

**ROSAMOND COMMUNITY SERVICES DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2011**

**ROSAMOND COMMUNITY SERVICES DISTRICT**

**LIST OF ELECTED AND APPOINTED OFFICIALS**

**JUNE 30, 2011**

**Elected Officials**

**BOARD OF DIRECTORS**

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

**Appointed Official**

General Manager

Steve Perez

**Rosamond Community Services District  
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Rosamond, California 93560  
(661) 256-3411 [www.rosamondcsd.com](http://www.rosamondcsd.com)**

**ROSAMOND COMMUNITY SERVICES DISTRICT  
JUNE 30, 2011**

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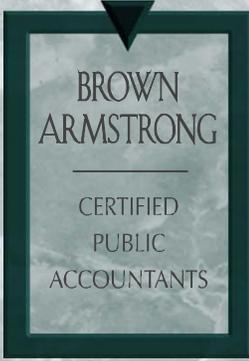
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**FINANCIAL SECTION**



BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Rosamond Community Service District (District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts, as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

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

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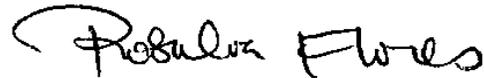
REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

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

Bakersfield, California  
November 17, 2011

**ROSAMOND COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Rosamond Community Services District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- Net assets decreased by 1.64% or \$577,887 to \$34,756,140 as a result of this year's operations.
- Total revenues decreased by 4.09% or \$247,917 due primarily to a decrease in capital contributions of \$944,088 offset by an increase in charges for services of \$731,841.
- Total expenses decreased by 11.57% or \$835,744 due primarily to a \$851,899 decrease in salaries and benefits expense as a result of budget cuts.

**Using This Financial Report**

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

**Government-wide Financial Statements**

**Statement of Net Assets and Statement of Activities**

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

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

## **Fund Financial Statements**

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

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

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

### **Statement of Cash Flows**

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

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

### **Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 18 through 39.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain *supplemental information* concerning the District's major-fund budgetary information. The supplemental information can be found on pages 40 through 43.

### **Financial Analysis of the District**

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

## Statement of Net Assets

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

### Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total District	
	2011	2010	2011	2010	2011	2010
<b>Assets:</b>						
Current and other assets	\$ 248,508	\$ 294,274	\$ 5,220,841	\$ 5,668,654	\$ 5,469,349	\$ 5,962,928
Restricted assets	-	-	239,460	239,591	239,460	239,591
Noncurrent assets	(1,686,939)	(1,479,857)	4,960,496	4,213,124	3,273,557	2,733,267
Capital assets, net	1,410,712	1,468,937	36,309,770	37,936,409	37,720,482	39,405,346
<b>Total assets</b>	<u>(27,719)</u>	<u>283,354</u>	<u>46,730,567</u>	<u>48,057,778</u>	<u>46,702,848</u>	<u>48,341,132</u>
<b>Liabilities:</b>						
Current liabilities	76,509	101,268	1,154,251	1,557,219	1,230,760	1,658,487
Noncurrent liabilities	18,909	55,899	10,697,039	11,292,719	10,715,948	11,348,618
<b>Total liabilities</b>	<u>95,418</u>	<u>157,167</u>	<u>11,851,290</u>	<u>12,849,938</u>	<u>11,946,708</u>	<u>13,007,105</u>
<b>Net assets:</b>						
Net investment in capital assets, net of related debt	1,410,712	1,468,937	28,066,452	28,627,225	29,477,164	30,096,162
Restricted	-	-	239,460	239,591	239,460	239,591
Unrestricted	(1,533,849)	(1,342,750)	6,573,365	6,341,024	5,039,516	4,998,274
<b>Total net assets</b>	<u>\$ (123,137)</u>	<u>\$ 126,187</u>	<u>\$ 34,879,277</u>	<u>\$ 35,207,840</u>	<u>\$ 34,756,140</u>	<u>\$ 35,334,027</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$34,756,140 as of June 30, 2011. Compared to prior year, net assets of the District decreased 1.64% or \$577,887. The District's net assets are made-up of three components: (1) net investment in capital assets, net of related debt of \$29,477,164, (2) restricted net assets of \$239,460 and (3) unrestricted net assets of \$5,039,516.

## Statement of Activities

The following table is a summary of the Statement of Activities for the year ended June 30, 2011.

	Condensed Statement of Activities					
	Governmental Activities		Business-Type Activities		Total District	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 378,582	\$ 376,266	\$ 5,147,875	\$ 4,418,350	\$ 5,526,457	\$ 4,794,616
Capital grants and contributions	105	206,348	9,065	746,910	9,170	953,258
General revenues:						
Property taxes	246,329	266,199	-	-	246,329	266,199
Interest earnings	3,403	1,699	23,558	41,062	26,961	42,761
<b>Total revenues</b>	<b>628,419</b>	<b>850,512</b>	<b>5,180,498</b>	<b>5,206,322</b>	<b>5,808,917</b>	<b>6,056,834</b>
<b>Expenses:</b>						
Salaries and benefits	376,768	682,444	1,739,466	2,285,689	2,116,234	2,968,133
Operations	430,365	390,713	1,640,197	1,660,265	2,070,562	2,050,978
Depreciation	63,527	52,378	1,744,545	1,740,526	1,808,072	1,792,904
Interest	7,083	6,515	384,853	404,018	391,936	410,533
<b>Total expenses</b>	<b>877,743</b>	<b>1,132,050</b>	<b>5,509,061</b>	<b>6,090,498</b>	<b>6,386,804</b>	<b>7,222,548</b>
<b>Change in net assets</b>	<b>(249,324)</b>	<b>(281,538)</b>	<b>(328,563)</b>	<b>(884,176)</b>	<b>(577,887)</b>	<b>(1,165,714)</b>
<b>Net assets, beginning of year</b>	<b>126,187</b>	<b>407,725</b>	<b>35,207,840</b>	<b>36,092,016</b>	<b>35,334,027</b>	<b>36,499,741</b>
<b>Net assets, end of year</b>	<b>\$ (123,137)</b>	<b>\$ 126,187</b>	<b>\$ 34,879,277</b>	<b>\$ 35,207,840</b>	<b>\$ 34,756,140</b>	<b>\$ 35,334,027</b>

Government and business-type activities decreased the District's net assets by \$577,887, thereby accounting for the 1.64% decrease in the net assets of the District.

