ 271,588
Net assets, beginning of year	10,409,899	-	10,409,899	10,409,899	
Net assets, end of year	$ 11,453,117	$ -	$ 11,453,117	$ 11,724,705	

REPORT ON COMPLIANCE AND INTERNAL CONTROLS

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BROWN ARMSTRONG
Certified Public Accountants

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

To the Board of Directors of
Rosamond Community Services District
Rosamond, California

We have audited the basic financial statements of the governmental activities, the business-type activities, and each major fund of the Rosamond Community Services District (District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 28, 2012. 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.

<u>Internal Control Over Financial Reporting</u>
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 opinions on the basic 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.

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 basic financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and recommendations, that we consider to be significant deficiencies in internal control over financial reporting. Findings 1 through 4 were considered to be significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic 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*.

We noted certain matters that we reported to management of the District, in a separate letter dated November 28, 2012.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Board of Directors, others within the District, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 28, 2012

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Current Year Findings

Finding 1 – Inventory

Criteria

Physical observation of inventory and establishing a process in place of tracking inventory establishes accurate values on inventory.

Condition

During our review of controls over inventory we noted the following:

- We were unable to observe the physical count as the count was performed on a date different than what had been communicated to us.
- There is not a process in place to track when inventory is consumed or used.
- Inventory on hand is estimated based on estimated values instead of cost.

Effect

We were unable to view the physical inspection. A lack of a process to determine the consumption of inventory can lead to understated or overstated inventory.

Cause

The District lacks a formal procedure for the performance of inventory counts or valuation of inventory.

Recommendation

We recommend the following:

- Establish a formal schedule for the inventory date count and notify accounting and external auditors.
- Implement procedures to accurately account for inventory consumption and to value inventory.
- A policy should be developed to formalize the above.

Management Response

A formal schedule for the year-end inventory date count is being established and accounting and external auditors will be notified.

As part of the District's software upgrade, Elements Management Software has been acquired and implementation will begin in the spring. Procedures to accurately account for inventory consumption and inventory valuation will be developed as part of the implementation. Once procedures have been developed, they will be formalized in a policy.

Finding 2 – Capital Assets

Criteria

An actual count of capital assets identifies any obsolete items that need to be removed from the accounting records and provides an accurate record of the amounts recorded in the books.

Condition

The District has not performed an inventory count on its capital assets since 2007. In addition, the District does not track assets, therefore, verifying the physical existence of certain assets is difficult.

Effect

Capital assets can be misappropriated or overstated/understated without a physical inspection.

Cause

Lack of formal policy requiring physical inspections.

Recommendation

We recommend the District appoint a responsible individual to oversee capital assets and require in a formal policy the performance of physical inspections every x number of years. Upon completion of the inspection, both the sub-ledger and the general ledger should be adjusted to reflect the results of the inspection. In addition, the sub-ledger should identify each asset by either a serial number or tag number to identify easier.

Management Response

As part of the District's software upgrade, Elements Management Software has been acquired and implementation will begin in the spring. Capital assets will be inventoried and tracked in the system. Upon completion of the inventory the sub-ledger and the general ledger will be updated to reflect the results of the inspection. Once the system is implemented a policy specifying inspections and frequency will be established.

Finding 3 – Wire Transfers

Criteria

Separate of duties should be established in the area of wire transfers to prevent errors or fraudulent transfers.

Condition

The District does not have a policy for executing wire transfers. During our review of wire transfers, we noted there is no separation of duties between the individual that initiates the transfers and the individual who reviews them.

Effect

Errors can occur, or wire transfers can be processed fraudulently.

Cause

There are no separation of duties between the individual that processes wire transfers and the individual that reviews them.

Recommendation

We recommend the District implement procedures for the execution of wire transfers. An individual independent of executing the transfers should be reviewing them to strengthen controls in this area and prevent unauthorized transfers.

Management Response

The District has now developed a wire transfer policy that incorporates the recommendations noted above.

Finding 4 – GASB Statement No. 54 Fund Balance

Criteria

A fund balance policy identifies the individuals with authority to make determinations on the use of resources.

