

ROSAMOND COMMUNITY SERVICES DISTRICT

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2014**

ROSAMOND COMMUNITY SERVICES DISTRICT

LIST OF ELECTED AND APPOINTED OFFICIALS

JUNE 30, 2014

Elected Officials

BOARD OF DIRECTORS

<u>Title</u>	<u>Director</u>	<u>Term Expires</u>
President	Greg Wood	December 2014
Vice-President	Rick Webb	December 2014
Director	Byron Glennan	December 2016
Director	Alfred Wallis	December 2016
Director	Kathy Spoor	December 2014

Appointed Official

General Manager

Steve Perez

**Rosamond Community Services District
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Rosamond, California 93560
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**ROSAMOND COMMUNITY SERVICES DISTRICT
JUNE 30, 2014**

TABLE OF CONTENTS

	<u>Page</u>
Table of Contents	i
Financial Section	
Independent Auditor’s Report	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds	14
Statement of Net Position – Enterprise Funds	15
Statement of Revenues, Expenses, and Changes in Fund Net Position – Enterprise Funds	16
Statement of Cash Flows – Enterprise Funds.....	17
Notes to Basic Financial Statements	18
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual (By Object) – Parks and Recreation Fund	41
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual (By Object) – Street Lighting Fund.....	42
Supplementary Information	
Schedule of Revenues, Expenses, and Changes in Fund Balance Budget and Actual – Water Fund.....	43
Schedule of Revenues, Expenses, and Changes in Fund Balance Budget and Actual – Wastewater Fund	44

Report on Compliance and Internal Controls

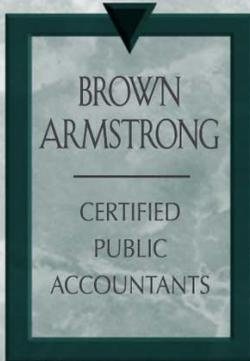
Independent Auditor’s Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Basic Financial
Statements Performed in Accordance with *Government Auditing Standards*..... 45

Schedule of Findings and Recommendations

Schedule of Findings and Recommendations 47

Status of Prior Year Findings..... 49

FINANCIAL SECTION



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Rosamond Community Services District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of June 30, 2014, and the respective changes in financial position and cash flows 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.

Other Matters

Required Supplementary Information

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 GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the District's basic financial statements. The Statements of Revenues and Expenses – Budget and Actual for the Water and Wastewater Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Statements of Revenues and Expenses – Budget and Actual have 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2015, 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
January 29, 2015

**ROSAMOND COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Rosamond Community Services District (District) provides an introduction to the basic financial statements of the District for the fiscal year ended June 30, 2014. 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 position increased by 3.50% or \$1,285,097 to \$38,000,749 as a result of this year's operations.
- Total revenues increased by 6.22% or \$459,305 due primarily to an increase in charges for services of \$353,305.
- Total expenses increased by 5.24% or \$326,297 due primarily to a \$183,185 increase in salaries and benefits expense and a \$154,182 increase in operations expense.

Using This Financial Report

This annual report consists of a series of basic financial statements. The Statement of Net Position 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 Position 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 revenues 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 fiscal posturing and credit worthiness.

Government-Wide Financial Statements

Statement of Net Position 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 Position 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 position* and changes in it. Think of the District's net position, 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 position 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 more narrow than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Statement of Cash Flows

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

Notes to the Basic Financial Statements

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

Other Information

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

Statement of Net Position

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

	Condensed Statement of Net Position					
	Governmental Activities		Business-Type Activities		Total District	
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other assets	\$ 149,874	\$ 188,027	\$ 9,259,288	\$ 7,422,163	\$ 9,409,162	\$ 7,610,190
Restricted assets	-	-	239,458	239,467	239,458	239,467
Noncurrent assets	(2,048,438)	(1,922,912)	8,173,967	6,948,441	6,125,529	5,025,529
Capital assets, net	1,282,279	1,337,344	32,037,884	33,344,784	33,320,163	34,682,128
Total assets	\$ (616,285)	\$ (397,541)	\$ 49,710,597	\$ 47,954,855	\$ 49,094,312	\$ 47,557,314
Liabilities:						
Current liabilities	\$ 67,061	\$ 97,088	\$ 2,318,511	\$ 1,292,200	\$ 2,385,572	\$ 1,389,288
Noncurrent liabilities	19,849	23,723	8,688,142	9,428,651	8,707,991	9,452,374
Total liabilities	86,910	120,811	11,006,653	10,720,851	11,093,563	10,841,662
Net position:						
Net investment in capital assets	1,282,279	1,337,344	27,582,880	27,714,906	28,865,159	29,052,250
Restricted	-	-	239,458	239,467	239,458	239,467
Unrestricted	(1,985,474)	(1,855,696)	10,881,606	9,279,631	8,896,132	7,423,935
Total net position	\$ (703,195)	\$ (518,352)	\$ 38,703,944	\$ 37,234,004	\$ 38,000,749	\$ 36,715,652

As noted earlier, net position 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 \$38,000,749 as of June 30, 2014. Compared to prior year, net position of the District increased by 3.50%, or \$1,285,097. The District's net position is made-up of three components: (1) net investment in capital assets of \$28,865,159, (2) restricted of \$239,458, and (3) unrestricted of \$8,896,132.

Statement of Activities

The following table is a summary of the Statement of Activities for the year ended June 30, 2014.

Condensed Statement of Activities						
	Governmental Activities		Business-Type Activities		Total District	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 366,492	\$ 361,840	\$ 7,093,772	\$ 6,745,119	\$ 7,460,264	\$ 7,106,959
Capital grants and contributions	-	12,041	-	16,543	-	28,584
General revenues:						
Property taxes	234,964	226,958	-	-	234,964	226,958
Interest earnings and other revenue	1,582	2,041	144,649	17,612	146,231	19,653
Total revenues	603,038	602,880	7,238,421	6,779,274	7,841,459	7,382,154
Expenses:						
Salaries and benefits	278,857	278,751	1,769,075	1,585,996	2,047,932	1,864,747
Operations	453,959	517,844	1,998,883	1,780,816	2,452,842	2,298,660
Depreciation	55,065	54,116	1,720,065	1,671,311	1,775,130	1,725,427
Interest	-	-	280,458	341,231	280,458	341,231
Total expenses	787,881	850,711	5,768,481	5,379,354	6,556,362	6,230,065
Change in net position	(184,843)	(247,831)	1,469,940	1,399,920	1,285,097	1,152,089
Net position, beginning of year	(518,352)	(270,521)	37,234,004	35,834,084	36,715,652	35,563,563
Net position, end of year	<u>\$ (703,195)</u>	<u>\$ (518,352)</u>	<u>\$ 38,703,944</u>	<u>\$ 37,234,004</u>	<u>\$ 38,000,749</u>	<u>\$ 36,715,652</u>

Governmental and business-type activities increased the District's net position by \$1,285,097, thereby accounting for the 3.50% increase in the net position of the District.

The District's total revenues increased by 6.22% or \$459,305, due primarily to an increase in charges for services of \$353,305.

The District's total expenses increased by 5.24% or \$326,297 due primarily to a \$183,185 increase in salaries and benefits expense and a \$154,182 increase in operations expense.

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 is reviewed quarterly by senior management and the finance committee and a midyear budget is prepared for the Board of Directors to account for changes in assumptions and economic conditions subsequent to its original adoption. Budget versus actual comparison is analyzed by management throughout the year.

A 2014 budget versus actual comparison combined for all funds is presented in the table below.