The District's total revenues decreased by 4.09% or \$247,917, due primarily to a decrease in capital contributions of \$944,088 offset by an increase in charges for services of \$731,841.

The District's total expenses decreased by 11.57% or \$835,744 due primarily to a \$851,899 decrease in salaries and benefits expense as a result of budget cuts.

### Budgetary Highlights

The District adopts an annual budget each year to project the expected coming year's operations. The budget includes proposed expenses and the means of financing them. The District's budget remains in effect the entire year and is not revised. A 2011 budget versus actual comparison is analyzed by management throughout the year.

A 2011 budget versus actual comparison combined for all funds is presented in the table below.

**Budget vs. Actual Comparison  
Year Ended June 30, 2011**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
<b>Operating revenues:</b>			
Property taxes	\$ 246,329	\$ 265,720	\$ (19,391)
Special assessments	327,447	326,279	1,168
Charges for services	51,135	89,620	(38,485)
Capital grants and facility charges	105	-	105
Water consumption sales	2,821,858	2,697,242	124,616
Wastewater service charges	2,326,017	2,165,072	160,945
<b>Total operating revenues</b>	<u>5,772,891</u>	<u>5,543,933</u>	<u>228,958</u>
<b>Operating expenses:</b>			
Salaries and benefits	2,114,418	2,199,577	(85,159)
Operations	2,128,779	2,446,801	(318,022)
Capital outlay	5,304	-	5,304
<b>Total operating expenses</b>	<u>4,248,501</u>	<u>4,646,378</u>	<u>(397,877)</u>
Operating income (loss) before capital contributions	1,524,390	897,555	626,835
Depreciation expense	(1,744,545)	-	(1,744,545)
<b>Operating income (loss)</b>	<u>(220,155)</u>	<u>897,555</u>	<u>(1,117,710)</u>
<b>Nonoperating revenue (expense):</b>			
Interest earnings	26,961	20,700	6,261
Interest expense	(384,853)	(385,255)	402
Total nonoperating, net	<u>(357,892)</u>	<u>(364,555)</u>	<u>6,663</u>
<b>Capital contributions and purchases:</b>			
Conservation fees	1,650	-	1,650
Connection fees	7,415	-	7,415
Total capital contributions and purchases	<u>9,065</u>	<u>-</u>	<u>9,065</u>
<b>Net Change</b>	<u>\$ (568,982)</u>	<u>\$ 533,000</u>	<u>\$ (1,101,982)</u>

Operating revenues in total for the fiscal year ended June 30, 2011, are over budget by \$228,958 due primarily to water sales and waste water revenues being more than anticipated. Water and waste water costs are under budget due to lower salaries and operation expenses. The District does not budget for depreciation.

## Capital Asset Administration

	Capital Assets					
	Governmental Activities		Business-Type Activities		Total District	
	2011	2010	2011	2010	2011	2010
Capital assets:						
Non-depreciable assets	\$ 732,611	\$ 727,307	\$ 14,248,042	\$ 14,323,567	\$ 14,980,653	\$ 15,050,874
Depreciable assets	920,384	920,384	50,345,166	50,151,735	51,265,550	51,072,119
<b>Total capital assets</b>	1,652,995	1,647,691	64,593,208	64,475,302	66,246,203	66,122,993
Accumulated depreciation	(242,283)	(178,754)	(28,283,438)	(26,538,893)	(28,525,721)	(26,717,647)
<b>Total capital assets, net</b>	<b>\$ 1,410,712</b>	<b>\$ 1,468,937</b>	<b>\$ 36,309,770</b>	<b>\$ 37,936,409</b>	<b>\$ 37,720,482</b>	<b>\$ 39,405,346</b>

At the end of fiscal year 2011, the District's investment in capital assets amounted to \$37,720,482 (net of accumulated depreciation). This investment in capital assets includes land, buildings, building improvements, furnishings and equipment, street lighting, collection and distribution systems, tanks, wells, water treatment facilities and construction-in-process. Major capital asset additions in the business-type activities area included constructing the District's new wastewater treatment plant. A significant portion of these additions were constructed by sub-contractors will be transferred out of construction-in-process upon completion of these various projects. The capital assets of the District are more fully analyzed in Note 8 to the basic financial statements.

## Long-Term Debt Administration

	Long-Term Debt	
	Business-Type Activities	
	2011	2010
Long-term debt:		
Notes payable	\$ 11,243,318	\$ 11,809,184

Long-term debt decreased due to authorizing repayments of \$703,896 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. Also, an additional \$138,030 was added in long-term debt during the year.

