

ROSAMOND COMMUNITY SERVICES DISTRICT

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2010**

**ROSAMOND COMMUNITY SERVICES DISTRICT
FOR THE YEAR ENDED JUNE 30, 2010**

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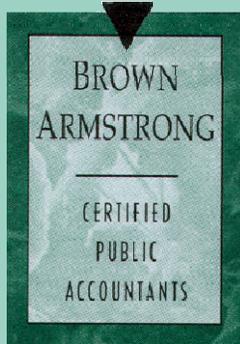
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the District as of June 30, 2009, were audited by other auditors, whose report dated September 30, 2009, on those statements was unqualified.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

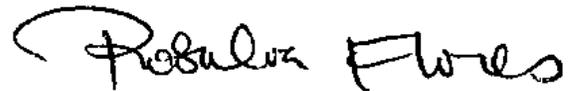
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of June 30, 2010, and the respective changes in financial position 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 State regulations governing special districts.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and 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 February 28, 2011, 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 financial statements that collectively comprise the District's financial statements as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental 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

A handwritten signature in black ink that reads "Rosalva Flores". The signature is written in a cursive style with a large initial "R" and a long, sweeping underline.

Bakersfield, California
February 28, 2011

**ROSAMOND COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

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 financial statements of the District for the fiscal year ended June 30, 2010. 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 decreased by 3.19% or \$1,165,714 to \$35,334,027 as a result of this year's operations.
- Total revenues increased by 25.59% or \$1,234,317 due primarily to an increase in charges for services of \$870,014 and capital contributions of \$508,707.
- Total expenses decreased by 6.21% or \$478,423 due primarily to a \$147,407 decrease in salaries and benefits expense and a \$572,783 decrease in operating expenses.

Using This Financial Report

This annual report consists of a series of 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 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 37.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *supplemental information* concerning the District's major-fund budgetary information. The supplemental information can be found on pages 38 through 41.

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	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and other assets	\$ 294,274	\$ 395,105	\$ 5,668,654	\$ 8,305,767	\$ 5,962,928	\$ 8,700,872
Restricted assets	-	-	239,591	1,690,641	239,591	1,690,641
Non-current assets	(1,479,857)	(821,698)	4,213,124	2,321,698	2,733,267	1,500,000
Capital assets, net	1,468,937	1,273,598	37,936,409	38,396,770	39,405,346	39,670,368
Total assets	283,354	847,005	48,057,778	50,714,876	48,341,132	51,561,881
Liabilities:						
Current liabilities	101,268	399,052	1,557,219	2,608,691	1,658,487	3,007,743
Non-current liabilities	55,899	40,228	11,292,719	12,014,169	11,348,618	12,054,397
Total liabilities	157,167	439,280	12,849,938	14,622,860	13,007,105	15,062,140
Net assets:						
Net investment in capital assets, net of related debt	1,468,937	1,273,598	28,627,225	27,673,515	30,096,162	28,947,113
Restricted	-	-	239,591	1,690,641	239,591	1,690,641
Unrestricted	(1,342,750)	(865,873)	6,341,024	6,727,860	4,998,274	5,861,987
Total net assets	\$ 126,187	\$ 407,725	\$ 35,207,840	\$ 36,092,016	\$ 35,334,027	\$ 36,499,741

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 \$35,334,027 as of June 30, 2010. Compared to prior year, net assets of the District decreased 3.19% or \$1,165,714. The District's net assets are made-up of three components: (1) net investment in capital assets, net of related debt of \$30,096,162, (2) restricted net assets of \$239,591 and (3) unrestricted net assets of \$4,998,274.

Statement of Activities

The following table is a summary of the Statement of Activities for the year ended June 30, 2010.

	Condensed Statement of Activities					
	Governmental Activities		Business-type Activities		Total District	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 376,266	\$ 302,645	\$ 4,418,350	\$ 3,621,957	\$ 4,794,616	\$ 3,924,602
Capital grants and contributions	206,348	3,628	746,910	440,923	953,258	444,551
General revenues:						
Property taxes	266,199	313,652	-	-	266,199	313,652
Interest earnings	1,699	10,148	41,062	129,564	42,761	139,712
Total revenues	850,512	630,073	5,206,322	4,192,444	6,056,834	4,822,517
Expenses:						
Salaries and benefits	682,444	740,656	2,285,689	2,374,884	2,968,133	3,115,540
Operations	390,713	388,742	1,660,265	2,235,019	2,050,978	2,623,761
Depreciation	52,378	37,547	1,740,526	1,707,435	1,792,904	1,744,982
Interest	6,515	17,836	404,018	198,852	410,533	216,688
Total expenses	1,132,050	1,184,781	6,090,498	6,516,190	7,222,548	7,700,971
Change in net assets	(281,538)	(554,708)	(884,176)	(2,323,746)	(1,165,714)	(2,878,454)
Net assets, beginning of year	407,725	962,433	36,092,016	38,415,762	36,499,741	39,378,195
Net assets, end of year	\$ 126,187	\$ 407,725	\$ 35,207,840	\$ 36,092,016	\$ 35,334,027	\$ 36,499,741

Government and business-type activities decreased the District's net assets by \$1,165,714, thereby accounting for the 3.19% decrease in the net assets of the District.

The District's total revenues increased by 25.59% or \$1,234,317, due primarily to an increase in charges for services of \$870,014 and capital contributions of \$508,707.

The District's total expenses decreased by 6.21% or \$478,423 due primarily to a \$147,407 decrease in salaries and benefits expense and a \$572,783 decrease in operating expenses.

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 2010 budget versus actual comparison is analyzed by management throughout the year.

A 2010 budget versus actual comparison combined for all funds is presented in the table below.

**Budget vs. Actual Comparison
Year Ended June 30, 2010**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating revenues:			
Property taxes	\$ 266,199	\$ 285,200	\$ (19,001)
Special assessments	329,457	320,580	8,877
Charges for services	46,809	40,000	6,809
Capital grants and facility charges	206,348	2,000	204,348
Other	-	351,618	(351,618)
Water consumption sales	2,549,270	3,190,125	(640,855)
Wastewater service charges	1,869,080	1,734,285	134,795
Total operating revenues	<u>5,267,163</u>	<u>5,923,808</u>	<u>(656,645)</u>
Operating expenses:			
Salaries and benefits	2,960,746	3,240,783	(280,037)
Operations	2,043,986	2,719,373	(675,387)
Capital outlay	247,717	-	247,717
Total operating expenses	<u>5,252,449</u>	<u>5,960,156</u>	<u>(707,707)</u>
Operating income (loss) before capital	14,714	(36,348)	51,062
Depreciation expense	(1,740,526)	-	(1,740,526)
Operating income (loss)	<u>(1,725,812)</u>	<u>(36,348)</u>	<u>(1,689,464)</u>
Non-operating revenue (expense):			
Interest earnings	42,761	142,656	(99,895)
Interest expense	(404,018)	(203,000)	(201,018)
Total non-operating, net	<u>(361,257)</u>	<u>(60,344)</u>	<u>(300,913)</u>
Capital contributions and purchases:			
Conservation fees	132,000	-	132,000
Capital grants	22,910	-	22,910
Connection fees	592,000	-	592,000
Total capital contributions	<u>746,910</u>	<u>-</u>	<u>746,910</u>
Net Change	<u>\$ (1,340,159)</u>	<u>\$ (96,692)</u>	<u>\$ (1,243,467)</u>

Operating revenues in total for the fiscal year ended June 30, 2010, are under budget by about \$686,007 due primarily to water sales less than anticipated. Non-operating revenues are under budget due primarily to lower interest earnings. Water costs are under budget due to lower salaries and operation expenses. The District does not budget for depreciation. Non-operating expenses were under budget due primarily to higher interest expenses on borrowings.