**Budget vs. Actual Comparison
Year Ended June 30, 2014**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating revenues:			
Property taxes	\$ 234,964	\$ 216,509	\$ 18,455
Special assessments	323,188	311,346	11,842
Charges for services	43,304	26,800	16,504
Water consumption sales	3,730,354	3,511,400	218,954
Wastewater service charges	3,363,418	3,311,100	52,318
Total operating revenues	<u>7,695,228</u>	<u>7,377,155</u>	<u>318,073</u>
Operating expenses:			
Salaries and benefits	2,047,932	2,422,627	(374,695)
Operations	2,452,842	2,421,900	30,942
Total operating expenses	<u>4,500,774</u>	<u>4,844,527</u>	<u>(343,753)</u>
Operating income before capital contributions	3,194,454	2,532,628	661,826
Depreciation expense	(1,775,130)	-	(1,775,130)
Operating income	<u>1,419,324</u>	<u>2,532,628</u>	<u>(1,113,304)</u>
Nonoperating revenue (expense):			
Interest earnings	20,292	19,975	317
Interest expense	(280,458)	(328,330)	47,872
Miscellaneous revenue	8,857	-	8,857
Other noncapital revenue	109,968	-	109,968
Gain on sale of capital assets	7,114	-	7,114
Total nonoperating, net	<u>(134,227)</u>	<u>(308,355)</u>	<u>174,128</u>
Net Change	<u>\$ 1,285,097</u>	<u>\$ 2,224,273</u>	<u>\$ (939,176)</u>

Operating revenues in total for the fiscal year ended June 30, 2014, are over budget by \$318,073 due primarily to water sales and wastewater revenues being more than anticipated. Water and wastewater costs are under budget due to lower salaries and a minor upward change in operating expenses. The District has not historically budgeted for depreciation.

Capital Asset Administration

	Capital Assets					
	Governmental Activities		Business-Type Activities		Total District	
	2014	2013	2014	2013	2014	2013
Capital assets:						
Non-depreciable assets	\$ 678,441	\$ 733,035	\$ 2,725,717	\$ 14,591,190	\$ 3,404,158	\$ 15,324,225
Depreciable assets	1,016,256	961,662	62,663,501	50,422,033	63,679,757	51,383,695
Total capital assets	1,694,697	1,694,697	65,389,218	65,013,223	67,083,915	66,707,920
Accumulated depreciation	(412,418)	(357,353)	(33,351,334)	(31,668,439)	(33,763,752)	(32,025,792)
Total capital assets, net	<u>\$ 1,282,279</u>	<u>\$ 1,337,344</u>	<u>\$ 32,037,884</u>	<u>\$ 33,344,784</u>	<u>\$ 33,320,163</u>	<u>\$ 34,682,128</u>

At the end of fiscal year 2014, the District's investment in capital assets amounted to \$33,320,163 (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 costs incurred for the CUSI software and the wastewater treatment plant, which was transferred to completed during 2014. The capital assets of the District are more fully analyzed in Note 8 to the basic financial statements.

Long-Term Debt Administration

	Long-Term Debt	
	Business-Type Activities	
	2014	2013
Long-term debt:		
Notes payable	<u>\$ 9,205,004</u>	<u>\$ 9,879,878</u>

Long-term debt decreased due to authorizing repayments of \$674,874 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

Parks and Recreation is still operating at a deficit. In order to minimize the deficit, programs have been reduced. Operation and maintenance of the United Street Park was returned to the Southern Kern Unified School District. The Jim Williford Community Park Pool remains in operation during the summer months. Revenues from pool fees partially offset pool operating expenditures. It is the intention of the District to request that the community fund the Parks and Recreation services. Absent passage of a ballot measure to fund Parks and Recreation, the District will use discretionary revenues from ad valorem tax receipts to pay down debt. Operating expenses for the entire District are being closely monitored to ensure only essential expenditures are made.

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 POSITION
JUNE 30, 2014

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents (Note 2)	\$ -	\$ 8,048,708	\$ 8,048,708
Accrued interest receivable	7	-	7
Accounts receivable - utilities, net (Note 4)	6,769	699,916	706,685
Accounts receivable - other	139,541	255,894	395,435
Materials and supplies inventory	-	155,688	155,688
Prepaid expenses and other deposits	3,557	99,082	102,639
	<u>149,874</u>	<u>9,259,288</u>	<u>9,409,162</u>
Noncurrent assets:			
Restricted - cash and cash equivalents (Notes 2 and 3)	-	239,458	239,458
Banked water inventory (Note 6)	-	1,375,529	1,375,529
Internal balances (Note 5)	(2,048,438)	2,048,438	-
Investment in water banking - JPA (Note 7)	-	4,750,000	4,750,000
Capital assets, not being depreciated (Note 8)	678,441	2,725,717	3,404,158
Depreciable capital assets, net (Note 8)	603,838	29,312,167	29,916,005
	<u>(766,159)</u>	<u>40,451,309</u>	<u>39,685,150</u>
Total assets	<u>\$ (616,285)</u>	<u>\$ 49,710,597</u>	<u>\$ 49,094,312</u>
Liabilities and Net Position			
Current liabilities:			
Accounts payable and accrued expenses	\$ 26,781	\$ 1,185,533	\$ 1,212,314
Accrued wages and related payables	18,661	94,998	113,659
Customer deposits and deferred revenue	15,002	208,982	223,984
Accrued interest on long-term debt	-	42,704	42,704
Long-term liabilities - due within one year:			
Compensated absences (Note 9)	6,617	67,359	73,976
Notes payable (Note 10)	-	718,935	718,935
	<u>67,061</u>	<u>2,318,511</u>	<u>2,385,572</u>
Noncurrent liabilities:			
Long-term liabilities - due in more than one year:			
Compensated absences (Note 9)	19,849	202,073	221,922
Notes payable (Note 10)	-	8,486,069	8,486,069
	<u>19,849</u>	<u>8,688,142</u>	<u>8,707,991</u>
Total liabilities	<u>86,910</u>	<u>11,006,653</u>	<u>11,093,563</u>
Net position: (Note 11)			
Net investment in capital assets	1,282,279	27,582,880	28,865,159
Restricted	-	239,458	239,458
Unrestricted	(1,985,474)	10,881,606	8,896,132
Total net position	<u>\$ (703,195)</u>	<u>\$ 38,703,944</u>	<u>\$ 38,000,749</u>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
Parks and recreation	\$ 638,829	\$ 266,593	\$ -	\$ -	\$ (372,236)	\$ -	\$ (372,236)
Street lighting	149,052	99,899	-	-	(49,153)	-	(49,153)
Total governmental activities	787,881	366,492	-	-	(421,389)	-	(421,389)
Business-type activities:							
Water	3,933,654	3,730,354	-	-	-	(203,300)	(203,300)
Sewer	1,834,827	3,363,418	-	-	-	1,528,591	1,528,591
Total business-type activities	5,768,481	7,093,772	-	-	-	1,325,291	1,325,291
Total	\$ 6,556,362	\$ 7,460,264	\$ -	\$ -	(421,389)	1,325,291	903,902
General revenues:							
Property taxes					234,964	-	234,964
Interest earnings					1,582	18,710	20,292
Other revenue					-	125,939	125,939
Total general revenues					236,546	144,649	381,195
Change in net position					(184,843)	1,469,940	1,285,097
Net position (deficit), beginning of year					(518,352)	37,234,004	36,715,652
Net position (deficit), end of year					\$ (703,195)	\$ 38,703,944	\$ 38,000,749

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Total Governmental Activities</u>
Assets:			
Accrued interest receivable	\$ 7	\$ -	\$ 7
Accounts receivable - utilities, net (Note 4)	343	6,426	6,769
Accounts receivable - other	139,541	-	139,541
Prepaid expenses and other deposits	3,557	-	3,557
Total assets	<u>\$ 143,448</u>	<u>\$ 6,426</u>	<u>\$ 149,874</u>
Liabilities:			
Accounts payable and accrued expenses	\$ 16,673	\$ 10,108	\$ 26,781
Accrued wages and related payables	18,644	17	18,661
Customer deposits	-	15,002	15,002
Due to other funds (Note 5)	1,989,981	58,457	2,048,438
Total liabilities	<u>2,025,298</u>	<u>83,584</u>	<u>2,108,882</u>
Fund balances (deficit):			
Nonspendable	3,557	-	3,557
Unassigned	(1,885,407)	(77,158)	(1,962,565)
Total fund balances (deficit)	<u>(1,881,850)</u>	<u>(77,158)</u>	<u>(1,959,008)</u>
Total liabilities and fund balances	<u>\$ 143,448</u>	<u>\$ 6,426</u>	<u>\$ 149,874</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 POSITION
JUNE 30, 2014**