## Conditions Affecting Current Financial Position

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

## Requests for Information

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

## **BASIC FINANCIAL STATEMENTS**

**ROSAMOND COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Current assets:</b>			
Cash and cash equivalents (Note 2)	\$ 86,192	\$ 4,039,607	\$ 4,125,799
Accrued interest receivable	800	3,162	3,962
Accounts receivable - utilities, net (Note 4)	13,414	543,829	557,243
Accounts receivable - other	147,202	331,413	478,615
Property taxes and assessments receivable	170	-	170
Materials and supplies inventory	-	212,875	212,875
Prepaid expenses and other deposits	730	89,955	90,685
	<u>248,508</u>	<u>5,220,841</u>	<u>5,469,349</u>
<b>Noncurrent assets:</b>			
Restricted - cash and cash equivalents (Note 2 and 3)	-	239,460	239,460
Banked water inventory (Note 6)	-	273,557	273,557
Internal balances (Note 5)	(1,686,939)	1,686,939	-
Investment in water banking - JPA (Note 7)	-	3,000,000	3,000,000
Capital assets, not being depreciated (Note 8)	732,611	14,248,042	14,980,653
Depreciable capital assets, net (Note 8)	678,101	22,061,728	22,739,829
	<u>(276,227)</u>	<u>41,509,726</u>	<u>41,233,499</u>
<b>Total noncurrent assets</b>			
	<u>\$ (27,719)</u>	<u>\$ 46,730,567</u>	<u>\$ 46,702,848</u>
<b>Liabilities and Net Assets</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	\$ 37,493	\$ 158,268	\$ 195,761
Accrued wages and related payables	17,713	43,520	61,233
Customer deposits and deferred revenue	15,000	118,309	133,309
Accrued interest on long-term debt	-	54,681	54,681
Long-term liabilities - due within one year:			
Compensated absences (Note 9)	6,303	58,299	64,602
Notes payable (Note 10)	-	721,174	721,174
	<u>76,509</u>	<u>1,154,251</u>	<u>1,230,760</u>
<b>Total current liabilities</b>			
	<u>76,509</u>	<u>1,154,251</u>	<u>1,230,760</u>
<b>Noncurrent liabilities:</b>			
Long-term liabilities - due in more than one year:			
Compensated absences (Note 9)	18,909	174,895	193,804
Notes payable (Note 10)	-	10,522,144	10,522,144
	<u>18,909</u>	<u>10,697,039</u>	<u>10,715,948</u>
<b>Total noncurrent liabilities</b>			
	<u>18,909</u>	<u>10,697,039</u>	<u>10,715,948</u>
<b>Total liabilities</b>	<u>95,418</u>	<u>11,851,290</u>	<u>11,946,708</u>
<b>Net assets: (Note 11)</b>			
Net investment in capital assets, net of related debt	1,410,712	28,066,452	29,477,164
Restricted	-	239,460	239,460
Unrestricted	(1,533,849)	6,573,365	5,039,516
	<u>\$ (123,137)</u>	<u>\$ 34,879,277</u>	<u>\$ 34,756,140</u>
<b>Total net assets</b>			
	<u>\$ (123,137)</u>	<u>\$ 34,879,277</u>	<u>\$ 34,756,140</u>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
Parks and recreation	\$ 768,965	\$ 281,986	\$ -	\$ 105	\$ (486,874)	\$ -	\$ (486,874)
Street lighting	108,778	96,596	-	-	(12,182)	-	(12,182)
Total governmental activities	877,743	378,582	-	105	(499,056)	-	(499,056)
<b>Business-type activities:</b>							
Water	3,967,206	2,821,858	-	5,015	-	(1,140,333)	(1,140,333)
Sewer	1,541,855	2,326,017	-	4,050	-	788,212	788,212
Total business-type activities	5,509,061	5,147,875	-	9,065	-	(352,121)	(352,121)
<b>Total</b>	<b>\$ 6,386,804</b>	<b>\$ 5,526,457</b>	<b>\$ -</b>	<b>\$ 9,170</b>	<b>(499,056)</b>	<b>(352,121)</b>	<b>(851,177)</b>
<b>General revenues:</b>							
					246,329	-	246,329
					3,403	23,558	26,961
					<b>249,732</b>	<b>23,558</b>	<b>273,290</b>
					(249,324)	(328,563)	(577,887)
					126,187	35,207,840	35,334,027
					<b>\$ (123,137)</b>	<b>\$ 34,879,277</b>	<b>\$ 34,756,140</b>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Total Governmental Activities</u>
<b>Assets:</b>			
Cash and cash equivalents (Note 2)	\$ 14,034	\$ 72,158	\$ 86,192
Accrued interest receivable	754	46	800
Accounts receivable - utilities, net (Note 4)	300	13,114	13,414
Accounts receivable - other	147,202	-	147,202
Property taxes and assessments receivable	170	-	170
Prepaid expenses and other deposits	730	-	730
<b>Total assets</b>	<u>\$ 163,190</u>	<u>\$ 85,318</u>	<u>\$ 248,508</u>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 27,235	\$ 10,258	\$ 37,493
Accrued wages and related payables	17,713	-	17,713
Customer deposits and deferred revenue	-	15,000	15,000
Due to other funds (Note 5)	1,686,939	-	1,686,939
<b>Total liabilities</b>	<u>1,731,887</u>	<u>25,258</u>	<u>1,757,145</u>
<b>Fund balances (deficit):</b>			
Nonspendable	730	-	730
Assigned	-	60,060	60,060
Unassigned	(1,569,427)	-	(1,569,427)
<b>Total fund balances (deficit)</b>	<u>(1,568,697)</u>	<u>60,060</u>	<u>(1,508,637)</u>
<b>Total liabilities and fund balances (deficit)</b>	<u>\$ 163,190</u>	<u>\$ 85,318</u>	<u>\$ 248,508</u>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT  
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011**

**Reconciliation:**

Fund balance (deficit) of governmental funds	\$ (1,508,637)
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the governmental funds balance sheet. However, the statement of net assets includes those capital assets among the assets of the District as a whole.	1,410,712
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Long-term liabilities applicable to the District are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets as follows:

Compensated absences	<u>(25,212)</u>
Net assets of governmental activities	<u><u>\$ (123,137)</u></u>

**ROSAMOND COMMUNITY SERVICES DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Total Governmental Activities</u>
<b>Revenues:</b>			
Property taxes	\$ 246,329	\$ -	\$ 246,329
Special assessments	230,851	96,596	327,447
Charges for services	51,135	-	51,135
Capital grants and facility charges	105	-	105
Interest earnings	3,210	193	3,403
<b>Total revenues</b>	<u>531,630</u>	<u>96,789</u>	<u>628,419</u>
<b>Expenditures:</b>			
Parks and recreation	754,756	-	754,756
Street lighting	-	108,778	108,778
Capital outlay	5,304	-	5,304
<b>Total expenditures</b>	<u>760,060</u>	<u>108,778</u>	<u>868,838</u>
<b>Net change in fund balances (deficit)</b>	(228,430)	(11,989)	(240,419)
<b>Fund balances (deficit), beginning of year</b>	<u>(1,340,267)</u>	<u>72,049</u>	<u>(1,268,218)</u>
<b>Fund balances (deficit), end of year</b>	<u><u>\$ (1,568,697)</u></u>	<u><u>\$ 60,060</u></u>	<u><u>\$ (1,508,637)</u></u>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF  
ACTIVITIES – GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Reconciliation:**

Net change in fund balances (deficit) of total governmental funds	\$ (240,419)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	5,304
Depreciation expense	(63,529)