Capital Asset Administration

	Capital Assets					
	Governmental Activities		Business-type Activities		Total District	
	2010	2009	2010	2009	2010	2009
Capital assets:						
Non-depreciable assets	\$ 727,307	\$ 710,058	\$ 14,323,567	\$ 13,403,608	\$ 15,050,874	\$ 14,113,666
Depreciable assets	920,384	689,916	50,151,735	49,791,529	51,072,119	50,481,445
Total capital assets	1,647,691	1,399,974	64,475,302	63,195,137	66,122,993	64,595,111
Accumulated depreciation	(178,754)	(126,376)	(26,538,893)	(24,798,367)	(26,717,647)	(24,924,743)
Total capital assets, net	<u>\$ 1,468,937</u>	<u>\$ 1,273,598</u>	<u>\$ 37,936,409</u>	<u>\$ 38,396,770</u>	<u>\$ 39,405,346</u>	<u>\$ 39,670,368</u>

At the end of fiscal year 2010, the District's investment in capital assets amounted to \$39,405,346 (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 6 to the basic financial statements.

Long-term Debt Administration

	Long-term Debt	
	Business-type Activities	
	2010	2009
Long-term debt:		
Notes payable	<u>\$ 11,809,184</u>	<u>\$ 12,223,255</u>

Long-term debt decreased due to authorizing repayments of \$414,071 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. Customers may only conduct business in person at the District offices on Monday through Thursday from 8:00 am to 5:00 pm. Parks and Recreation programs have been minimized and only 1 part-time staff remains. 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 operating. Future budgets will also be affected in the near term. See Note 17 – Going Concern for additional details.

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, 2010

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents (Note 2)	\$ 108,413	\$ 4,634,413	\$ 4,742,826
Accrued interest receivable	528	4,704	5,232
Accounts receivable - utilities, net (Note 4)	19,761	431,270	451,031
Accounts receivable - other	151,616	211,564	363,180
Property taxes and assessments receivable	1,955	-	1,955
Materials and supplies inventory	-	160,134	160,134
Prepaid expenses and other deposits	12,001	226,569	238,570
	<u>294,274</u>	<u>5,668,654</u>	<u>5,962,928</u>
Total current assets			
Non-current assets:			
Restricted - cash and cash equivalents (Note 2 and 3)	-	239,591	239,591
Banked water inventory (Note 6)	-	233,267	233,267
Internal balances (Note 5)	(1,479,857)	1,479,857	-
Investment in water banking - JPA (Note 7)	-	2,500,000	2,500,000
Capital assets, not being depreciated (Note 8)	727,307	14,323,567	15,050,874
Depreciable capital assets, net (Note 8)	741,630	23,612,842	24,354,472
	<u>(10,920)</u>	<u>42,389,124</u>	<u>42,378,204</u>
Total non-current assets			
	<u>\$ 283,354</u>	<u>\$ 48,057,778</u>	<u>\$ 48,341,132</u>
Total assets			
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 39,674	\$ 554,578	\$ 594,252
Accrued wages and related payables	27,961	62,219	90,180
Customer deposits and deferred revenue	15,000	124,600	139,600
Accrued interest on long-term debt	-	60,566	60,566
Long-term liabilities - due within one year:			
Compensated absences (Note 9)	18,633	59,697	78,330
Notes payable (Note 10)	-	695,559	695,559
	<u>101,268</u>	<u>1,557,219</u>	<u>1,658,487</u>
Total current liabilities			
Non-current liabilities:			
Long-term liabilities - due in more than one year:			
Compensated absences (Note 9)	55,899	179,094	234,993
Notes payable (Note 10)	-	11,113,625	11,113,625
	<u>55,899</u>	<u>11,292,719</u>	<u>11,348,618</u>
Total non-current liabilities			
	<u>157,167</u>	<u>12,849,938</u>	<u>13,007,105</u>
Total liabilities			
Net assets: (Note 11)			
Net investment in capital assets, net of related debt	1,468,937	28,627,225	30,096,162
Restricted	-	239,591	239,591
Unrestricted	(1,342,750)	6,341,024	4,998,274
	<u>\$ 126,187</u>	<u>\$ 35,207,840</u>	<u>\$ 35,334,027</u>
Total net assets			

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Parks and recreation	\$ 1,034,391	\$ 280,991	\$ -	\$ 206,348	\$ (547,052)	\$ -	\$ (547,052)
Street lighting	97,659	95,275	-	-	(2,384)	-	(2,384)
Total governmental	1,132,050	376,266	-	206,348	(549,436)	-	(549,436)
Business-type activities:							
Water	4,440,210	2,548,640	-	422,910	-	(1,468,660)	(1,468,660)
Sewer	1,650,288	1,869,710	-	324,000	-	543,422	543,422
Total business-type	6,090,498	4,418,350	-	746,910	-	(925,238)	(925,238)
Total	\$ 7,222,548	\$ 4,794,616	\$ -	\$ 953,258	(549,436)	(925,238)	(1,474,674)
General revenues:							
Property taxes					266,199	-	266,199
Interest earnings					1,699	41,062	42,761
Total general revenues					267,898	41,062	308,960
Change in net assets					(281,538)	(884,176)	(1,165,714)
Net assets, beginning of year					407,725	36,092,016	36,499,741
Net assets, end of year					\$ 126,187	\$ 35,207,840	\$ 35,334,027

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Total Governmental Activities</u>
Assets:			
Cash and cash equivalents (Note 2)	\$ 32,142	\$ 76,271	\$ 108,413
Accrued interest receivable	474	54	528
Accounts receivable - utilities, net (Note 4)	524	19,237	19,761
Accounts receivable - other	151,616	-	151,616
Property taxes and assessments receivable	1,955	-	1,955
Prepaid expenses and other deposits	12,001	-	12,001
Total assets	<u>\$ 198,712</u>	<u>\$ 95,562</u>	<u>\$ 294,274</u>
Liabilities:			
Accounts payable and accrued expenses	\$ 31,161	\$ 8,513	\$ 39,674
Accrued wages and related payables	27,961	-	27,961
Customer deposits and deferred revenue	-	15,000	15,000
Due to other funds (Note 5)	1,479,857	-	1,479,857
Total liabilities	<u>1,538,979</u>	<u>23,513</u>	<u>1,562,492</u>
Fund balances (deficit):			
Reserved for prepaid expenses	12,001	-	12,001
Reserved for provision for compensated absences	74,532	-	74,532
Reserved for street lighting	-	72,049	72,049
Unreserved	(1,426,800)	-	(1,426,800)
Total fund balances (deficit)	<u>(1,340,267)</u>	<u>72,049</u>	<u>(1,268,218)</u>
Total liabilities and fund balances (deficit)	<u>\$ 198,712</u>	<u>\$ 95,562</u>	<u>\$ 294,274</u>

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, 2010**

Reconciliation:

Fund balance (deficit) of governmental funds	\$ (1,268,218)
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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.	1,468,937
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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	<u>(74,532)</u>
Net assets of governmental activities	<u><u>\$ 126,187</u></u>

**ROSAMOND COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Total Governmental Activities</u>
Revenues:			
Property taxes	\$ 266,199	\$ -	\$ 266,199
Special assessments	234,182	95,275	329,457
Charges for services	46,809	-	46,809
Capital grants and facility charges	206,348	-	206,348
Interest earnings	1,459	240	1,699
	<u>754,997</u>	<u>95,515</u>	<u>850,512</u>
Expenditures:			
Parks and recreation	961,119	-	961,119
Street lighting	-	97,659	97,659
Capital outlay	247,717	-	247,717
	<u>1,208,836</u>	<u>97,659</u>	<u>1,306,495</u>
Net change in fund balances (deficit)	(453,839)	(2,144)	(455,983)
Fund balances (deficit), beginning of year	<u>(886,428)</u>	<u>74,193</u>	<u>(812,235)</u>
Fund balances (deficit), end of year	<u><u>\$ (1,340,267)</u></u>	<u><u>\$ 72,049</u></u>	<u><u>\$ (1,268,218)</u></u>