Reconciliation:

Fund balance (deficit) of governmental funds	\$ (1,959,008)
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Amounts reported for governmental activities in the statement of net position are different because:

<p>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 position includes those capital assets among the assets of the District as a whole. The historical acquisition cost of the assets is \$1,694,697 and the accumulated depreciation is \$(412,418).</p>	1,282,279
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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 position as follows:

Compensated absences	<u>(26,466)</u>
Net position of governmental activities	<u><u>\$ (703,195)</u></u>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Total Governmental Activities</u>
Revenues:			
Property taxes	\$ 234,964	\$ -	\$ 234,964
Special assessments	223,289	99,899	323,188
Charges for services	43,304	-	43,304
Interest earnings	1,492	90	1,582
Total revenues	<u>503,049</u>	<u>99,989</u>	<u>603,038</u>
Expenditures:			
Parks and recreation	588,928	-	588,928
Street lighting	-	149,052	149,052
Total expenditures	<u>588,928</u>	<u>149,052</u>	<u>737,980</u>
Net change in fund balances (deficit)	(85,879)	(49,063)	(134,942)
Fund balances (deficit), beginning of year	<u>(1,795,971)</u>	<u>(28,095)</u>	<u>(1,824,066)</u>
Fund balances (deficit), end of year	<u>\$ (1,881,850)</u>	<u>\$ (77,158)</u>	<u>\$ (1,959,008)</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, 2014**

Reconciliation:

Net change in fund balances (deficit) of total governmental funds	\$ (134,942)
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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. This is the amount by which additions to capital outlay \$0, less than depreciation expense \$(55,065) in the period.	(55,065)
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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>5,164</u>
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Change in net position of governmental activities	<u><u>\$ (184,843)</u></u>
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ROSAMOND COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
JUNE 30, 2014

<u>Assets</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total Business-Type Activities</u>
Current assets:			
Cash and cash equivalents (Note 2)	\$ 1,683,885	\$ 6,364,823	\$ 8,048,708
Accounts receivable - utilities, net (Note 4)	414,363	285,553	699,916
Accounts receivable - other	198,713	57,181	255,894
Due from other funds (Note 5)	162,835	-	162,835
Materials and supplies inventory	155,688	-	155,688
Prepaid expenses and other deposits	85,168	13,914	99,082
	<u>2,700,652</u>	<u>6,721,471</u>	<u>9,422,123</u>
Total current assets			
Noncurrent assets:			
Restricted - cash and cash equivalents (Notes 2 and 3)	212,399	27,059	239,458
Banked water inventory (Note 6)	1,375,529	-	1,375,529
Internal balances (Note 5)	150,192	1,735,411	1,885,603
Investment in water banking - JPA (Note 7)	4,750,000	-	4,750,000
Capital assets, not being depreciated (Note 8)	2,201,126	524,591	2,725,717
Capital assets, being depreciated, net (Note 8)	16,259,142	13,053,025	29,312,167
	<u>24,948,388</u>	<u>15,340,086</u>	<u>40,288,474</u>
Total noncurrent assets			
	<u>\$ 27,649,040</u>	<u>\$ 22,061,557</u>	<u>\$ 49,710,597</u>
Total assets			
Liabilities and Net Position			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,112,018	\$ 73,515	\$ 1,185,533
Accrued wages and related payables	61,071	33,927	94,998
Customer deposits	131,021	77,961	208,982
Accrued interest on long-term debt	-	42,704	42,704
Long-term liabilities - due within one year:			
Compensated absences (Note 9)	30,092	37,267	67,359
Notes payable (Note 10)	254,650	464,285	718,935
	<u>1,588,852</u>	<u>729,659</u>	<u>2,318,511</u>
Total current liabilities			
Noncurrent liabilities:			
Long-term liabilities - due in more than one year:			
Compensated absences (Note 9)	90,274	111,799	202,073
Notes payable (Note 10)	2,022,295	6,463,774	8,486,069
	<u>2,112,569</u>	<u>6,575,573</u>	<u>8,688,142</u>
Total noncurrent liabilities			
	<u>3,701,421</u>	<u>7,305,232</u>	<u>11,006,653</u>
Total liabilities			
Net position: (Note 11)			
Net investment in capital assets	20,933,323	6,649,557	27,582,880
Restricted	212,399	27,059	239,458
Unrestricted	2,801,897	8,079,709	10,881,606
	<u>\$ 23,947,619</u>	<u>\$ 14,756,325</u>	<u>\$ 38,703,944</u>
Total net position			

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Water</u>	<u>Wastewater</u>	<u>Total Business-Type Activities</u>
Operating revenues:			
Water consumption sales	\$ 3,730,354	\$ -	\$ 3,730,354
Sewer service charges	-	3,363,418	3,363,418
Total operating revenues	<u>3,730,354</u>	<u>3,363,418</u>	<u>7,093,772</u>
Operating expenses:			
Salaries and benefits	1,064,231	704,844	1,769,075
Operations	1,332,194	666,689	1,998,883
Total operating expenses	<u>2,396,425</u>	<u>1,371,533</u>	<u>3,767,958</u>
Operating income before depreciation	1,333,929	1,991,885	3,325,814
Depreciation expense	(1,451,162)	(268,903)	(1,720,065)
Operating income (loss)	<u>(117,233)</u>	<u>1,722,982</u>	<u>1,605,749</u>
Nonoperating revenue (expense):			
Interest earnings	2,129	16,581	18,710
Interest expense	(86,067)	(194,391)	(280,458)
Other non capital revenue	109,968	-	109,968
Miscellaneous revenue	8,632	225	8,857
Gain on sale of capital assets	3,557	3,557	7,114
Total nonoperating revenue (expense), net	<u>38,219</u>	<u>(174,028)</u>	<u>(135,809)</u>
Change in net position	<u>(79,014)</u>	<u>1,548,954</u>	<u>1,469,940</u>
Net position, beginning of year	<u>24,026,633</u>	<u>13,207,371</u>	<u>37,234,004</u>
Net position, end of year	<u><u>\$ 23,947,619</u></u>	<u><u>\$ 14,756,325</u></u>	<u><u>\$ 38,703,944</u></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, 2014**