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>49,320</u>
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Change in net assets of governmental activities	<u><u>\$ (249,324)</u></u>
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**ROSAMOND COMMUNITY SERVICES DISTRICT  
STATEMENT OF NET ASSETS  
ENTERPRISE FUNDS  
JUNE 30, 2011**

<u>Assets</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total Business-Type Activities</u>
<b>Current assets:</b>			
Cash and cash equivalents (Note 2)	\$ 666,985	\$ 3,372,622	\$ 4,039,607
Accrued interest receivable	-	3,162	3,162
Accounts receivable - utilities, net (Note 4)	344,925	198,904	543,829
Accounts receivable - other	286,015	45,398	331,413
Materials and supplies inventory	212,875	-	212,875
Prepaid expenses and other deposits	84,812	5,143	89,955
Total current assets	<u>1,595,612</u>	<u>3,625,229</u>	<u>5,220,841</u>
<b>Noncurrent assets:</b>			
Restricted - cash and cash equivalents (Note 2 and 3)	212,401	27,059	239,460
Banked water inventory (Note 6)	273,557	-	273,557
Due from other funds (Note 5)	365,348	1,321,591	1,686,939
Investment in water banking - JPA (Note 7)	3,000,000	-	3,000,000
Capital assets, not being depreciated (Note 8)	2,129,182	12,118,860	14,248,042
Capital assets, being depreciated, net (Note 8)	20,283,403	1,778,325	22,061,728
Total noncurrent assets	<u>26,263,891</u>	<u>15,245,835</u>	<u>41,509,726</u>
<b>Total assets</b>	<u><u>\$ 27,859,503</u></u>	<u><u>\$ 18,871,064</u></u>	<u><u>\$ 46,730,567</u></u>
<b>Liabilities and Net Assets</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	\$ 120,775	\$ 37,493	\$ 158,268
Accrued wages and related payables	23,822	19,698	43,520
Customer deposits and deferred revenue	117,509	800	118,309
Accrued interest on long-term debt	5,048	49,633	54,681
Long-term liabilities - due within one year:			
Compensated absences (Note 9)	27,274	31,025	58,299
Notes payable (Note 10)	299,837	421,337	721,174
Total current liabilities	<u>594,265</u>	<u>559,986</u>	<u>1,154,251</u>
<b>Noncurrent liabilities:</b>			
Long-term liabilities - due in more than one year:			
Compensated absences (Note 9)	81,824	93,071	174,895
Notes payable (Note 10)	2,714,036	7,808,108	10,522,144
Total noncurrent liabilities	<u>2,795,860</u>	<u>7,901,179</u>	<u>10,697,039</u>
<b>Total liabilities</b>	<u><u>3,390,125</u></u>	<u><u>8,461,165</u></u>	<u><u>11,851,290</u></u>
<b>Net assets: (Note 11)</b>			
Net investment in capital assets	22,398,712	5,667,740	28,066,452
Restricted	212,401	27,059	239,460
Unrestricted	1,858,265	4,715,100	6,573,365
<b>Total net assets</b>	<u><u>\$ 24,469,378</u></u>	<u><u>\$ 10,409,899</u></u>	<u><u>\$ 34,879,277</u></u>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Water</u>	<u>Wastewater</u>	<u>Total Business-Type Activities</u>
<b>Operating revenues:</b>			
Water consumption sales	\$ 2,821,858	\$ -	\$ 2,821,858
Sewer service charges	-	2,326,017	2,326,017
<b>Total operating revenues</b>	<u>2,821,858</u>	<u>2,326,017</u>	<u>5,147,875</u>
<b>Operating expenses:</b>			
Salaries and benefits	1,103,078	636,388	1,739,466
Operations	1,183,393	456,804	1,640,197
<b>Total operating expenses</b>	<u>2,286,471</u>	<u>1,093,192</u>	<u>3,379,663</u>
Operating income before depreciation	535,387	1,232,825	1,768,212
Depreciation expense	<u>(1,527,194)</u>	<u>(217,351)</u>	<u>(1,744,545)</u>
<b>Operating income (loss)</b>	<u>(991,807)</u>	<u>1,015,474</u>	<u>23,667</u>
<b>Nonoperating revenue (expense):</b>			
Interest earnings	3,818	19,740	23,558
Interest expense	<u>(153,541)</u>	<u>(231,312)</u>	<u>(384,853)</u>
Total nonoperating, net	<u>(149,723)</u>	<u>(211,572)</u>	<u>(361,295)</u>
<b>Capital contributions and purchases:</b>			
Conservation fees	-	1,650	1,650
Connection fees	5,015	2,400	7,415
Total capital contributions	<u>5,015</u>	<u>4,050</u>	<u>9,065</u>
<b>Change in net assets</b>	<u>(1,136,515)</u>	<u>807,952</u>	<u>(328,563)</u>
<b>Net assets, beginning of year</b>	<u>25,605,893</u>	<u>9,601,947</u>	<u>35,207,840</u>
<b>Net assets, end of year</b>	<u><u>\$ 24,469,378</u></u>	<u><u>\$ 10,409,899</u></u>	<u><u>\$ 34,879,277</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, 2011**