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, 2010**

Reconciliation:

Net change in fund balances (deficit) of total governmental funds	\$ (455,983)
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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	247,717
Depreciation expense	(52,378)

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	<u>(20,894)</u>
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Change in net assets of governmental activities	<u><u>\$ (281,538)</u></u>
---	----------------------------

**ROSAMOND COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
JUNE 30, 2010**

<u>Assets</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total Business-type Activities</u>
Current assets:			
Cash and cash equivalents (Note 2)	\$ 1,639,533	\$ 2,994,880	\$ 4,634,413
Accrued interest receivable	-	4,704	4,704
Accounts receivable - utilities, net (Note 4)	277,131	154,139	431,270
Accounts receivable - other	179,841	31,723	211,564
Materials and supplies inventory	160,134	-	160,134
Prepaid expenses and other deposits	179,514	47,055	226,569
Total current assets	<u>2,436,153</u>	<u>3,232,501</u>	<u>5,668,654</u>
Non-current assets:			
Restricted - cash and cash equivalents (Note 2 and 3)	212,517	27,074	239,591
Banked water inventory (Note 6)	233,267	-	233,267
Due from other funds (Note 5)	363,634	1,116,223	1,479,857
Investment in water banking - JPA (Note 7)	2,500,000	-	2,500,000
Capital assets, not being depreciated (Note 8)	2,157,596	12,165,971	14,323,567
Capital assets, being depreciated, net (Note 8)	21,731,339	1,881,503	23,612,842
Total non-current assets	<u>27,198,353</u>	<u>15,190,771</u>	<u>42,389,124</u>
Total assets	<u><u>\$ 29,634,506</u></u>	<u><u>\$ 18,423,272</u></u>	<u><u>\$ 48,057,778</u></u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 417,727	\$ 136,851	\$ 554,578
Accrued wages and related payables	43,458	18,761	62,219
Customer deposits and deferred revenue	123,800	800	124,600
Accrued interest on long-term debt	7,686	52,880	60,566
Long-term liabilities - due within one year:			
Compensated absences (Note 9)	32,582	27,115	59,697
Notes payable (Note 10)	291,740	403,819	695,559
Total current liabilities	<u>916,993</u>	<u>640,226</u>	<u>1,557,219</u>
Non-current liabilities:			
Long-term liabilities - due in more than one year:			
Compensated absences (Note 9)	97,747	81,347	179,094
Notes payable (Note 10)	3,013,873	8,099,752	11,113,625
Total non-current liabilities	<u>3,111,620</u>	<u>8,181,099</u>	<u>11,292,719</u>
Total liabilities	<u>4,028,613</u>	<u>8,821,325</u>	<u>12,849,938</u>
Net assets: (Note 11)			
Net investment in capital assets	23,083,322	5,543,903	28,627,225
Restricted	212,517	27,074	239,591
Unrestricted	2,310,054	4,030,970	6,341,024
Total net assets	<u><u>\$ 25,605,893</u></u>	<u><u>\$ 9,601,947</u></u>	<u><u>\$ 35,207,840</u></u>

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, 2010**

	<u>Water</u>	<u>Wastewater</u>	<u>Total Business-type Activities</u>
Operating revenues:			
Water consumption sales	\$ 2,548,640	\$ 630	\$ 2,549,270
Sewer service charges	-	1,869,080	1,869,080
Total operating revenues	<u>2,548,640</u>	<u>1,869,710</u>	<u>4,418,350</u>
Operating expenses:			
Salaries and benefits	1,536,384	749,305	2,285,689
Operations	1,220,877	439,388	1,660,265
Total operating expenses	<u>2,757,261</u>	<u>1,188,693</u>	<u>3,945,954</u>
Operating income (loss) before depreciation	(208,621)	681,017	472,396
Depreciation expense	(1,524,996)	(215,530)	(1,740,526)
Operating income (loss)	<u>(1,733,617)</u>	<u>465,487</u>	<u>(1,268,130)</u>
Non-operating revenue (expense):			
Interest earnings	7,401	33,661	41,062
Interest expense	(157,953)	(246,065)	(404,018)
Total non-operating, net	<u>(150,552)</u>	<u>(212,404)</u>	<u>(362,956)</u>
Capital contributions:			
Conservation fees	-	132,000	132,000
Capital grants	22,910	-	22,910
Connection fees	400,000	192,000	592,000
Total capital contributions	<u>422,910</u>	<u>324,000</u>	<u>746,910</u>
Change in net assets	(1,461,259)	577,083	(884,176)
Net assets, beginning of year	<u>27,067,152</u>	<u>9,024,864</u>	<u>36,092,016</u>
Net assets, end of year	<u>\$ 25,605,893</u>	<u>\$ 9,601,947</u>	<u>\$ 35,207,840</u>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Water</u>	<u>Wastewater</u>	<u>Total Business-type Activities</u>
Cash flows from operating activities:			
Cash receipts from customers	\$ 2,495,685	\$ 1,859,028	\$ 4,354,713
Cash paid to employees for salaries and benefits	(1,542,955)	(720,531)	(2,263,486)
Cash paid to vendors and suppliers	(1,916,146)	(872,122)	(2,788,268)
Net cash provided (used) by operating activities	<u>(963,416)</u>	<u>266,375</u>	<u>(697,041)</u>
Cash flows from capital and related financing activities:			
Acquisitions and construction of capital assets	(39,066)	(1,241,099)	(1,280,165)
Proceeds from capital contributions	422,910	324,000	746,910
Internal cash advanced	1,364,445	(2,022,604)	(658,159)
Cash received from notes payable	15,372	6,093,710	6,109,082
Principal payments on notes payable	(43,213)	(703,851)	(747,064)
Interest payments on notes payable	(157,985)	(218,803)	(376,788)
Net cash provided by capital and related financing activities	<u>1,562,463</u>	<u>2,231,353</u>	<u>3,793,816</u>
Cash flows from investing activities:			
Interest earnings	7,401	30,724	38,125
Payment for investment in water banking - JPA	(1,000,000)	-	(1,000,000)
Net cash provided (used) by investing activities	<u>(992,599)</u>	<u>30,724</u>	<u>(961,875)</u>
Net Increase (decrease) in cash and cash equivalents	(393,552)	2,528,452	2,134,900
Cash and cash equivalents, beginning of year	<u>2,245,602</u>	<u>493,502</u>	<u>2,739,104</u>
Cash and cash equivalents, end of year	<u>\$ 1,852,050</u>	<u>\$ 3,021,954</u>	<u>\$ 4,874,004</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$ (1,733,617)</u>	<u>\$ 465,487</u>	<u>\$ (1,268,130)</u>
Depreciation expense	1,524,996	215,530	1,740,526
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable - utilities, net	(59,027)	(39,318)	(98,345)
Accounts receivable - other	8,243	68,532	76,775
Materials and supplies inventory	8,305	-	8,305
Prepaid expenses and other deposits	(49,951)	513,127	463,176
Banked water inventory	(233,267)	-	(233,267)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	(420,356)	(945,861)	(1,366,217)
Accrued wages and related payables	(15,538)	3,590	(11,948)
Customer deposits and deferred revenue	(2,171)	(39,896)	(42,067)
Compensated absences	8,967	25,184	34,151
Total adjustments	<u>770,201</u>	<u>(199,112)</u>	<u>571,089</u>
Net cash provided (used) by operating activities	<u>\$ (963,416)</u>	<u>\$ 266,375</u>	<u>\$ (697,041)</u>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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 financial reporting entity 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, 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 non-operating 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 period. 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 non-operating 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 non-operating 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 entity 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, reserves and designations segregate portions of fund balances that are either not available or have been earmarked for specific purposes. Reservations and designations of fund balance are described below:

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

C. Financial Statement Elements (Continued)

8. Net Assets/Fund Balances (Continued)

- Reserved – Some of the assets reported in governmental funds are not available for spending in the subsequent year's budget. Fund balance also is reserved to indicate situations where a portion of fund balance is not available for spending on any and all purposes of the fund.
- Unreserved Designated – Designations essentially reflect a government's self imposed limitations on the use of otherwise available current financial resources.