	<u>Water</u>	<u>Wastewater</u>	<u>Total Business-Type Activities</u>
Cash flows from operating activities:			
Cash receipts from customers	\$ 3,783,911	\$ 3,353,063	\$ 7,136,974
Cash paid to employees for salaries and benefits	(1,046,569)	(697,611)	(1,744,180)
Cash paid to vendors and suppliers	(807,178)	(656,459)	(1,463,637)
Net cash provided by operating activities	<u>1,930,164</u>	<u>1,998,993</u>	<u>3,929,157</u>
Cash flows from noncapital financing activities:			
Other noncapital revenue	<u>118,600</u>	<u>225</u>	<u>118,825</u>
Cash flows from capital and related financing activities:			
Cash received (used) for Parks and Recreation Fund loans	177,690	(140,381)	37,309
Cash used to fund Parks and Recreation operations	(162,835)	-	(162,835)
Cash received (used) to fund sewer capital assets	152,990	(152,990)	-
Acquisition and construction of capital assets - water	(284,165)	-	(284,165)
Acquisition and construction of capital assets - sewer	(68,082)	(88,938)	(157,020)
Principal payments on notes payable	(228,489)	(446,385)	(674,874)
Interest payments on notes payable	(90,759)	(197,875)	(288,634)
Gain on sale of capital assets	3,557	3,557	7,114
Net cash used by capital and related financing activities	<u>(500,093)</u>	<u>(1,023,012)</u>	<u>(1,523,105)</u>
Cash flows from investing activities:			
Interest earnings	2,129	19,093	21,222
Payment for investment in water banking - JPA	(500,000)	-	(500,000)
Net cash provided (used) by investing activities	<u>(497,871)</u>	<u>19,093</u>	<u>(478,778)</u>
Net increase in cash and cash equivalents	1,050,800	995,299	2,046,099
Cash and cash equivalents, beginning of year	<u>845,484</u>	<u>5,396,583</u>	<u>6,242,067</u>
Cash and cash equivalents, end of year	<u>\$ 1,896,284</u>	<u>\$ 6,391,882</u>	<u>\$ 8,288,166</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	<u>\$ (117,233)</u>	<u>\$ 1,722,982</u>	<u>\$ 1,605,749</u>
Depreciation expense	1,451,162	268,903	1,720,065
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable - utilities, net	17,647	(23,063)	(5,416)
Accounts receivable - other	42,812	4,281	47,093
Materials and supplies inventory	65,298	-	65,298
Prepaid expenses and other deposits	99,925	(429)	99,496
Banked water inventory	(600,000)	-	(600,000)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	959,793	10,659	970,452
Accrued wages and related payables	26,530	13,231	39,761
Customer deposits and deferred revenue	(6,902)	8,427	1,525
Compensated absences	(8,868)	(5,998)	(14,866)
Total adjustments	<u>2,047,397</u>	<u>276,011</u>	<u>2,323,408</u>
Net cash provided by operating activities	<u>\$ 1,930,164</u>	<u>\$ 1,998,993</u>	<u>\$ 3,929,157</u>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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

The criteria used in determining the scope of the District is based on the provisions of Governmental Accounting Standards Board (GASB) Statements No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and 34*, and No. 39, *Determining Whether Certain Organizations Are Component Units (an amendment of GASB Statement 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-type activities. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as unbilled but utilized utility services revenues and expenses, are recorded at year-end. The Statement of Activities demonstrates the degree to which the operating expenses of a given function are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function. The types of transactions reported as operating revenues for the District are charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes, operating grants, and other items not properly included among operating revenues are reported instead as nonoperating revenues. Contributed capital and capital grants are included as capital contributions.

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

B. Basis of Accounting and Measurement Focus (Continued)

Government-Wide Financial Statements (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District did not have any items that qualified for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District did not have any items that qualified for reporting in this category.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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 position 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 position. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current fiscal year. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, investment revenue, and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The accrual basis of accounting is followed by the proprietary enterprise funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as unbilled but utilized utility services, are recorded at year-end. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Fund Financial Statements (Continued)

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

In accordance with GASB Statement No. 62, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the District applies all GASB pronouncements currently in effect as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures issued on or before November 30, 1989.

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 (10%) of the corresponding total for all funds of that category or type; and
- b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent (5%) of the corresponding total for all governmental and proprietary funds combined.
- c) The District has determined that a fund is important to the financial statement user.

The funds of the District are described below:

Governmental Funds

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

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

Enterprise Funds

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

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

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

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, 2014. 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

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

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

C. Financial Statement Elements (Continued)

6. Capital Assets (Continued)

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 Position/Fund Balances

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

- Net Investment in Capital Assets – This component of net position 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 Position – This component of net position consists of net position that is restricted for a specific use and is not available for the general use of the District.
- Unrestricted Net Position – This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

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

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact. Amounts reported in the Balance Sheet are reported for prepaid expenses and other deposits.
- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- Assigned fund balance – amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making authority, or by a body or an official designated for that purpose. The amounts reflected in the Balance Sheet represent funds assigned due to the purpose of the fund.
- Unassigned fund balance – the residual classification for the District's governmental funds that include amounts not contained in the other classifications.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

C. Financial Statement Elements (Continued)

8. Net Position/Fund Balances (Continued)

The Board of Directors establishes, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through the adoption of the budget and subsequent budget amendments that occur throughout the year. The District's Board of Directors has the authority to set aside funds as assigned for an intended purpose. The Board of Directors authorizes the General Manager as designee in identifying intended uses of funds and assigning residual balances. Any such assignments will be presented at regular financial and budget reporting periods. Board action to approve such financial and budget reports will represent ratification of any such assignments. The Board of Directors may determine the need to assign funds for an intended use.

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

9. Fund Balance Deficit

The deficits in the Parks and Recreation Fund and Street Lighting Fund as of June 30, 2014, in the amounts of \$(1,881,850) and \$(77,158), respectively, are expected to be covered in the near term with interfund transfers. In the future, the District is contemplating a parcel tax, that if it goes through, would cover operations.

10. Utility Sales

Utility sales are billed on a monthly basis. Estimated unbilled utility revenue through June 30, 2014 has been accrued at year-end for the Enterprise Funds.

11. Capital Contributions

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

12. Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements, or transfers. Loans are reported as receivables and payables, as appropriate, and are subject to elimination upon consolidation and are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

13. Budgetary Policies

The District follows specific procedures in establishing the budgetary data reflected in the basic financial statements. In accordance with District Ordinance 078-1, prior to May 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 30 the budget is legally enacted through passage of a Board of Directors resolution. Budgets for the Enterprise Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

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

C. Financial Statement Elements (Continued)

13. Budgetary Policies (Continued)

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 Parks and Recreation Fund and all major special revenue funds.

14. California State Water Project (SWP)

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

15. Use of Estimates

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

16. Date of Management's Review

Subsequent events were evaluated through January 29, 2015, which is the date the basic financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2014, are classified by fund as follows:

Business-type activity funds:	
Water	\$ 1,896,284
Wastewater	<u>6,391,882</u>
Total cash and cash equivalents	<u>\$ 8,288,166</u>

Cash and cash equivalents as of June 30, 2014, consist of the following:

Cash on hand	\$ 350
Deposits held with financial institutions	909,142
Deposit of note proceeds held with financial institutions	239,458
Local Agency Investment Fund (LAIF)	<u>7,139,216</u>
Total	<u>\$ 8,288,166</u>

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)**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
Bankers' 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

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
LAIF	N/A	None	None

* Must be at least 102% of market value.

** Must carry the highest ratings of at least two of the three largest national rating agencies.

*** Must be rated "AA" or better by a nationally recognized rating service.

**** Must be rated "A" or better by Moody's or Standard and Poor's (S&P) rating service.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. The District had deposits with a bank balance of \$812,613 as of June 30, 2014. Of the bank balances, up to \$250,000 for 2014 is federally insured, and the remaining balance of \$562,613 is collateralized by the bank with pledged securities.

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

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

Custodial Credit Risk (Continued)

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:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity 12 Months or Less</u>
LAIF	<u>\$ 7,139,216</u>	<u>\$ 7,139,216</u>

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.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year-End</u>	
				<u>AAA</u>	<u>Not Rated</u>
LAIF	<u>\$ 7,139,216</u>	N/A	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,139,216</u>

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 LAIF was 84.5% of the District’s total depository and investment portfolio as of June 30, 2014.

NOTE 3 – RESTRICTED CASH AND CASH EQUIVALENTS

Restricted funds of \$212,399 in the Water Fund and \$27,059 in the Sewer Fund are included in noncurrent assets. These include funds on deposit with Zions Bank and are held for new construction projects in the District and may not be spent on repairs and maintenance.