	<u>Water</u>	<u>Wastewater</u>	<u>Total Business-Type Activities</u>
Cash flows from operating activities:			
Cash receipts from customers	\$ 2,641,493	\$ 2,267,576	\$ 4,909,069
Cash paid to employees for salaries and benefits	(1,143,945)	(619,817)	(1,763,762)
Cash paid to vendors and suppliers	<u>(1,478,674)</u>	<u>(514,250)</u>	<u>(1,992,924)</u>
Net cash provided by operating activities	<u>18,874</u>	<u>1,133,509</u>	<u>1,152,383</u>
Cash flows from capital and related financing activities:			
Acquisitions and construction of capital assets	(50,843)	(67,061)	(117,904)
Proceeds from capital contributions	5,015	4,050	9,065
Internal cash advanced	(1,714)	(205,368)	(207,082)
Cash received from notes payable	8,097	17,518	25,615
Principal payments on notes payable	(299,837)	(291,644)	(591,481)
Interest payments on notes payable	<u>(156,179)</u>	<u>(234,559)</u>	<u>(390,738)</u>
Net cash used by capital and related financing activities	<u>(495,461)</u>	<u>(777,064)</u>	<u>(1,272,525)</u>
Cash flows from investing activities:			
Interest earnings	3,818	21,282	25,100
Payment for investment in water banking - JPA	<u>(500,000)</u>	<u>-</u>	<u>(500,000)</u>
Net cash provided (used) by investing activities	<u>(496,182)</u>	<u>21,282</u>	<u>(474,900)</u>
Net Increase (decrease) in cash and cash equivalents	(972,769)	377,727	(595,042)
Cash and cash equivalents, beginning of year	<u>1,852,155</u>	<u>3,021,954</u>	<u>4,874,109</u>
Cash and cash equivalents, end of year	<u>\$ 879,386</u>	<u>\$ 3,399,681</u>	<u>\$ 4,279,067</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
<b>Operating income (loss)</b>	<u>\$ (991,807)</u>	<u>\$ 1,015,474</u>	<u>\$ 23,667</u>
Depreciation expense	1,527,194	217,351	1,744,545
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable - utilities, net	(67,794)	(44,765)	(112,559)
Accounts receivable - other	(106,280)	(13,676)	(119,956)
Materials and supplies inventory	(52,741)	-	(52,741)
Prepaid expenses and other deposits	94,702	41,912	136,614
Banked water inventory	(40,290)	-	(40,290)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	(296,952)	(99,358)	(396,310)
Accrued wages and related payables	(19,636)	937	(18,699)
Customer deposits and deferred revenue	(6,291)	-	(6,291)
Compensated absences	<u>(21,231)</u>	<u>15,634</u>	<u>(5,597)</u>
Total adjustments	<u>1,010,681</u>	<u>118,035</u>	<u>1,128,716</u>
Net cash provided by operating activities	<u>\$ 18,874</u>	<u>\$ 1,133,509</u>	<u>\$ 1,152,383</u>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Organization and Operations of the Reporting Entity

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

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

B. Basis of Accounting and Measurement Focus

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

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

*Government-Wide Financial Statements*

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

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

B. Basis of Accounting and Measurement Focus (Continued)

*Fund Financial Statements*

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

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

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

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

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

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

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

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

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

B. Basis of Accounting and Measurement Focus (Continued)

*Fund Financial Statements* (Continued)

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

The funds of the District are described below:

*Governmental Funds*

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

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

*Enterprise Funds*

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

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

C. Financial Statement Elements

1. Cash and Cash Equivalents

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

2. Accounts Receivable

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

3. Property Taxes and Assessments

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

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

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

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

C. Financial Statement Elements (Continued)

4. Prepaid Expenses

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

5. Banked Water Inventory

The amount of banked water is recorded at historical cost.

6. Capital Assets

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

*Governmental Activities*

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

*Business-Type Activities*

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

7. Materials and Supplies Inventory

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

8. Net Assets/Fund Balances

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

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

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

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

C. Financial Statement Elements (Continued)

8. Net Assets/Fund Balances (Continued)

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

The Board 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 Board has not made a determination of the individual(s) authorized to assign fund balance amounts.

The District does not have a policy on whether to first apply committed resources or assigned when an expenditure is incurred for purposes for which any amounts in any of these restricted fund balance classifications could be used.

9. Utility Sales

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

10. Capital Contributions

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

11. Budgetary Policies

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. In accordance with District Ordinance 078-1, prior to May 1<sup>st</sup>, each year the District Manager submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following July 1<sup>st</sup>. 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<sup>th</sup> the budget is legally enacted through passage of a Board resolution. Budgets for the Enterprise Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

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

C. Financial Statement Elements (Continued)

11. 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 General Fund and all major special revenue funds.

12. 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.

13. Use of Estimates

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

14. New Accounting Pronouncements

For the fiscal year ended June 30, 2011, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The requirements of this statement are effective for financial statement periods beginning after June 30, 2010.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GASB Statement No. 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the General Fund, special revenue funds type, capital projects fund type, debt service fund type and permanent fund type are also clarified by the provisions in this statement. The District's implementation of GASB Statement No. 54 was not as involved as it only has two governmental funds.

15. Date of Management's Review

Subsequent events were evaluated through December 8, 2011, which is the date the financial statements were available to be issued.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of June 30, 2011, are classified by fund as follows:

Governmental activity funds:	
Parks and recreation	\$ 14,034
Street lighting	72,158
	<hr/>
Total	86,192
	<hr/>
Business-type activity funds:	
Water	879,386
Wastewater	3,399,681
	<hr/>
Total	4,279,067
	<hr/>
Total cash and cash equivalents	<u>\$ 4,365,259</u>

Cash and cash equivalents as of June 30, 2011, consist of the following:

Cash on hand	\$ 509
Deposits held with financial institutions	493,066
Deposit of note proceeds held with financial institutions	239,460
Certificate of deposit	42,844
Deposits held with the California Local Agency Investment Fund (LAIF)	3,589,380
	<hr/>
Total	<u>\$ 4,365,259</u>

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

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

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

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

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

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

\* Must be at least 102% of market value.

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

\*\*\* Must be rated “AA” or better by a nationally recognized rating service.

\*\*\*\* Must be rated “A” or better by Moody’s or S&P rating service.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. The District had deposits with a bank balance of \$584,694 as of June 30, 2011. Of the bank balances, up to \$250,000 for 2010 is federally insured and the remaining balance of \$334,694 is collateralized by the bank with pledged securities.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District’s investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government’s indirect investment in securities through the use of mutual funds or government investment pools.

Interest Rate Risk

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

Investment Type	Total	Remaining Maturity 12 Months or Less
Certificates of Deposit	\$ 42,844	\$ 42,844
Local Agency Investment Fund (LAIF)	3,589,380	3,589,380
	\$ 3,632,224	\$ 3,632,224

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

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

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements and the actual rating as of year-end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End	
				AAA	Not Rated
Certificates of Deposit	\$ 42,844	N/A	\$ 42,844	\$ -	\$ -
Local Agency Investment Fund (LAIF)	3,589,380	N/A	-	-	3,589,380
	<u>\$ 3,632,224</u>		<u>\$ 42,844</u>	<u>\$ -</u>	<u>\$ 3,589,380</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 Local Agency Investment Fund (LAIF) was 82.2% of the District's total depository and investment portfolio as of June 30, 2011.