9. 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.

10. 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.

11. 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 financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

12. Budgetary Policies

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. In accordance with District Ordinance 078-1, prior to May 1, each year the District Manager submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following July 1. 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 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 and all major special revenue funds.

13. California State Water Project (SWP)

The California State Water Project 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.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2010, are classified by fund as follows:

Governmental activity funds:	
Parks and recreation	\$ 32,142
Street lighting	76,271
	<hr/>
Total	108,413
	<hr/>
Business-type activity funds:	
Water	1,852,050
Wastewater	3,021,954
	<hr/>
Total	4,874,004
	<hr/>
Total cash and cash equivalents	<u>\$ 4,982,417</u>

Cash and cash equivalents as of June 30, 2010, consist of the following:

Cash on hand	\$ 950
Deposits held with financial institutions	431,239
Deposit of note proceeds held with financial institutions	239,591
Certificate of deposit	42,731
Deposits held with the California Local Agency Investment Fund (LAIF)	4,267,906
	<hr/>
Total	<u>\$ 4,982,417</u>

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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 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 \$472,466 as of June 30, 2010. Of the bank balances, up to \$250,000 for 2010 is federally insured and the remaining balance of \$222,466 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:

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

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

Interest Rate Risk (Continued)

Investment Type	Total	Remaining Maturity 12 Months or Less
Certificates of Deposit	\$ 42,731	\$ 42,731
Local Agency Investment Fund (LAIF)	4,267,906	4,267,906
	\$ 4,310,637	\$ 4,310,637

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	Not Rated
Certificates of Deposit	\$ 42,731	N/A	\$ 42,731	\$ -	\$ -
Local Agency Investment Fund (LAIF)	4,267,906	N/A	-	-	4,267,906
	\$ 4,310,637		\$ 42,731	\$ -	\$ 4,267,906

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 85.7% of the District's total depository and investment portfolio as of June 30, 2010.

NOTE 3 – RESTRICTED CASH AND CASH EQUIVALENTS

Restricted funds of \$212,517 in the Water Fund and \$27,074 in the Sewer Fund are included in non-current 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.

NOTE 4 – ACCOUNTS RECEIVABLE – UTILITIES, NET

The accounts receivable – utilities balance consists of the following balances as of June 30, 2010:

	Parks and Recreation	Street Lighting	Water	Wastewater	Total
Accounts receivable - utilities	\$ 524	\$ 19,237	\$ 277,131	\$ 154,139	\$ 451,031
Allowance for uncollectible receivables	-	-	-	-	-
Accounts receivable - utilities, net	\$ 524	\$ 19,237	\$ 277,131	\$ 154,139	\$ 451,031

NOTE 5 – INTERNAL BALANCES

Due To/From Other Funds

Internal balances consist of the following at June 30, 2010:

<u>Purpose</u>	<u>Funds</u>		<u>Amount</u>
	<u>Receivable</u>	<u>Payable</u>	
Loan	Water	Parks and Recreation	\$ 363,634
Loan	Wastewater	Parks and Recreation	1,116,223
			<u>\$ 1,479,857</u>

On October 11, 2006, the Board of Directors adopted an 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 October 11, 2011.

On January 7, 2009, the Board of Directors adopted a second 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 January 7, 2014.

On August 15, 2009, the Board of Directors adopted a third internal loan agreement between funds. The Wastewater Fund will provide assistance in the form of a revolving credit line, up to a maximum amount of \$200,000 to the Water Fund to meet its 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 was June 30, 2010. Therefore, the remaining balance of \$151,848 was paid off at June 30, 2010.

On June 9, 2010, the Board of Directors adopted a fourth 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.

As of June 30, 2010, the Board of Directors has approved a total of \$1,500,000 internal borrowing between funds, in accordance with the agreements referenced above. As of June 30, 2010, the Parks and Recreation Fund has borrowed from the Water Fund and Wastewater Fund a total of \$363,634 and \$1,116,223, respectively. These balances shall be paid back in accordance with the parameters mentioned above.

NOTE 6 – BANKED WATER INVENTORY

The Department of Water Resources (DWR) makes State Water Project (SWP) allocations to California water contractors. During the year, 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 has available 445 acre-feet of banked water with SRWBA. The cost of this water was \$233,267.

NOTE 6 – BANKED WATER INVENTORY (Continued)

The following is a summary of the changes in banked water recorded as inventory as of June 30, 2010:

	SRWBA	
	Acre-Feet	Total Cost
Balance at June 30, 2009	-	\$ -
Additions during the year	445	233,267
Deletions during the year	-	-
Balance at June 30, 2010	<u>445</u>	<u>\$ 233,267</u>

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

On July 28, 2008, the District entered into a Joint Powers Agreement (JPA) with Semitropic Water Storage District and Valley Mutual Water Company, LLC, to create the Semitropic-Rosamond Water Bank Authority (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 Members are to be operated in combination as the Semitropic-Rosamond Water Banking Authority (Authority), a single and insofar as practical integrated water bank for (1) the primary purpose of enhancing the reliability of the 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.

Rosamond Community Services District (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 Stored Water Recovery Unit (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 the Antelope Valley Water Bank (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.

The District, as a Member of the Authority, has agreed to acquire 6,000 Authority Shares for the amount of \$6,000,000 under the Joint Powers Agreement. The District made an initial payment of \$1,000,000 to the Authority upon the execution of the Joint Powers Agreement and beginning January 1, 2009, the District started making payments of \$500,000 to the Authority 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, 2010, the District has paid the Authority \$2,500,000.

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 \$109,740 and \$99,000 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:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets:				
Land	\$ 648,441	\$ 30,000	\$ -	\$ 678,441
Construction-in-progress	<u>61,617</u>	<u>247,717</u>	<u>(260,468)</u>	<u>48,866</u>
Total non-depreciable assets	<u>710,058</u>	<u>277,717</u>	<u>(260,468)</u>	<u>727,307</u>
Depreciable assets:				
Park improvements	618,446	224,117	-	842,563
Vehicles and equipment	<u>71,470</u>	<u>6,351</u>	<u>-</u>	<u>77,821</u>
Total depreciable assets	<u>689,916</u>	<u>230,468</u>	<u>-</u>	<u>920,384</u>
Accumulated depreciation:				
Park improvements	(94,372)	(38,387)	-	(132,759)
Vehicles and equipment	<u>(32,004)</u>	<u>(13,991)</u>	<u>-</u>	<u>(45,995)</u>
Total accumulated depreciation	<u>(126,376)</u>	<u>(52,378)</u>	<u>-</u>	<u>(178,754)</u>
Total depreciable assets, net	<u>563,540</u>	<u>178,090</u>	<u>-</u>	<u>741,630</u>
Total capital assets, net	<u>\$ 1,273,598</u>			<u>\$ 1,468,937</u>

Construction-in-Progress

The balance at June 30 consists of the following projects:

	<u>2010</u>	<u>2009</u>
Felsite park design	\$ 48,866	\$ 42,617
Pool solar heater/shelter	<u>-</u>	<u>19,000</u>
Construction-in-progress	<u>\$ 48,866</u>	<u>\$ 61,617</u>

Depreciation Expense

Depreciation expense under governmental activities was allotted as follows for the year ended June 30, 2010:

	<u>Depreciation Expense</u>
Parks and recreation	<u>\$ 52,378</u>

NOTE 8 – CAPITAL ASSETS (Continued)*Business-type Activities*

Changes in capital assets for the year were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets:				
Land	\$ 1,701,957	\$ 766,558	\$ -	\$ 2,468,515
Construction-in-progress	<u>11,701,651</u>	<u>1,308,583</u>	<u>(1,155,182)</u>	<u>11,855,052</u>
Total non-depreciable assets	<u>13,403,608</u>	<u>2,075,141</u>	<u>(1,155,182)</u>	<u>14,323,567</u>
Depreciable assets:				
Facilities system	47,857,598	211,836	-	48,069,434
Vehicles and equipment	<u>1,933,931</u>	<u>148,370</u>	<u>-</u>	<u>2,082,301</u>
Total depreciable assets	<u>49,791,529</u>	<u>360,206</u>	<u>-</u>	<u>50,151,735</u>
Accumulated depreciation:				
Facilities system	(23,428,872)	(1,559,216)	-	(24,988,088)
Vehicles and equipment	<u>(1,369,495)</u>	<u>(181,310)</u>	<u>-</u>	<u>(1,550,805)</u>
Total accumulated depreciation	<u>(24,798,367)</u>	<u>(1,740,526)</u>	<u>-</u>	<u>(26,538,893)</u>
Total depreciable assets, net	<u>24,993,162</u>	<u>(1,380,320)</u>	<u>-</u>	<u>23,612,842</u>
Total capital assets, net	<u>\$ 38,396,770</u>			<u>\$ 37,936,409</u>

Construction-in-Progress

The balance at June 30 consists of the following projects:

	<u>2010</u>	<u>2009</u>
Wastewater treatment plant	\$ 11,293,353	\$ 10,212,247
Well No. 5 arsenic removal	-	112,687
Well No. 6 arsenic removal	-	102,191
Water conservation demonstration garden	-	628,678
Various projects <\$100,000	<u>561,699</u>	<u>645,848</u>
Construction-in-progress	<u>\$ 11,855,052</u>	<u>\$ 11,701,651</u>

Depreciation Expense

Depreciation expense under business-type activities was allotted as follows for the year ended June 30, 2010:

	<u>Depreciation Expense</u>
Water facility and systems	\$ 1,524,996
Wastewater facility and systems	<u>215,530</u>
	<u>\$ 1,740,526</u>

NOTE 8 – CAPITAL ASSETS (Continued)

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

Water Enterprise	Balance 2009	Additions	Deletions/ Transfers	Balance 2010
Non-depreciable assets:				
Land	\$ 1,186,721	\$ 757,202	\$ -	\$ 1,943,923
Construction-in-progress	1,224,720	120,603	(1,131,650)	213,673
Total non-depreciable assets	<u>2,411,441</u>	<u>877,805</u>	<u>(1,131,650)</u>	<u>2,157,596</u>
Depreciable assets:				
Water transmission and distribution	42,157,381	202,876	-	42,360,257
Vehicles and equipment	1,347,631	90,035	-	1,437,666
Total depreciable assets	<u>43,505,012</u>	<u>292,911</u>	<u>-</u>	<u>43,797,923</u>
Accumulated depreciation:				
Water transmission and distribution	(19,664,643)	(1,392,295)	-	(21,056,938)
Vehicles and equipment	(876,945)	(132,701)	-	(1,009,646)
Total accumulated depreciation	<u>(20,541,588)</u>	<u>(1,524,996)</u>	<u>-</u>	<u>(22,066,584)</u>
Total depreciable assets, net	<u>22,963,424</u>	<u>(1,232,085)</u>	<u>-</u>	<u>21,731,339</u>
Total capital assets, net	<u>\$ 25,374,865</u>			<u>\$ 23,888,935</u>

Depreciation expense for the year ended June 30, 2010, was \$1,524,996.

Wastewater Enterprise	Balance 2009	Additions	Deletions/ Transfers	Balance 2010
Non-depreciable assets:				
Land	\$ 515,235	\$ 9,356	\$ -	\$ 524,591
Construction-in-progress	10,476,932	1,187,980	(23,532)	11,641,380
Total non-depreciable assets	<u>10,992,167</u>	<u>1,197,336</u>	<u>(23,532)</u>	<u>12,165,971</u>
Depreciable assets:				
Wastewater system	5,700,216	8,960	-	5,709,176
Vehicles and equipment	586,302	58,335	-	644,637
Total depreciable assets	<u>6,286,518</u>	<u>67,295</u>	<u>-</u>	<u>6,353,813</u>
Accumulated depreciation:				
Wastewater system	(3,764,229)	(166,921)	-	(3,931,150)
Vehicles and equipment	(492,551)	(48,609)	-	(541,160)
Total accumulated depreciation	<u>(4,256,780)</u>	<u>(215,530)</u>	<u>-</u>	<u>(4,472,310)</u>
Total depreciable assets, net	<u>2,029,738</u>	<u>(148,235)</u>	<u>-</u>	<u>1,881,503</u>
Total capital assets, net	<u>\$ 13,021,905</u>			<u>\$ 14,047,474</u>

Depreciation expense for the year ended June 30, 2010, was \$215,530.

NOTE 9 – COMPENSATED ABSENCES

Compensated absences for vacation leave are accrued as follows:

<u>Years of Service</u>	<u>Days</u>
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.

Changes in compensated absences as of June 30, 2010, were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Compensated absences, beginning	\$ 53,638	\$ 204,640
Current year employee earnings	83,232	206,041
Employee vacation time taken	<u>(62,338)</u>	<u>(171,890)</u>
Compensated absences, ending	74,532	238,791
Less: current portion payable	<u>(18,633)</u>	<u>(59,697)</u>
Long-term portion payable	<u>\$ 55,899</u>	<u>\$ 179,094</u>

NOTE 10 – NOTES PAYABLE

<u>Business-type activities:</u>	<u>Balance 2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Adjustments</u>	<u>Balance 2010</u>
Water fund:					
LaSalle National Bank Note	\$ 672,836	\$ -	\$ (101,055)	\$ -	\$ 571,781
Zions Bank Note	2,360,618	-	(83,502)	256,716	2,533,832
Albers Note	300,000	-	(100,000)	-	200,000
Wastewater fund:					
LaSalle National Bank Note	448,558	-	(67,370)	-	381,188
Zions Bank Note	590,154	-	(10,639)	(256,716)	322,799
State Water Pollution Control Note	<u>7,851,089</u>	<u>317,836</u>	<u>(369,341)</u>	<u>-</u>	<u>7,799,584</u>
Total	12,223,255	<u>\$ 317,836</u>	<u>\$ (731,907)</u>	<u>\$ -</u>	11,809,184
Less: current portion due	<u>(362,566)</u>				<u>(695,559)</u>
Long-term portion due	<u>\$ 11,860,689</u>				<u>\$ 11,113,625</u>

NOTE 10 – NOTES PAYABLE (Continued)*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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 175,419	\$ 37,385	\$ 212,804
2012	182,703	30,101	212,804
2013	190,289	22,515	212,804
2014	198,191	14,613	212,804
2015	<u>206,367</u>	<u>6,438</u>	<u>212,805</u>
Total	952,969	<u>\$ 111,052</u>	<u>\$ 1,064,021</u>
Less: current	<u>(175,419)</u>		
Long-term	<u>\$ 777,550</u>		