NOTE 4 – ACCOUNTS RECEIVABLE – UTILITIES, NET

The accounts receivable – utilities balance consists of the following balances as of June 30, 2014:

	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Accounts receivable - utilities	\$ 343	\$ 6,426	\$ 414,363	\$ 285,553	\$ 706,685
Allowance for uncollectible receivables	-	-	-	-	-
Accounts receivable - utilities, net	<u>\$ 343</u>	<u>\$ 6,426</u>	<u>\$ 414,363</u>	<u>\$ 285,553</u>	<u>\$ 706,685</u>

NOTE 5 – INTERNAL BALANCES AND DUE TO/FROM OTHER FUNDS

Internal balances consist of the following at June 30, 2014:

<u>Purpose</u>	<u>Funds</u>		<u>Amount</u>
	<u>Receivable</u>	<u>Payable</u>	
Loan	Water	Parks and Recreation	\$ 150,192
Loan	Wastewater	Parks and Recreation	1,735,411
			<u>\$ 1,885,603</u>
Cover operating costs	Water	Parks and Recreation	\$ 104,378
Cover operating costs	Water	Street Lighting	58,457
			<u>\$ 162,835</u>

On January 7, 2009, the Board of Directors adopted a third internal loan agreement between funds. The Water and Wastewater Funds will provide assistance in the form of a revolving credit line, up to a maximum amount of \$500,000, to the governmental funds to meet their operating needs. The interest rate will be based on the LAIF rate, established by the Treasurer of the State of California, and be adjusted quarterly. The maturity date for this line of credit was January 7, 2014. This loan matured and was paid off using the new \$750,000 loan approved by the Board on December 11, 2013.

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

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

NOTE 5 – INTERNAL BALANCES AND DUE TO/FROM OTHER FUNDS (Continued)

On December 11, 2013, the board of Directors adopted an eighth internal agreement between the funds. The Water and Wastewater Funds will provide assistance in the form of a revolving line of credit, up to a maximum of \$750,000, to the governmental funds to meet their operating needs. The interest rate will be based on the LAIF rate, established by the Treasurer of the State of California, and be adjusted quarterly. The maturity date for this line is December 11, 2018.

Due To/From Other Funds

In 2014, the Parks and Recreation Fund and Street Lighting Fund borrowed \$104,378 and \$58,457, respectively, to cover operating costs from the Water Fund.

As of June 30, 2014, the Parks and Recreation Fund reported due to other funds of \$1,989,981 and the Streets Lighting Fund \$58,457, respectively. As disclosed in Note 1, the Parks and Recreation Fund is expected to cover the fund deficit with interfund transfers, however the District currently does not have a formal repayment plan.

NOTE 6 – BANKED WATER INVENTORY

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

In 2011, the District delivered 112 acre-feet of dry year water to SRWBA for banking as part of the District's participation in water banking programs with SRWBA. After transportation losses and evaporation, the District had available 99 acre-feet of banked water with SRWBA. The cost of this water was \$40,000. At June 30, 2011, the District's balance in the banked water inventory was \$273,557.

During the fiscal year 2012, the District delivered 875 acre-feet of water to SRWBA for banking. Pursuant to the District's agreement for a long-term groundwater banking program, 90% of water delivered to SRWBA, less any losses in transportation, is considered recoverable. Thus, the after transportation losses and evaporation the District has available 1,419 acre-feet banked in SRWBA. The total cost of this water for the District was \$245,200. At June 30, 2012, the District's balance in the banked water inventory was \$518,757.

During the fiscal year 2013, the District delivered 976 acre-feet of water to SRWBA for banking. After transportation losses and evaporation, the District had available 873 acre-feet of banked water with SRWBA and a total of 2,292 acre-feet banked in SRWBA. The cost of this water was \$256,772. At June 30, 2013, the District's balance in the banked water inventory was \$775,529.

In June 2014, the District entered into a water purchase agreement with Homer LLC for the purchase of 1,500 acre-feet of banked water. The District was allocated 1,500 acre-feet of banked water from Homer. The cost of the water was \$600,000.

NOTE 6 – BANKED WATER INVENTORY (Continued)

The following is a summary of the changes in banked water recorded as inventory as of June 30, 2014:

	AVEK			Homer, LLC			Totals		
	Delivered Acre-Feet	Banked Acre-Feet	Cost	Delivered Acre-Feet	Banked Acre-Feet	Cost	Delivered Acre-Feet	Banked Acre-Feet	Cost
Fiscal Year 2010	503	445	\$ 233,557	-	-	\$ -	503	445	\$ 233,557
Fiscal Year 2011	112	99	40,000	-	-	-	112	99	40,000
Fiscal Year 2012	1000	875	245,200	-	-	-	1,000	875	245,200
Fiscal Year 2013	976	873	256,772	-	-	-	976	873	256,772
Fiscal Year 2014	-	-	-	1,500	1,500	600,000	1,500	1,500	600,000
Total	2591	2292	\$ 775,529	1,500	1,500	\$ 600,000	4,091	3,792	\$ 1,375,529

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

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

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

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

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

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

The District, 3% - contributed intellectual property.

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

The District, as a JPA Member of SRWBA, has agreed to acquire 6,000 SRWBA shares for the amount of \$6,000,000 under the JPA. The District made an initial payment of \$1,000,000 to SRWBA upon the execution of the JPA and beginning January 1, 2009, the District started making payments of \$500,000 to SRWBA every six months (January 1 and July 1). An amendment was made effective October 2012 changing the due date and amount to July 1 for \$250,000 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, 2014, the District has paid SRWBA \$4,750,000.

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 \$81,600 and \$66,000 of management and maintenance fees, respectively. The delivery and recovery fees are stated separately for delivery of water into storage and recovery and return of water from storage.

NOTE 8 – CAPITAL ASSETS*Governmental Activities*

Changes in capital assets for the year were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land	\$ 678,441	\$ -	\$ -	\$ 678,441
Construction-in-progress	54,594	-	(54,594)	-
Total non-depreciable assets	<u>733,035</u>	<u>-</u>	<u>(54,594)</u>	<u>678,441</u>
Depreciable assets:				
Park improvements	871,800	54,594	-	926,394
Vehicles and equipment	89,862	-	-	89,862
Total depreciable assets	<u>961,662</u>	<u>54,594</u>	<u>-</u>	<u>1,016,256</u>
Accumulated depreciation:				
Park improvements	(281,321)	(51,291)	-	(332,612)
Vehicles and equipment	(76,032)	(3,774)	-	(79,806)
Total accumulated depreciation	<u>(357,353)</u>	<u>(55,065)</u>	<u>-</u>	<u>(412,418)</u>
Total depreciable assets, net	<u>604,309</u>	<u>(471)</u>	<u>-</u>	<u>603,838</u>
Total capital assets, net	<u>\$ 1,337,344</u>	<u>\$ (471)</u>	<u>\$ (54,594)</u>	<u>\$ 1,282,279</u>

Construction-in-Progress

The balance at June 30 consists of the following projects:

	<u>2014</u>	<u>2013</u>
Felsite park design	<u>\$ -</u>	<u>\$ 54,594</u>

Depreciation Expense

Depreciation expense under governmental activities was allocated as follows for the year ended June 30, 2014:

	<u>Depreciation Expense</u>
Parks and recreation	<u>\$ 55,065</u>

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

Changes in capital assets for the year were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land	\$ 2,468,515	\$ -	\$ -	\$ 2,468,515
Construction-in-progress	<u>12,122,675</u>	<u>216,823</u>	<u>(12,082,296)</u>	<u>257,202</u>
Total non-depreciable assets	<u>14,591,190</u>	<u>216,823</u>	<u>(12,082,296)</u>	<u>2,725,717</u>
Depreciable assets:				
Facilities system	48,303,314	11,773,653	-	60,076,967
Vehicles and equipment	<u>2,118,719</u>	<u>504,985</u>	<u>(37,170)</u>	<u>2,586,534</u>
Total depreciable assets	<u>50,422,033</u>	<u>12,278,638</u>	<u>(37,170)</u>	<u>62,663,501</u>
Accumulated depreciation:				
Facilities system	(29,647,119)	(1,624,147)	-	(31,271,266)
Vehicles and equipment	<u>(2,021,320)</u>	<u>(95,918)</u>	<u>37,170</u>	<u>(2,080,068)</u>
Total accumulated depreciation	<u>(31,668,439)</u>	<u>(1,720,065)</u>	<u>37,170</u>	<u>(33,351,334)</u>
Total depreciable assets, net	<u>18,753,594</u>	<u>10,558,573</u>	<u>-</u>	<u>29,312,167</u>
Total capital assets, net	<u>\$ 33,344,784</u>	<u>\$ 10,775,396</u>	<u>\$ (12,082,296)</u>	<u>\$ 32,037,884</u>