Condition

The District was required to implement the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54 in the current fiscal year. GASB Statement No. 54 requires government entities to establish a fund balance policy and, among other things, designate the authority to individuals or the Board of Directors to identify intended uses of assigned funds. Also, it requires government entities to establish the order in which fund balances will be spent when multiple funds types are available for an expenditure.

Effect

Resources are not being spent in accordance with this intent.

Cause

Time constraints due to shortage in accounting staff.

Recommendation

The District should develop a policy on Fund Balance to comply with GASB Statement No. 54 that will designate individuals responsible for making determinations regarding the use of District resources for its governmental funds.

Management Response

The District has now developed a policy that incorporates the recommendations noted above.

Status of Prior Year Findings

Finding 1 – Adjusting Journal Entries

Criteria

Written policies provide guidance to District staff in properly initiating, reviewing, and posting journal entries.

Condition

The District does not have a written policy regarding journal entries.

Effect

The lack of written policies can lead to staff confusion and errors regarding the processing of journal entries.

Cause

There are no written policies.

Recommendation

We recommend the District implement a formal journal entry policy regarding the preparation, review, and posting of journal entries.

Management Response

A formal journal entry procedure regarding the preparation, review, and posting of journal entries will be developed.

The current informal procedure requires journal entries prepared by the Senior Accounting Clerk be reviewed prior to posting. The District Accountant and Senior Accounting Clerk are currently the only preparers of adjusting journal entries. All journal entries prepared by the District Accountant and Senior Accounting Clerk are maintained in hard copy with any supporting documentation and are filed by sequential entry number, as assigned by the accounting system, in binders maintained by the District Accountant and are available for review. These entries can be compared to those recorded in the accounting system.

Current Year Status

Implemented.

Finding 2 – Wire Transfers

Criteria

Separate of duties should be established in the area of wire transfers to prevent errors or fraudulent transfers.

Condition

The District does not have a policy for executing wire transfers. During our review of wire transfers, we noted there is no separation of duties between the individual that initiates the transfers and the individual who reviews them.

Effect

Errors can occur, or wire transfers can be processed fraudulently.

Cause

There are no separation of duties between the individual that processes wire transfers and the reviewer.

Recommendation

We recommend the District implement procedures for the execution of wire transfers. An individual independent of executing the transfers should be reviewing them to strengthen controls in this area and prevent unauthorized transfers.

Management Response

Wire transfers have been infrequent. There were two transfers for the fiscal year. A procedure for the District Accountant to request the transfer, obtain approval from the General Manager, and execute the transfer will be established.

Current Year Status

See current year finding.

Finding 3 – Payroll

Criteria

Keeping adequate forms in the personnel files support pay increases and defining the responsibilities of compensation committees provides guidance to staff with regards to roles and responsibilities and strengthens controls in the area of payroll.

Condition

During our testing of controls over payroll, we noted the following conditions:

- We tested a sample of 30 individuals to view the personnel files and verify pay authorizations. We noted two instances in which pay increases appeared to be approved by the former General Manager; however, they were outside the approved salary schedules. We also noticed another instance in which the employee file did not contain the employee status change form to properly substantiate the increased pay rate.

- There are no written procedures to define the roles and responsibilities of the compensation committee.

Effect

We were unable to verify that the pay increase had been authorized for one individual as the employee status change form was missing. In addition, it was unclear whether the former General Manager had authorization to give raises outside of the pay schedules.

Cause

Lack of controls in payroll and lack of defining roles and responsibilities of the compensation committee and authority with regards to pay increases.

Recommendation

We recommend the District review its policies and procedures with respect to payroll and implement the following:

- Documentation of all pay increase authorizations should be kept in the file.

- The District should develop a policy to define the roles and responsibilities of the compensation committee. The policy should encompass authority to grant pay increase. Pay increases falling outside of the salary schedules should not be determined by one individual.

Management Response

A salary schedule was approved by the Board of Directors on October 2, 2011. The District has implemented an Employee Change of Status Form that is required when adjusting compensation. This form requires the Supervisor, Employee, and General Manager signatures prior to it being changed in the system. The original is kept in the employee's file and a copy goes with the Payroll file.

In addition, the District is currently establishing a policy to address wage increases outside of the adopted salary schedule. Such increases will be reviewed and approved by the Compensation Committee which will include the General Manager, President of the Board of Directors, and the District Accountant.