**NOTE 3 – RESTRICTED CASH AND CASH EQUIVALENTS**

Restricted funds of \$212,401 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, 2011:

	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Accounts receivable - utilities	\$ 300	\$ 13,114	\$ 344,925	\$ 198,904	\$ 557,243
Allowance for uncollectible receivables	-	-	-	-	-
Accounts receivable - utilities, net	<u>\$ 300</u>	<u>\$ 13,114</u>	<u>\$ 344,925</u>	<u>\$ 198,904</u>	<u>\$ 557,243</u>

## **NOTE 5 – INTERNAL BALANCES**

### *Due To/From Other Funds*

Internal balances consist of the following at June 30, 2011:

<u>Purpose</u>	<u>Funds</u>		<u>Amount</u>
	<u>Receivable</u>	<u>Payable</u>	
Loan	Water	Parks and Recreation	\$ 365,348
Loan	Wastewater	Parks and Recreation	1,321,591
			<u>\$ 1,686,939</u>

On October 11, 2006, the Board of Directors adopted an internal loan agreement between funds. The Water and Wastewater Funds will provide assistance in the form of a revolving credit line, up to a maximum amount of \$500,000, to the governmental funds to meet their operating needs. The interest rate will be based on the LAIF rate, established by the Treasurer of the State of California, and be adjusted quarterly. The maturity date for this line of credit is October 11, 2011.

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

On August 15, 2009, the Board of Directors adopted a third internal loan agreement between funds. The Wastewater Fund will provide assistance in the form of a revolving credit line, up to a maximum amount of \$200,000 to the Water Fund to meet its operating needs. The interest rate will be based on the LAIF rate, established by the Treasurer of the State of California, and be adjusted quarterly. The maturity date for this line of credit was June 30, 2010. Therefore, the remaining balance of \$151,848 was paid off at June 30, 2010.

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

As of June 30, 2011, the Board of Directors has approved a total of \$1,500,000 internal borrowing between funds, in accordance with the agreements referenced above. As of June 30, 2011, the Parks and Recreation Fund has borrowed from the Water Fund and Wastewater Fund a total of \$365,348 and \$1,321,591, respectively. These balances shall be paid back in accordance with the parameters mentioned above.

## **NOTE 6 – BANKED WATER INVENTORY**

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

**NOTE 6 – BANKED WATER INVENTORY** (Continued)

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

The following is a summary of the changes in banked water recorded as inventory as of June 30, 2011:

	<u>SRWBA</u>	
	<u>Acre-Feet</u>	<u>Total Cost</u>
Balance at June 30, 2010	445	\$ 233,267
Additions during the year	99	40,290
Deletions during the year	-	-
Balance at June 30, 2011	<u>544</u>	<u>\$ 273,557</u>

**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 Semitropic-Rosamond Water Bank Authority (SRWBA) to engage in the development, construction and operation of ground water storage and related facilities for the benefit of their members and/or customers.

The foregoing interests of the 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<sup>st</sup> and July 1<sup>st</sup>) 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, 2011, the District has paid SRWBA \$3,000,000.

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

During the year, SRWBA made an agreement with the District to delay the semi-annual payments until the end of the term of the agreement. Therefore, in 2011 the District only made one semi-annual payment of \$500,000.

These shares grant the District the right to deliver, store and recover and return capacities. In addition to the capital component, the District is required to pay an annual management and maintenance fee and delivery and recovery fees. During the year, the District paid \$75,300 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 2010</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2011</u>
Non-depreciable assets:				
Land	\$ 678,441	\$ -	\$ -	\$ 678,441
Construction-in-progress	48,866	5,304	-	54,170
Total non-depreciable assets	<u>727,307</u>	<u>5,304</u>	<u>-</u>	<u>732,611</u>
Depreciable assets:				
Park improvements	842,563	-	-	842,563
Vehicles and equipment	77,821	-	-	77,821
Total depreciable assets	<u>920,384</u>	<u>-</u>	<u>-</u>	<u>920,384</u>
Accumulated depreciation:				
Park improvements	(132,759)	(49,114)	-	(181,873)
Vehicles and equipment	(45,995)	(14,415)	-	(60,410)
Total accumulated depreciation	<u>(178,754)</u>	<u>(63,529)</u>	<u>-</u>	<u>(242,283)</u>
Total depreciable assets, net	<u>741,630</u>	<u>(63,529)</u>	<u>-</u>	<u>678,101</u>
Total capital assets, net	<u>\$ 1,468,937</u>	<u>\$ (58,225)</u>	<u>\$ -</u>	<u>\$ 1,410,712</u>

*Construction-in-Progress*

The balance at June 30 consists of the following projects:

	<u>2011</u>	<u>2010</u>
Felsite park design	<u>\$ 54,170</u>	<u>\$ 48,866</u>

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

Depreciation expense under governmental activities was allotted as follows for the year ended June 30, 2011:

	<u>Depreciation Expense</u>
Parks and recreation	<u>\$ 63,529</u>

*Business-Type Activities*

Changes in capital assets for the year were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2011</u>
Non-depreciable assets:				
Land	\$ 2,468,515	\$ -	\$ -	\$ 2,468,515
Construction-in-progress	<u>11,855,052</u>	<u>117,906</u>	<u>(193,431)</u>	<u>11,779,527</u>
Total non-depreciable assets	<u>14,323,567</u>	<u>117,906</u>	<u>(193,431)</u>	<u>14,248,042</u>
Depreciable assets:				
Facilities system	48,069,434	157,013	-	48,226,447
Vehicles and equipment	<u>2,082,301</u>	<u>36,418</u>	<u>-</u>	<u>2,118,719</u>
Total depreciable assets	<u>50,151,735</u>	<u>193,431</u>	<u>-</u>	<u>50,345,166</u>
Accumulated depreciation:				
Facilities system	(24,988,088)	(1,560,985)	-	(26,549,073)
Vehicles and equipment	<u>(1,550,805)</u>	<u>(183,560)</u>	<u>-</u>	<u>(1,734,365)</u>
Total accumulated depreciation	<u>(26,538,893)</u>	<u>(1,744,545)</u>	<u>-</u>	<u>(28,283,438)</u>
Total depreciable assets, net	<u>23,612,842</u>	<u>(1,551,114)</u>	<u>-</u>	<u>22,061,728</u>
Total capital assets, net	<u>\$ 37,936,409</u>	<u>\$ (1,433,208)</u>	<u>\$ (193,431)</u>	<u>\$ 36,309,770</u>