Construction-in-Progress

The balance at June 30 consists of the following projects:

	<u>2014</u>	<u>2013</u>
Wastewater treatment plant	\$ 257,202	\$ 11,315,753
Various projects <\$100,000	<u>-</u>	<u>806,922</u>
Construction-in-progress	<u>\$ 257,202</u>	<u>\$ 12,122,675</u>

Depreciation Expense

Depreciation expense under business-type activities was allocated as follows for the year ended June 30, 2014:

	<u>Depreciation Expense</u>
Water facility and systems	\$ 1,451,162
Wastewater facility and systems	<u>268,903</u>
	<u>\$ 1,720,065</u>

NOTE 8 – CAPITAL ASSETS (Continued)*Depreciation Expense* (Continued)

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

<u>Water Enterprise</u>	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land	\$ 1,943,924	\$ -	\$ -	\$ 1,943,924
Construction-in-progress	<u>472,764</u>	<u>216,823</u>	<u>(432,385)</u>	<u>257,202</u>
Total non-depreciable assets	<u>2,416,688</u>	<u>216,823</u>	<u>(432,385)</u>	<u>2,201,126</u>
Depreciable assets:				
Water transmission and distribution	42,459,739	19,181	-	42,478,920
Vehicles and equipment	<u>1,455,875</u>	<u>367,617</u>	<u>(18,586)</u>	<u>1,804,906</u>
Total depreciable assets	<u>43,915,614</u>	<u>386,798</u>	<u>(18,586)</u>	<u>44,283,826</u>
Accumulated depreciation:				
Water transmission and distribution	(25,211,701)	(1,376,924)	-	(26,588,625)
Vehicles and equipment	<u>(1,380,407)</u>	<u>(74,238)</u>	<u>18,586</u>	<u>(1,436,059)</u>
Total accumulated depreciation	<u>(26,592,108)</u>	<u>(1,451,162)</u>	<u>18,586</u>	<u>(28,024,684)</u>
Total depreciable assets, net	<u>17,323,506</u>	<u>(1,064,364)</u>	<u>-</u>	<u>16,259,142</u>
Total capital assets, net	<u>\$ 19,740,194</u>	<u>\$ (847,541)</u>	<u>\$ (432,385)</u>	<u>\$ 18,460,268</u>

Depreciation expense for the year ended June 30, 2014, was \$1,451,162.

NOTE 8 – CAPITAL ASSETS (Continued)

<u>Wastewater Enterprise</u>	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land	\$ 524,591	\$ -	\$ -	\$ 524,591
Construction-in-progress	<u>11,649,912</u>	<u>-</u>	<u>(11,649,912)</u>	<u>-</u>
Total non-depreciable assets	<u>12,174,503</u>	<u>-</u>	<u>(11,649,912)</u>	<u>524,591</u>
Depreciable assets:				
Wastewater system	5,843,574	11,754,473	-	17,598,047
Vehicles and equipment	<u>662,846</u>	<u>137,367</u>	<u>(18,585)</u>	<u>781,628</u>
Total depreciable assets	<u>6,506,420</u>	<u>11,891,840</u>	<u>(18,585)</u>	<u>18,379,675</u>
Accumulated depreciation:				
Wastewater system	(4,435,418)	(247,223)	-	(4,682,641)
Vehicles and equipment	<u>(640,914)</u>	<u>(21,680)</u>	<u>18,585</u>	<u>(644,009)</u>
Total accumulated depreciation	<u>(5,076,332)</u>	<u>(268,903)</u>	<u>18,585</u>	<u>(5,326,650)</u>
Total depreciable assets, net	<u>1,430,088</u>	<u>11,622,937</u>	<u>-</u>	<u>13,053,025</u>
Total capital assets, net	<u>\$ 13,604,591</u>	<u>\$ 11,622,937</u>	<u>\$(11,649,912)</u>	<u>\$ 13,577,616</u>

Depreciation expense for the year ended June 30, 2014, was \$268,903.

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.

NOTE 9 – COMPENSATED ABSENCES (Continued)

Changes in compensated absences as of June 30, 2014, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Compensated absences, beginning	\$ 31,630	\$ 284,298
Current year employee earnings	7,353	111,692
Employee vacation time taken	<u>(12,517)</u>	<u>(126,558)</u>
Compensated absences, ending	26,466	269,432
Less: current portion payable	<u>(6,617)</u>	<u>(67,359)</u>
Long-term portion payable	<u>\$ 19,849</u>	<u>\$ 202,073</u>

NOTE 10 – NOTES PAYABLE

<u>Business-type activities:</u>	<u>Balance 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2014</u>
Water Fund:				
LaSalle National Bank Note	\$ 242,734	\$ -	\$ (116,405)	\$ 126,329
Zions Bank Note	2,262,700	-	(112,084)	2,150,616
Wastewater Fund:				
LaSalle National Bank Note	161,822	-	(77,603)	84,219
Zions Bank Note	288,259	-	(14,280)	273,979
State Water Pollution Control Note	<u>6,924,363</u>	<u>-</u>	<u>(354,502)</u>	<u>6,569,861</u>
Total	9,879,878	<u>\$ -</u>	<u>\$ (674,874)</u>	9,205,004
Less: current portion due	<u>(664,450)</u>			<u>(718,935)</u>
Long-term portion due	<u>\$ 9,215,428</u>			<u>\$ 8,486,069</u>

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 22 and May 22 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>
2015	\$ 210,548	\$ 6,437	\$ 216,985
Total	210,548	<u>\$ 6,437</u>	<u>\$ 216,985</u>
Less: current	<u>(210,548)</u>		
Long-term	<u>\$ -</u>		

NOTE 10 – NOTES PAYABLE (Continued)*Zions Bank Note*

In December 2008, the District obtained a \$3,000,000 installment sale note with Zions Bank with a variable interest rate of 2.10% 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 Wastewater 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 \$97,415 are payable on December 15 and June 15 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>
2015	\$ 144,668	\$ 50,160	\$ 194,828
2016	147,724	47,106	194,830
2017	150,842	43,988	194,830
2018	154,026	40,804	194,830
2019	157,277	37,552	194,829
2020-2024	837,613	136,535	974,148
2025-2029	<u>832,445</u>	<u>44,309</u>	<u>876,754</u>
Total	2,424,595	<u>\$ 400,454</u>	<u>\$ 2,825,049</u>
Less: current	<u>(144,668)</u>		
Long-term	<u>\$ 2,279,927</u>		

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 fifteen years after the wastewater treatment plant is completed. Principal and interest installments of \$534,535 will be payable annually each year. Annual estimated debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 363,719	\$ 170,816	\$ 534,535
2016	373,176	161,359	534,535
2017	382,878	151,657	534,535
2018	392,833	141,702	534,535
2019	403,047	131,489	534,536
2020-2024	2,177,979	494,697	2,672,676
2025-2029	<u>2,476,229</u>	<u>196,450</u>	<u>2,672,679</u>
Total	6,569,861	<u>\$ 1,448,170</u>	<u>\$ 8,018,031</u>
Less: current	<u>(363,719)</u>		
Long-term	<u>\$ 6,206,142</u>		

NOTE 11 – NET POSITION

Net position categories are as follows:

	Governmental Activities	Business-Type Activities	Total
Investment in water banking - JPA	\$ -	\$ 4,750,000	\$ 4,750,000
Capital assets - not being depreciated	678,441	2,725,717	3,404,158
Capital assets - being depreciated, net	603,838	29,312,167	29,916,005
Note payable - current portion	-	(718,935)	(718,935)
Note payable - long-term portion	-	(8,486,069)	(8,486,069)
Net investment in capital assets	<u>\$ 1,282,279</u>	<u>\$ 27,582,880</u>	<u>\$ 28,865,159</u>

	Governmental Activities	Business-Type Activities	Total
Water Fund - capital improvements	\$ -	\$ 212,399	\$ 212,399
Wastewater Fund - capital improvements	-	27,059	27,059
Restricted net assets	<u>\$ -</u>	<u>\$ 239,458</u>	<u>\$ 239,458</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 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 2014, 2013, and 2012 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 2014, 2013, and 2012, the District's annual contributions for the CalPERS' plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three Years CalPERS Funding Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll
2011-2012	\$ 319,403	100%	\$ -	14.850%
2012-2013	207,239	100%	-	15.640%
2013-2014	234,300	100%	-	17.896%

NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)

Annual Pension Cost

For 2013, the District's annual pension cost of \$234,300, 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, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary from 3.30% to 14.20%, and (c) 3.00% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period is 19 years.