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 split 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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 97,507	\$ 141,933	\$ 239,440
2012	101,708	137,732	239,440
2013	106,460	132,980	239,440
2014	111,757	127,682	239,439
2015	117,484	121,956	239,440
2016-2020	684,128	513,070	1,197,198
2021-2025	878,308	318,890	1,197,198
2026-2029	<u>759,279</u>	<u>78,757</u>	<u>838,036</u>
Total	2,856,631	<u>\$ 1,573,000</u>	<u>\$ 4,429,631</u>
Less: current	<u>(97,507)</u>		
Long-term	<u>\$ 2,759,124</u>		

NOTE 10 – NOTES PAYABLE (Continued)*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. The note is scheduled to mature in December 2011. Principal is paid annually on December 12th each year and interest is paid monthly. Annual estimated debt service requirements on the loan are as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 100,000	\$ 10,000	\$ 110,000
2012	100,000	5,000	105,000
Total	200,000	\$ 15,000	\$ 215,000
Less: current	(100,000)		
Long-term	\$ 100,000		

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 \$525,422 will be payable annually each year. At June 30, 2010, the District has \$140,067 in reimbursable requests outstanding to reach the \$8,300,000 total for the note. Annual estimated debt service requirements on the loan are as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 322,633	\$ 202,789	\$ 525,422
2012	331,021	194,401	525,422
2013	339,628	185,794	525,422
2014	348,458	176,964	525,422
2015	357,518	167,904	525,422
2016-2020	1,931,949	695,159	2,627,108
2021-2025	2,196,507	430,602	2,627,109
2026-2030	1,971,870	129,815	2,101,685
Total	7,799,584	\$ 2,183,428	\$ 9,983,012
Less: current	(322,633)		
Long-term	\$ 7,476,951		

NOTE 11 – NET ASSETS

The calculations of net asset categories are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Investment in water banking - JPA	\$ -	\$ 2,500,000	\$ 2,500,000
Capital assets - not being depreciated	727,307	14,323,567	15,050,874
Capital assets - being depreciated, net	741,630	23,612,842	24,354,472
Note payable - current portion	-	(695,559)	(695,559)
Note payable - long-term portion	-	(11,113,625)	(11,113,625)
	<u>-</u>	<u>(11,113,625)</u>	<u>(11,113,625)</u>
Net investment in capital assets	<u>\$ 1,468,937</u>	<u>\$ 28,627,225</u>	<u>\$ 30,096,162</u>

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Water Fund - capital improvements	\$ -	\$ 212,517	\$ 212,517
Wastewater Fund - capital improvements	-	27,074	27,074
	<u>-</u>	<u>27,074</u>	<u>27,074</u>
Restricted net assets	<u>\$ -</u>	<u>\$ 239,591</u>	<u>\$ 239,591</u>

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 paid 1.0% of the contributions required of District employees on their behalf and for their account through September 2009. Effective October 2009, the District is no longer making the 1.0% employee contributions on their behalf. Also, 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 2010, 2009 and 2008 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 2010, 2009 and 2008, 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:

NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)

Three Years CalPERS Funding Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2007-2008	\$ 244,431	100%	\$ -	14.804%
2008-2009	332,345	100%	-	15.346%
2009-2010	254,619	100%	-	12.447%

Annual Pension Cost

For 2010, the District's annual pension cost of \$173,398, 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, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (1) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary from 3.25% 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 18 years.

<u>Actuarial Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Overfunded (Unfunded) Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll</u>
6/30/2005	\$ 579,276,103	\$ 500,388,523	\$ 78,887,580	86.4%	\$ 129,379,492	61.0%
6/30/2006	912,988,585	787,758,909	125,229,676	86.3%	200,320,145	62.5%
6/30/2007	1,315,454,361	1,149,247,298	166,207,063	87.4%	289,090,187	57.5%

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, 2010, 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.

NOTE 13 – RISK MANAGEMENT (Continued)

- 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 \$5,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$5,000 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 2010, 2009 and 2008. 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, 2010, 2009 and 2008.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Construction Contracts

The District had only one major commitment outstanding for the construction of its wastewater treatment plant for \$22,400.

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

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 requested attorney's fees against the public water suppliers in the amount of \$2,300,618, costs of \$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. A motion was filed for attorney's fees and the hearing is set for March 22, 2011.

NOTE 15 – FUND BALANCE DEFICIT

The District's Parks and Recreation Fund had a deficit fund balance of \$(1,132,476) as of June 30, 2010. The District continues to operate with an excess of expenditures over revenues with salaries being a major expense (representing approximately 56% of total expenditures). The District has recently implemented various cost cutting efforts in an effort to reduce the fund balance deficit. Refer to Note 17 – Going Concern for further details.

NOTE 16 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2010, expenditures exceeded appropriations in individual funds as follows:

<u>Fund</u>	<u>Appropriations Category</u>	<u>Excess Expenditures</u>
Parks and Recreation Fund	Capital Outlay	\$ 247,717
Street Lighting Fund	Operations	6,079

NOTE 17 – GOING CONCERN

During the year, the District began to experience difficulties with balancing the budget. A transfer of approximately \$918,000 was made out of internal reserves to balance the budget. Payments for long-term debt were made from the District's cash reserves. Several construction projects were put on hold due to the budget constraints and the District's Park and Recreation Fund continues to operate with expenditures well exceeding revenues (Refer to Note 15 – Fund Balance Deficit for further details).

In response to these fiscal pressures, the District has taken several measures to improve the current situation, including implementing a District-wide reduction in staffing and costs. Effective September 10, 2010, the District implemented mandatory furloughs every Friday for all staff for one year. Pay freezes were also implemented for the next operating cycle. Several positions were cut, including two positions in the Parks and Recreation Fund, which was a significant expenditure for this fund. Overall, these cuts have resulted in approximate reductions in salaries and wages of 25%.

The ability of the District to continue as a going concern is dependent upon the success of these actions.

The financial statements do not include any adjustments that might be necessary if the District is unable to continue as a going concern.

NOTE 18 – FUTURE GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The District has elected not to early implement GASB Statement No. 54 and has not determined its effect on the District's financial statements.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The statement is related to the frequency and timing of measurements that are effective for actuarial valuations first used to report funded status information in Other Postemployment Benefits (OPEB) plan financial statements. The requirements of this statement are effective for financial statements for period beginning after June 15, 2011. The District has determined it is not applicable to the District's financial statements.

In December 2009, GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement establishes retroactive application for all prior periods presented during which a government was in bankruptcy. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The District has determined it is not applicable to the District's financial statements.