*Construction-in-Progress*

The balance at June 30 consists of the following projects:

	<u>2011</u>	<u>2010</u>
Wastewater treatment plant	\$ 11,315,753	\$ 11,293,353
Various projects <\$100,000	<u>463,774</u>	<u>561,699</u>
Construction-in-progress	<u>\$ 11,779,527</u>	<u>\$ 11,855,052</u>

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

Depreciation expense under business-type activities was allotted as follows for the year ended June 30, 2011:

	<u>Depreciation Expense</u>
Water facility and systems	\$ 1,527,194
Wastewater facility and systems	217,351
	<u>\$ 1,744,545</u>

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

<u>Water Enterprise</u>	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2011</u>
Non-depreciable assets:				
Land	\$ 1,943,923	\$ -	\$ -	\$ 1,943,923
Construction-in-progress	213,673	78,153	(106,567)	185,259
Total non-depreciable assets	<u>2,157,596</u>	<u>78,153</u>	<u>(106,567)</u>	<u>2,129,182</u>
Depreciable assets:				
Water transmission and distribution	42,360,257	61,049	-	42,421,306
Vehicles and equipment	1,437,666	18,209	-	1,455,875
Total depreciable assets	<u>43,797,923</u>	<u>79,258</u>	<u>-</u>	<u>43,877,181</u>
Accumulated depreciation:				
Water transmission and distribution	(21,056,938)	(1,391,362)	-	(22,448,300)
Vehicles and equipment	(1,009,646)	(135,832)	-	(1,145,478)
Total accumulated depreciation	<u>(22,066,584)</u>	<u>(1,527,194)</u>	<u>-</u>	<u>(23,593,778)</u>
Total depreciable assets, net	<u>21,731,339</u>	<u>(1,447,936)</u>	<u>-</u>	<u>20,283,403</u>
Total capital assets, net	<u>\$ 23,888,935</u>	<u>\$ (1,369,783)</u>	<u>\$ (106,567)</u>	<u>\$ 22,412,585</u>

Depreciation expense for the year ended June 30, 2011, was \$1,527,194.

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

<u>Wastewater Enterprise</u>	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2011</u>
Non-depreciable assets:				
Land	\$ 524,591	\$ -	\$ -	\$ 524,591
Construction-in-progress	<u>11,641,380</u>	<u>39,753</u>	<u>(86,864)</u>	<u>11,594,269</u>
Total non-depreciable assets	<u>12,165,971</u>	<u>39,753</u>	<u>(86,864)</u>	<u>12,118,860</u>
Depreciable assets:				
Wastewater system	5,709,176	95,964	-	5,805,140
Vehicles and equipment	<u>644,637</u>	<u>18,209</u>	<u>-</u>	<u>662,846</u>
Total depreciable assets	<u>6,353,813</u>	<u>114,173</u>	<u>-</u>	<u>6,467,986</u>
Accumulated depreciation:				
Wastewater system	(3,931,150)	(169,623)	-	(4,100,773)
Vehicles and equipment	<u>(541,160)</u>	<u>(47,728)</u>	<u>-</u>	<u>(588,888)</u>
Total accumulated depreciation	<u>(4,472,310)</u>	<u>(217,351)</u>	<u>-</u>	<u>(4,689,661)</u>
Total depreciable assets, net	<u>1,881,503</u>	<u>(103,178)</u>	<u>-</u>	<u>1,778,325</u>
Total capital assets, net	<u>\$ 14,047,474</u>	<u>\$ (63,425)</u>	<u>\$ (86,864)</u>	<u>\$ 13,897,185</u>

Depreciation expense for the year ended June 30, 2011, was \$217,351.

**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, 2011, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Compensated absences, beginning	\$ 74,532	\$ 238,791
Current year employee earnings	(43,971)	107,765
Employee vacation time taken	<u>(5,349)</u>	<u>(113,362)</u>
Compensated absences, ending	25,212	233,194
Less: current portion payable	<u>(6,303)</u>	<u>(58,299)</u>
Long-term portion payable	<u>\$ 18,909</u>	<u>\$ 174,895</u>

**NOTE 10 – NOTES PAYABLE**

<u>Business-type activities:</u>	<u>Balance 2010</u>	<u>Additions</u>	<u>Payments</u>	<u>Adjustments</u>	<u>Balance 2011</u>
<b>Water Fund:</b>					
LaSalle National Bank Note	\$ 571,781	\$ -	\$ (105,251)	\$ -	\$ 466,530
Zions Bank Note	2,533,832	-	(86,489)	-	2,447,343
Albers Note	200,000	-	(100,000)	-	100,000
<b>Wastewater Fund:</b>					
LaSalle National Bank Note	381,188	-	(70,168)	-	311,020
Zions Bank Note	322,799	-	(11,018)	-	311,781
State Water Pollution Control Note	7,799,584	138,030	<u>(330,970)</u>	-	7,606,644
Total	11,809,184	<u>\$ 138,030</u>	<u>\$ (703,896)</u>	<u>\$ -</u>	11,243,318
Less: current portion due	<u>(695,559)</u>				<u>(721,174)</u>
Long-term portion due	<u>\$ 11,113,625</u>				<u>\$ 10,522,144</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<sup>nd</sup> and May 22<sup>nd</sup> 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>
2012	\$ 182,703	\$ 30,101	\$ 212,804
2013	190,289	22,515	212,804
2014	198,191	14,613	212,804
2015	<u>206,367</u>	<u>6,438</u>	<u>212,805</u>
Total	777,550	<u>\$ 73,667</u>	<u>\$ 851,217</u>
Less: current	<u>(182,703)</u>		
Long-term	<u>\$ 594,847</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 interest rates ranging between 3.090% to 5.060% per annum in order to complete the construction of various District projects. The District had originally split the loan 80/20 between the Water and Wastewater Funds, whereas the Water Fund was obligated \$2,400,000 and the Wastewater Fund was obligated \$600,000. Effective May 2010, the note was split 88.7% and 11.3% between the Water and Waste Water Funds to better reflect the outstanding amounts on the actual projects. The note is scheduled to mature in fiscal year 2029. Principal and interest semi-annual installments of \$119,720 are payable on December 15<sup>th</sup> and June 15<sup>th</sup> 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>
2012	\$ 101,708	\$ 137,732	\$ 239,440
2013	106,460	132,980	239,440
2014	111,757	127,682	239,439
2015	117,484	121,956	239,440
2016	123,504	115,936	239,440
2017-2021	719,183	478,015	1,197,198
2022-2026	923,313	273,885	1,197,198
2027-2029	555,715	42,882	598,597
Total	2,759,124	<u>\$ 1,431,068</u>	<u>\$ 4,190,192</u>
Less: current	<u>(101,708)</u>		
Long-term	<u>\$ 2,657,416</u>		