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Underfunded Actuarial Liability as Percentage of Covered Payroll
6/30/2010	\$ 1,603,482,152	\$ 1,972,910,641	\$ 369,428,489	81.27%	\$ 352,637,380	104.76%
6/30/2011	1,724,200,585	2,135,350,204	411,149,619	80.75%	350,121,750	117.43%
6/30/2012	1,837,489,422	2,254,622,362	417,132,940	81.50%	339,228,272	122.97%

The required schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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, 2014, 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 and employment practices liability: Total risk financing self-insurance limits of \$10,000,000, combined single limit at \$10,000,000 per occurrence, subject to the following deductibles: \$25,000 per occurrence for third party general liability property damage, \$25,000 per occurrence for third party auto liability property damage; 50% co-insurance of cost expended by SDRMA in excess of \$10,000 up to \$50,000, per occurrence, for employment related claims.

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

- Employee dishonesty coverage up to \$400,000 per loss includes public employee dishonesty; forgery or alteration; and theft, disappearance, and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced, and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of \$1.0 billion per occurrence, subject to a \$25,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$25,000 deductible per occurrence.

NOTE 13 – RISK MANAGEMENT (Continued)

- 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 2014, 2013, and 2012. 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, 2014, 2013, and 2012.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Litigation – Antelope Valley Groundwater Cases

This case involves a series of consolidated cases known as the Antelope Valley Groundwater Cases regarding priority of water rights. On November 30, 2006, the court entered an order defining the boundaries of the adjudication. A second phase of trial was also conducted to determine if there was more than one distinct groundwater basin. In order to create a comprehensive adjudication of all water rights claimants within the groundwater basin, the claimants were identified by two classes, the Willis Class and the Woods Class. On November 18, 2010, the Willis Class was moved for preliminary settlement agreement, which gives the Willis Class the right to seek attorney's fees against the named "public water suppliers (PWS)," which include the District. On January 24, 2011, the Willis Class served a motion to request attorney's fees against the public water suppliers in the amount of \$2,300,618, costs of \$86,000 and a "lodestar" multiplier of 1.5. The motion proposes an allocation of the award between the public water suppliers based on pumping, and proposes the District pay 5.12% of the requested fees. On February 24, 2011, the courts approved the Willis Class settlement. However, there was no discussion regarding attorney's fees. On May 4, 2011, the judge awarded a total of \$1,904,552 to the Willis Class attorneys. The motion proposed an allocation of the award between the PWS based upon pumping, and proposed that the District pay 5.12% of the requested fees or approximately \$98,000.

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

A third phase trial was heard to discuss the safe-yield of the basin and whether it is in the state of overdraft.

Phase four began May 28, 2013, to determine the overall groundwater production occurring in the Basin in calendar years 2011 and 2012.

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

Litigation – Antelope Valley Groundwater Cases (Continued)

In October 2013, the Woods Class moved for preliminary approval of a partial class action settlement. On October 25, 2013, the courts granted preliminary approval of the Woods Class settlement, and the District, along with four others, was to pay specific amounts, including class action attorney’s fees and costs. Final approval of the settlement occurred on December 11, 2013, and on January 7, 2014, a hearing was held and the court confirmed the District payment for the settlement and attorney’s costs and fees was \$110,453. The District negotiated payment arrangements over 18 months and payments of \$5,941, including 8% interest. The value of \$110,453 at June 30, 2014 is included in accounts payable and accrued expenses.

A new phase (five) began February 2014, which deals with the determination of the Federal Reserve water rights, and the rights to return flows from imported water. The parties involved are engaged in settlement negotiations and have prepared a proposed stipulated judgment to present to the Court. The court date is set for February 26, 2015 at which time the parties must submit the stipulations agreeing to the terms of the proposed stipulated judgment. The Board has approved the current form of the stipulated judgment. Any objections to the proposed judgment must be filed by April 1, 2015. A hearing regarding final approval of the proposed stipulated judgment is set for August 3, 2015.

NOTE 15 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2014, expenditures exceeded appropriations in individual funds as follows:

<u>Fund</u>	<u>Appropriations Category</u>	<u>Excess Expenditures</u>
Street Lighting Fund	Operations	\$ 23,652

NOTE 16 – GASB STATEMENTS IMPLEMENTED

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities* was released in March 2012. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term “deferred” in financial statement presentations. The District did not have deferred outflows or inflows of resources to report.

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

NOTE 16 – GASB STATEMENTS IMPLEMENTED (Continued)

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* was effective for financial statements for fiscal years beginning after June 15, 2013. There was no effect on the District's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* is effective for fiscal years beginning after June 15, 2013. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The implementation of this statement did not change the accounting or affect the District's financial statements.

NOTE 17 – FUTURE GASB STATEMENTS

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

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations* establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The District has elected not to early implement Statement No. 69 and has not determined its effects on the District's financial statements.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* was issued in November 2013. This statement addresses an issue related to the application of the transition provision of GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions*. The provisions of this statement are required to be implemented simultaneously with the provisions of GASB Statement No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

**ROSAMOND COMMUNITY SERVICES DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL (By Object)
PARKS AND RECREATION FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Adopted Original Budget</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
Revenues:				
Property taxes	\$ 216,509	\$ 216,509	\$ 234,964	\$ 18,455
Special assessments	210,000	210,000	223,289	13,289
Charges for services	26,800	26,800	43,304	16,504
Interest earnings	1,850	1,850	1,492	(358)
Total revenues	<u>455,159</u>	<u>455,159</u>	<u>503,049</u>	<u>47,890</u>
Expenditures:				
Salaries	396,618	396,618	278,857	117,761
Operations	376,690	376,690	310,071	66,619
Interest	6,000	6,000	-	6,000
Total expenditures	<u>779,308</u>	<u>779,308</u>	<u>588,928</u>	<u>190,380</u>
Net change in fund deficit	(324,149)	(324,149)	(85,879)	<u>\$ 238,270</u>
Fund deficit, beginning of year	<u>(1,795,971)</u>	<u>(1,795,971)</u>	<u>(1,795,971)</u>	
Fund deficit, end of year	<u>\$ (2,120,120)</u>	<u>\$ (2,120,120)</u>	<u>\$ (1,881,850)</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, 2014**

	<u>Adopted Original Budget</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
Revenues:				
Special assessment	\$ 101,346	\$ 101,346	\$ 99,899	\$ (1,447)
Interest earnings	125	125	90	(35)
Total revenues	<u>101,471</u>	<u>101,471</u>	<u>99,989</u>	<u>(1,482)</u>
Expenditures:				
Operations	<u>125,400</u>	<u>125,400</u>	<u>149,052</u>	<u>(23,652)</u>
Total expenditures	<u>125,400</u>	<u>125,400</u>	<u>149,052</u>	<u>(23,652)</u>
Net change in fund balance	(23,929)	(23,929)	(49,063)	<u>\$ (25,134)</u>
Fund balance, beginning of year	<u>(28,095)</u>	<u>(28,095)</u>	<u>(28,095)</u>	
Fund balance (deficit), end of year	<u>\$ (52,024)</u>	<u>\$ (52,024)</u>	<u>\$ (77,158)</u>	