SUPPLEMENTAL 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, 2010**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Property taxes	\$ 285,200	\$ -	\$ 285,200	\$ 266,199	\$ (19,001)
Special assessments	229,000	-	229,000	234,182	5,182
Charges for services	40,000	-	40,000	46,809	6,809
Capital grants and facility charges	2,000	-	2,000	206,348	204,348
Interest earnings	-	-	-	1,459	1,459
Other	351,618	-	351,618	-	(351,618)
Total revenues	<u>907,818</u>	<u>-</u>	<u>907,818</u>	<u>754,997</u>	<u>(152,821)</u>
Expenditures:					
Salaries	849,157	-	849,157	675,057	174,100
Operations	304,709	-	304,709	286,062	18,647
Capital outlay	-	-	-	247,717	(247,717)
Total expenditures	<u>1,153,866</u>	<u>-</u>	<u>1,153,866</u>	<u>1,208,836</u>	<u>(54,970)</u>
Net change in fund deficit	(246,048)	-	(246,048)	(453,839)	<u>\$ (207,791)</u>
Fund deficit, beginning of year	<u>(886,428)</u>	<u>-</u>	<u>(886,428)</u>	<u>(886,428)</u>	
Fund deficit, end of year	<u>\$ (1,132,476)</u>	<u>\$ -</u>	<u>\$ (1,132,476)</u>	<u>\$ (1,340,267)</u>	

**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, 2010**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Special assessment	\$ 91,580	\$ -	\$ 91,580	\$ 95,275	\$ 3,695
Interest earnings	3,456	-	3,456	240	(3,216)
Total revenues	<u>95,036</u>	<u>-</u>	<u>95,036</u>	<u>95,515</u>	<u>479</u>
Expenditures:					
Operations	91,580	-	91,580	97,659	(6,079)
Total expenditures	<u>91,580</u>	<u>-</u>	<u>91,580</u>	<u>97,659</u>	<u>(6,079)</u>
Net change in fund balance	3,456	-	3,456	(2,144)	<u>\$ (5,600)</u>
Fund balance, beginning of year	<u>74,193</u>	<u>-</u>	<u>74,193</u>	<u>74,193</u>	
Fund balance, end of year	<u>\$ 77,649</u>	<u>\$ -</u>	<u>\$ 77,649</u>	<u>\$ 72,049</u>	

**ROSAMOND COMMUNITY SERVICES DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
WATER FUND
FOR THE YEAR ENDED JUNE 30, 2010**

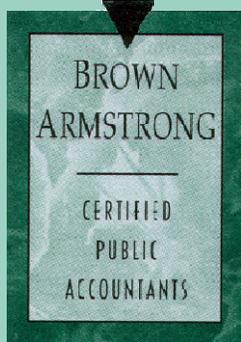
	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Operating revenues:					
Water consumption sales	\$ 3,190,125	\$ -	\$ 3,190,125	\$ 2,548,640	\$ (641,485)
Total operating revenues	<u>3,190,125</u>	<u>-</u>	<u>3,190,125</u>	<u>2,548,640</u>	<u>(641,485)</u>
Operating expenses:					
Salaries and benefits	1,443,435	-	1,443,435	1,536,384	(92,949)
Operations	<u>1,612,890</u>	<u>-</u>	<u>1,612,890</u>	<u>1,220,877</u>	<u>392,013</u>
Total operating expenses	<u>3,056,325</u>	<u>-</u>	<u>3,056,325</u>	<u>2,757,261</u>	<u>299,064</u>
Operating income (loss) before capital	133,800	-	133,800	(208,621)	(342,421)
Depreciation expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,524,996)</u>	<u>(1,524,996)</u>
Operating income (loss)	<u>133,800</u>	<u>-</u>	<u>133,800</u>	<u>(1,733,617)</u>	<u>(1,867,417)</u>
Non-operating revenue (expense):					
Interest earnings	19,200	-	19,200	7,401	(11,799)
Interest expense	<u>(153,000)</u>	<u>-</u>	<u>(153,000)</u>	<u>(157,953)</u>	<u>(4,953)</u>
Total non-operating, net	<u>(133,800)</u>	<u>-</u>	<u>(133,800)</u>	<u>(150,552)</u>	<u>(16,752)</u>
Capital contributions and purchases:					
Connection fees	-	-	-	400,000	400,000
Capital grants	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,910</u>	<u>22,910</u>
Total capital contributions and purchase:	<u>-</u>	<u>-</u>	<u>-</u>	<u>422,910</u>	<u>422,910</u>
Change in net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,461,259)</u>	<u>\$ (1,461,259)</u>
Net assets, beginning of year	<u>27,067,152</u>	<u>-</u>	<u>27,067,152</u>	<u>27,067,152</u>	
Net assets, end of year	<u>\$ 27,067,152</u>	<u>\$ -</u>	<u>\$ 27,067,152</u>	<u>\$ 25,605,893</u>	

**ROSAMOND COMMUNITY SERVICES DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
WASTEWATER FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Operating revenues:					
Water consumption sales	\$ -	\$ -	\$ -	\$ 630	\$ 630
Wastewater service charges	1,734,285	-	1,734,285	1,869,080	134,795
Total operating revenues	<u>1,734,285</u>	<u>-</u>	<u>1,734,285</u>	<u>1,869,710</u>	<u>135,425</u>
Operating expenses:					
Salaries and benefits	948,191	-	948,191	749,305	198,886
Operations	710,194	-	710,194	439,388	270,806
Total operating expenses	<u>1,658,385</u>	<u>-</u>	<u>1,658,385</u>	<u>1,188,693</u>	<u>469,692</u>
Operating income (loss) before capital	75,900	-	75,900	681,017	605,117
Depreciation expense	-	-	-	(215,530)	(215,530)
Operating income (loss)	<u>75,900</u>	<u>-</u>	<u>75,900</u>	<u>465,487</u>	<u>389,587</u>
Non-operating revenue (expense):					
Interest earnings	120,000	-	120,000	33,661	(86,339)
Interest expense	(50,000)	-	(50,000)	(246,065)	(196,065)
Total non-operating, net	<u>70,000</u>	<u>-</u>	<u>70,000</u>	<u>(212,404)</u>	<u>(282,404)</u>
Capital contributions and purchases:					
Conservation fees	-	-	-	132,000	132,000
Connection fees	-	-	-	192,000	192,000
Total capital contributions and purchases	<u>-</u>	<u>-</u>	<u>-</u>	<u>324,000</u>	<u>324,000</u>
Change in net assets	145,900	-	145,900	577,083	<u>\$ 431,183</u>
Net assets, beginning of year	<u>9,024,864</u>	<u>-</u>	<u>9,024,864</u>	<u>9,024,864</u>	
Net assets, end of year	<u>\$ 9,170,764</u>	<u>\$ -</u>	<u>\$ 9,170,764</u>	<u>\$ 9,601,947</u>	

REPORT ON COMPLIANCE AND INTERNAL CONTROLS

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

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Rosamond Community Services District (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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 3 and 5 were considered 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

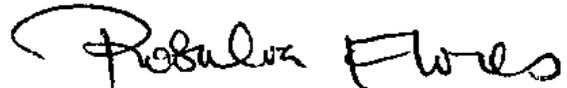
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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 February 28, 2011.

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

A handwritten signature in black ink that reads "Roberto Flores". The signature is written in a cursive style with a large, looping initial "R".

Bakersfield, California
February 28, 2011

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**ROSAMOND COMMUNITY SERVICES DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2010**

Current Year Findings

Finding 1 – Accounts Receivable Write-offs

Criteria

Adequate separation of duties strengthens internal controls and prevents unauthorized write-offs and misappropriation of District funds.

Condition

During our internal control walkthrough for accounts receivable, we noted the District does not have a formal write-off policy for accounts receivable. We also noted the Customer Service Supervisor has controls over collections, reconciliation of daily cash receipts and post account receivable write-offs. The accountant reviews the actual entries after they have been posted, however, no documentation is reviewed in support of the write-off.

Effect

Unauthorized write-offs and misappropriation of District assets can occur absent adequate separation of duties in this area.

Cause

Lack of separation of duties and lack of a policy to properly review accounts receivable write-offs.

Recommendation

We recommend the District implement a formal write-off policy and assign a responsible individual not involved in the cash collection, reconciliation and depositing of daily cash receipts to review the list of write-offs periodically and limit the ability to write-off accounts to individuals not involved in cash collections to avoid any opportunities for unauthorized write-offs. As an additional check, we recommend the Board of Directors consider reviewing and authorizing the list of write-offs monthly or quarterly.