Current Year Status

No similar findings noted. Refer to the separate management letter for additional payroll recommendations.

Finding 4 – Inventory

Criteria

Physical observation of inventory and establishing a process in place of tracking inventory establishes more accurately values on inventory.

Condition

During our review of controls over inventory, we noted the following:

- We were unable to observe the physical count as we were not notified of the day of the count. From discussion with District staff, we were informed a full inspection had not been performed.
- There is not tracking of when inventory is consumed or used.
- Inventory kept on hand is estimated based on the estimated value instead of cost.

Effect

Not performing a full physical inspection can lead to errors in the value of inventory.

Cause

Lack of formal procedures for the performance of inventory counts.

Recommendation

We recommend the District schedule the inventory count and notify the auditor prior to the inspection so that a physical observation can be performed. The inspection should include all items.

Management Response

An inventory date of June 28, 2012, has been set. This is the last full workday of the 2012 fiscal year.

Current Year Status

See current year finding.

Finding 5 – Capital Assets

Criteria

An actual count of capital assets identifies any obsolete items that need to be removed from the accounting records and provides an accurate record of the amounts recorded in the books.

Condition

The District has not performed an inventory count on its capital assets since 2007. In addition, during our testing of capital additions, we were unable to verify their existence as there were multiple items that fit the description and it was difficult to determine whether those were the assets we selected.

Effect

Capital assets could be misappropriated or overstated/understated absent a physical inspection.

Cause

Lack of a formal policy to perform a physical inspection.

Recommendation

We recommend the District implement a policy to perform a physical inventory of capital assets every x number of years. Upon completion of the physical inspection, both the sub-ledger and the general ledger should be adjusted accordingly to reflect the results of the physical inspection. In addition, the sub-ledger should identify each asset either by the serial number or tag numbers so that these could easily be identified.

Management Response

With the current level of staffing, the District will implement a procedure to perform a physical inspection of a quarter of the capital assets each year. At the end of the fourth year, all listed assets will have been subject to examination. Any records of capital assets acquired prior to 2007 will need to be located. The current sub-ledger was assembled from only spotty records available and provided by the consultants that were contracted in 2007 to reconstruct the financial records for the three fiscal years ending in 2007. Asset tags will be assigned as appropriate.

Detailed asset records have been kept for all capital asset additions since fiscal year 2007.

Current Year Status

See current year similar finding.

Finding 6 – GASB Statement No. 54 Fund Balance

Criteria

A fund balance policy identifies the individuals with authority to make determinations on the use of resources.

Condition

The District was required to implement the provisions of GASB Statement No. 54 in the current fiscal year. GASB Statement No. 54 requires government entities to establish a fund balance policy and, among other things, designate the authority to individuals or the Board themselves to identify intended uses of assigned funds. Also, it requires government entities to establish the order in which fund balances will be spent when multiple funds types are available for an expenditure.

Effect

Resources being spent not in accordance with its intent.

Cause

Time constraints due to shortage in accounting staff.

Recommendation

The District should develop a policy on Fund Balance to comply with GASB Statement No. 54 that will designate individuals responsible for making determinations regarding the use of District resources for its governmental funds.

Management Response

The District will develop a policy on Fund Balance to comply with GASB Statement No. 54.

Current Year Status

See current year finding.

Finding 7 – Accounts Receivable Write-Offs

Criteria

Establishing a policy with respect to write-offs

Condition

The District corrects errors in accounts receivable for customers by making adjustments on a monthly basis or when the error is caught. Most of these errors are due to incorrect meter readings. During our observation over this process, we noted the individual responsible for taking payments also had the ability to make adjustments to customer accounts. A review of these adjustments was not being performed at month end.

Effect

Possible misappropriation of funds.

Cause

Lack of separation of duties or a review of these adjustments by a responsible individual.

Recommendation

We recommend a responsible individual review these adjustments at month end to ensure no unauthorized adjustments are being made. In addition, if not done so, we recommend the individual with access to make adjustment does not have custody over cash.

Management Response

An adjustment form is prepared by a Customer Service employee for review and approval by the Director of Administration prior to an adjustment being made. In addition, a report to review adjustments has been created. This report will be run on a monthly basis and reviewed by the Director of Administration and the General Manager.

Current Year Status

Implemented.