SUPPLEMENTARY INFORMATION

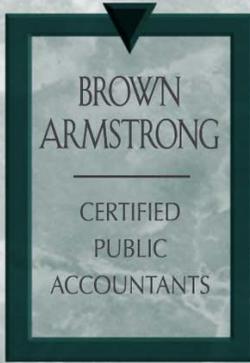
**ROSAMOND COMMUNITY SERVICES DISTRICT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
WATER FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Adopted Original Budget	Revised Final Budget	Actual Budgetary Basis	Variance
Operating revenues:				
Water consumption sales	\$ 3,511,400	\$ 3,511,400	\$ 3,730,354	\$ 218,954
Total operating revenues	<u>3,511,400</u>	<u>3,511,400</u>	<u>3,730,354</u>	<u>218,954</u>
Operating expenses:				
Salaries and benefits	1,053,707	1,053,707	1,064,231	(10,524)
Operations	1,110,655	1,110,655	1,332,194	(221,539)
Total operating expenses	<u>2,164,362</u>	<u>2,164,362</u>	<u>2,396,425</u>	<u>(232,063)</u>
Operating income before capital contributions	1,347,038	1,347,038	1,333,929	(13,109)
Depreciation expense	-	-	(1,451,162)	(1,451,162)
Operating income (loss)	<u>1,347,038</u>	<u>1,347,038</u>	<u>(117,233)</u>	<u>(1,464,271)</u>
Nonoperating revenue (expense):				
Interest earnings	2,000	2,000	2,129	129
Interest expense	(122,023)	(122,023)	(86,067)	35,956
Miscellaneous revenue	-	-	8,632	8,632
Other noncapital revenue	-	-	109,968	109,968
Gain on sale of capital assets	-	-	3,557	3,557
Total nonoperating revenue (expense), net	<u>(120,023)</u>	<u>(120,023)</u>	<u>38,219</u>	<u>158,242</u>
Change in net position	1,227,015	1,227,015	(79,014)	<u>\$ (1,306,029)</u>
Net position, beginning of year	<u>24,026,633</u>	<u>24,026,633</u>	<u>24,026,633</u>	
Net position, end of year	<u>\$ 25,253,648</u>	<u>\$ 25,253,648</u>	<u>\$ 23,947,619</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, 2014**

	Adopted Original Budget	Revised Final Budget	Actual Budgetary Basis	Variance
Operating revenues:				
Wastewater service charges	\$ 3,311,100	\$ 3,311,100	\$ 3,363,418	\$ 52,318
Total operating revenues	<u>3,311,100</u>	<u>3,311,100</u>	<u>3,363,418</u>	<u>52,318</u>
Operating expenses:				
Salaries and benefits	972,302	972,302	704,844	267,458
Operations	809,155	809,155	666,689	142,466
Total operating expenses	<u>1,781,457</u>	<u>1,781,457</u>	<u>1,371,533</u>	<u>409,924</u>
Operating income before capital contributions and purchases	1,529,643	1,529,643	1,991,885	462,242
Depreciation expense	-	-	(268,903)	(268,903)
Operating income	<u>1,529,643</u>	<u>1,529,643</u>	<u>1,722,982</u>	<u>193,339</u>
Nonoperating revenue (expense):				
Interest earnings	16,000	16,000	16,581	581
Interest expense	(200,307)	(200,307)	(194,391)	5,916
Miscellaneous revenue	-	-	225	225
Gain on sale of capital assets	-	-	3,557	3,557
Total nonoperating revenue (expense), net	<u>(184,307)</u>	<u>(184,307)</u>	<u>(174,028)</u>	<u>10,279</u>
Change in net position	1,345,336	1,345,336	1,548,954	<u>\$ 203,618</u>
Net position, beginning of year	<u>13,207,371</u>	<u>13,207,371</u>	<u>13,207,371</u>	
Net position, end of year	<u>\$ 14,552,707</u>	<u>\$ 14,552,707</u>	<u>\$ 14,756,325</u>	

REPORT ON COMPLIANCE AND INTERNAL CONTROLS



BROWN ARMSTRONG

Certified Public Accountants

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

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

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Rosamond Community Services District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies. Findings 1 through 2 were considered to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 January 29, 2015.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the firm.

Bakersfield, California
January 29, 2015

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**ROSAMOND COMMUNITY SERVICES DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2014**

Current Year Findings

Finding 1 Inventory

Criteria

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

Condition

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

- There is not a process in place to track when inventory is consumed or used.
- Inventory on hand is estimated based on estimated values instead of cost.

Effect

A lack of a process to determine the consumption of inventory can lead to understated or overstated inventory.

Cause

The Rosamond Community Services District (District) lacks a formal procedure for the performance of inventory counts or valuation of inventory.

Recommendation

We recommend the following:

- Implement procedures to accurately account for inventory consumption and to value inventory.
- A policy should be developed to formalize the above.

Management Response

The District is in process currently of implementing an inventory tracking software (SEMS). This software will be operational within the fiscal year ended June 30, 2015. SEMS will accurately account for inventory consumption and valuation.

Finding 2 Capital Assets

Criteria

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

Condition

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

Effect

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

Cause

Lack of formal policy requiring physical inspections.

Recommendation

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

Management Response

District management is currently working to identify all capital assets. While inspection every number of years is prudent, management feels a perpetual inventorying of capital assets would be the most effective approach to safeguarding assets and accurately reporting their value on the financial statements. As assets are identified and valued, sub-ledgers will be created to track assets by type. District policy will also be reviewed and updated to guide personnel through capital asset identification.

Status of Prior Year Findings

Finding 1 – Inventory

Criteria

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

Condition

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

- There is not a process in place to track when inventory is consumed or used.
- Inventory on hand is estimated based on estimated values instead of cost.

Effect

A lack of a process to determine the consumption of inventory can lead to understated or overstated inventory.

Cause

The Rosamond Community Services District (District) lacks a formal procedure for the performance of inventory counts or valuation of inventory.

Recommendation

We recommend the following:

- Implement procedures to accurately account for inventory consumption and to value inventory.
- A policy should be developed to formalize the above.

Management Response

As part of the District's software upgrade, SEMS Technologies Software has been purchased and is to be implemented Spring 2014. Procedures to accurately account for inventory consumption and inventory valuation will be developed as part of the implementation. Once procedures have been developed, they will be formalized in a policy.

Status

See current year Finding 1.

Finding 2 – Donated Equipment Not Recorded

Criteria

An established process to track donated assets ensures all donated equipment is recorded.

Condition

During our review of the District's Board minutes, we noted donated playground equipment valued at approximately \$12,000 was not reflected in the District's capital asset schedules.

Effect

The District's capital assets were understated by approximately \$12,000.

Cause

The District missed recording the asset due to an oversight in the accounting department.

Recommendation

We recommend the District establish a process to track donated assets to ensure donated assets are recorded in the District's capital asset schedules as soon as they have been donated.

Management Response

Information on donated assets will be forwarded to the Finance Department so that they may be recorded in the District's books as soon as they are received.

Status

Resolved.

Finding 3 – Capital Assets

Criteria

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

Condition

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

Effect

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

Cause

Lack of formal policy requiring physical inspections.

Recommendation

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

Management Response

As part of the District's software upgrade, SEMS Technologies Software has been purchased and is to be implemented Spring 2014. Capital assets will be inventoried and tracked in the system. Upon completion of the inventory the sub-ledger and the general ledger will be updated to reflect the results of the inspection. Once the system is implemented a policy specifying inspections and frequency will be established.

Status

See current year Finding 2.