Management Response

The procedure to write-off an Accounts Receivable balance is as follows: a Customer Service Representative creates a spreadsheet that includes the account number, customer name, balance owed, the date the account was closed, the date the collection notice was sent and the date the account was sent to collections. At the end of the month, the Customer Service Supervisor reviews each account that is being sent to collections and either approves or disapproves. After the write-offs have been approved or disapproved by the Customer Service Supervisor, the Administrative Service Manager will review the spreadsheet and provide final approval prior to moving forward with the write-offs. Once approval has been received, the Customer Service Representative proceeds with write-offs. At the conclusion of write-offs in the MOMS System, a report is generated summarizing the account numbers and amounts written off. This final report will also be reviewed by the Administrative Services Manager. A written procedure will document these steps.

Finding 2 – Physical Inventory of Materials and Supplies

Criteria

An actual count of materials and supplies inventory identifies any obsolete items that need to be removed from the accounting records and provides an accurate record of the amounts on hand at year-end.

Condition

During our internal control documentation and year end testing of materials and supplies inventory, we noted the District does not track inventory showing amounts purchased, amounts utilized and amounts on hand at year end. The year-end figures are based on an estimate.

Effect

The lack of a physical inspection could lead to a significant overstatement or understatement of assets. In addition, there could be obsolete items that are not identified and not tracking inventory could provide an opportunity for misappropriation of items.

Cause

Lack of a procedure in place to track materials and supplies inventory and lack of a requirement to perform a physical inspection.

Recommendation

We recommend that a physical inspection of inventory be performed annually and procedures established for removing obsolete/defective inventory from the accounting records as soon as they are identified. The accounting records should be adjusted accordingly to reflect the results of the physical inspection.

Management Response

A physical inventory will be scheduled and carried out prior to fiscal year-end to identify all inventory on hand. Obsolete/defective items will be identified for disposal. The value of the remaining items will be established and the accounting records will be adjusted to reflect the current value.

Finding 3 – Adjusting Journal Entries

Criteria

Adequate separation of duties strengthens internal controls and prevents unauthorized journal entries from being posted.

Condition

During our internal control walkthroughs, we noted the District does not have a formal written policy regarding journal entries. Additionally, an individual independent of preparation is not reviewing journal entries.

Effect

Unauthorized journal entries could be posted.

Cause

Lack of a formal policy and lack of separation of duties between the individual initiating, reviewing and posting.

Recommendation

We recommend the District implement a formal journal entry policy regarding the preparation, review and posting of journal entries. An individual independent of preparing journal entries should review each entry and sign off indicating review and approval prior to posting.

Management Response

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

Currently, journal entries prepared by the Senior Accounting Clerk are reviewed by the District Accountant prior to posting. Hard copies of all journal entries with any supporting documentation are filed by sequential entry number, as assigned by the accounting system, by month in binders maintained by the District Accountant and are available for review. These entries can be compared to those recorded in the system. The layoff of the Director of Finance eliminated the most knowledgeable and appropriate reviewer.

Finding 4 – 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 are accurate.

Condition

The District has not performed an inventory count on its capital assets since 2007. During our year-end procedures, we select a sample of 10 assets to physically inspect. We were unable to verify 4 of the assets as it was difficult to determine whether those were the assets we selected to inspect because the capital asset sub-ledger does not include the serial number or tag number of the assets and not all assets are tagged.

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 inspection of capital assets every x number of years. In addition, the sub-ledger should identify each asset either by the serial number or tag numbers so that these could easily be identified. 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.

Management Response

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. 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.

Finding 5 – Payroll

Criteria

Employee signatures on timecards are essential to give individuals responsibility for the accuracy of the time reported. Keeping performance evaluations in the employee files provides support for pay increases. The review of payroll by a second individual strengthens controls in payroll and deters the opportunity to make unauthorized pay changes.

Condition

During our walkthroughs, documentation and test of controls over payroll, we noted the following conditions:

1. We tested a sample of individuals and reviewed the rate of pay to ensure the rate had been authorized. As part of this test, we reviewed performance evaluations as the District's compensation policy in the employee handbook requires performance evaluations to be performed and placed in the employee's file in support of pay increases. Out of the 25 individuals tested, 7 were missing both performance evaluations and payroll status change form. Due to the missing information, we were unable to determine whether the individual's rate of pay had been authorized.
2. During our walkthrough, we noted two instances in which there were modifications to the salary step schedules, and these were not approved by the Board of Directors.
3. Per timekeeping policy in the employee handbook, we noted employees are responsible for signing their time records to certify their accuracy. Supervisors will then review and sign the time records before submitting for payroll processing. During our testing, we noted 2 out of 25 individuals tested were missing the employee signature. We also noted 3 out of 25 samples selected for testing were missing supervisor signature.
4. During our internal control walkthrough documentation, we noted payroll and direct deposits are processed by the Human Resources Manager/Director of Administration. We noted payroll data entry is not being reviewed by a second individual to verify correctness.
5. Prior to the elimination of the Finance Director position, payroll was reviewed using a Track Changes report, which allowed the Finance Director to review any changes made in the payroll module regarding new employees and pay rates. Due to the elimination of this position, the Track Changes report is no longer being reviewed.

Effect

Step increases can be input or manipulated without proper authorization. Hours reported on the timecards can be incorrect absent a supervisor review.

Cause

Disregard for controls in payroll have led to salary schedules being revised without the approval of the Board of Directors, pay increases have been given without written documented performance reviews to support the pay increases and the elimination of key positions in accounting.

Recommendations

1. We recommend the District maintain personnel files up-to-date so that proper documentation is available regarding performance evaluations and pay increases, in accordance with the District's policy to properly support any merit and pay increases.

2. We recommend the District implement a policy that requires any changes to payroll step schedules be approved by the Board of Directors for final approval. As a further check, we recommend any proposed changes to the salary schedules be reviewed by the compensation committee prior to presentation to the Board of Directors. Finally, all salary schedules should indicate the date of the approval of the schedules by the Board of Directors so that these can easily be verified for proper approval.
3. We recommend the District's payroll department enforce the current policy and ensure both employee and supervisor signatures have been obtained prior to processing payroll.
4. We recommend the District improve segregation of duties regarding payroll processing by placing a review mechanism independent from payroll to strengthen controls over payroll and reduce the opportunity for override of controls
5. We recommend the District improve its segregation of duties in the area of payroll and the human resources function. We recommend cross training the District's Accountant on payroll processing to ensure an effective review of payroll processing can be done each pay period. In addition, the District should continue utilizing the Track Changes report as a review mechanism until the District can completely separate the human resource function from the payroll function.

Management Response

1. The former Human Resources Manager is no longer with the District. The Administrative Service Manager is initiating a review of all personnel files to assure they are up-to-date with proper documentation regarding performance evaluations and pay increases in accordance with the District's policy to properly support any merit and pay increases.
2. Payroll step schedule changes will be submitted to the Personnel committee followed by submission to the Finance committee before final submission to the Board of Directors. Salary schedules have been stamped with the date of approval in the past. Approved salary schedules will again be stamped with approval dates.
3. The District's current policy to ensure both employee and supervisor signatures are on employee time records prior to payroll processing is being strictly enforced.
4. Payroll time entries and direct deposits are now being entered by the Senior Accounting Clerk. After the time entries are made, a payroll register is generated and reviewed with time records by the District Accountant. After the review, any corrections are made and the payroll checks are generated. The Senior Accounting Clerk then prepares the direct deposit entry online. The District Accountant reviews the direct deposit entry and compares it to the paychecks generated. If there are no exceptions, the District Accountant approves and releases the direct deposit entry.
5. The District Accountant is involved in the payroll process reviewing data entries, payroll register, checks and direct deposit. The Track Changes report is again being generated and will be reviewed along with the payroll register before payroll checks are generated.

Status of Prior Year Findings

None.