*Albers Note*

In December 2008, the District purchased a tract of land and executed a promissory note for \$300,000 with an interest rate of prime plus one percent at the date of close of escrow and adjusting annually thereafter. The note is scheduled to mature in December 2011. Principal is paid annually on December 12<sup>th</sup> each year and interest is paid monthly. Annual estimated debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 100,000	\$ 5,000	\$ 105,000
Total	100,000	<u>\$ 5,000</u>	<u>\$ 105,000</u>
Less: current	<u>(100,000)</u>		
Long-term	<u>\$ -</u>		

**NOTE 10 – NOTES PAYABLE** (Continued)*State Water Pollution Control Note*

In 2009, the District executed an agreement for a \$8,300,000 reclamation note with the State of California Water Pollution Control Fund at an interest rate of 2.6% per annum in order to complete the construction of the new wastewater treatment plant. The note is scheduled to mature in twenty years after the wastewater treatment plant is completed. Principal and interest installments of \$525,422 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>
2012	\$ 336,763	\$ 197,773	\$ 534,536
2013	345,519	189,017	534,536
2014	354,502	180,033	534,535
2015	363,719	170,816	534,535
2016	373,176	161,360	534,536
2017-2021	2,016,563	656,115	2,672,678
2022-2026	2,292,707	379,971	2,672,678
2027-2030	<u>1,523,695</u>	<u>79,910</u>	<u>1,603,605</u>
Total	7,606,644	<u>\$ 2,014,995</u>	<u>\$ 9,621,639</u>
Less: current	<u>(336,763)</u>		
Long-term	<u>\$ 7,269,881</u>		

**NOTE 11 – NET ASSETS**

The calculations of net asset categories are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Investment in water banking - JPA	\$ -	\$ 3,000,000	\$ 3,000,000
Capital assets - not being depreciated	732,611	14,248,042	14,980,653
Capital assets - being depreciated, net	678,101	22,061,728	22,739,829
Note payable - current portion	-	(721,174)	(721,174)
Note payable - long-term portion	-	<u>(10,522,144)</u>	<u>(10,522,144)</u>
Net investment in capital assets	<u>\$ 1,410,712</u>	<u>\$ 28,066,452</u>	<u>\$ 29,477,164</u>

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Water Fund - capital improvements	\$ -	\$ 212,401	\$ 212,401
Wastewater Fund - capital improvements	-	<u>27,059</u>	<u>27,059</u>
Restricted net assets	<u>\$ -</u>	<u>\$ 239,460</u>	<u>\$ 239,460</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 2011, 2010 and 2009 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 2011, 2010 and 2009, 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*

<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>	<b>APC Percentage of Payroll</b>
2008-2009	\$ 332,345	100%	\$ -	15.346%
2009-2010	254,619	100%	-	12.447%
2010-2011	161,870	100%	-	12.200%

### *Annual Pension Cost*

For 2011, the District's annual pension cost of \$161,870, 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, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary from 3.25% to 14.45%, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period is 17 years.

<b>Actuarial Valuation Date</b>	<b>Actuarial Asset Value</b>	<b>Entry Age Actuarial Accrued Liability</b>	<b>Unfunded Actuarial Accrued Liability</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>Underfunded Actuarial Liability as Percentage of Covered Payroll</b>
6/30/2006	\$ 787,758,909	\$ 912,988,585	\$ 125,229,676	86.28%	\$ 200,320,145	62.51%
6/30/2007	1,149,247,298	1,315,454,361	166,207,063	87.37%	289,090,187	57.49%
6/30/2008	1,337,707,835	1,537,909,933	200,202,098	86.98%	333,307,600	60.07%

### **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, 2011, the District participated in the liability and property programs of the SDRMA as follows:

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

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

- Employee dishonesty coverage up to \$400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1.0 billion per occurrence, subject to a \$5,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$5,000 deductible per occurrence.
- Public officials personal liability up to \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of \$500 per claim.
- Workers' compensation insurance up to statutory limits per occurrence and Employer's Liability Coverage up to \$5 million.
- Comprehensive and collision insurance on selected vehicle with deductibles of \$250/\$500 or \$500/\$1,000, as elected.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal years 2011, 2010 and 2009. 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, 2011, 2010 and 2009.

### **NOTE 14 – COMMITMENTS AND CONTINGENCIES**

#### *Grant Awards*

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

**NOTE 14 – COMMITMENTS AND CONTINGENCIES** (Continued)

*Litigation – Antelope Valley Groundwater Cases*

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

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

**NOTE 15 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2011, expenditures exceeded appropriations in individual funds as follows:

<u>Fund</u>	<u>Appropriations Category</u>	<u>Excess Expenditures</u>
Parks and Recreation Fund	Operations	\$ 44,840
Parks and Recreation Fund	Capital Outlay	5,304
Street Lighting Fund	Operations	8,950

**NOTE 16 – FUTURE GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS**

Recently, the GASB issued several GASB statements as follows:

**GASB Statement No. 61** - *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* modifies a number of provisions with regard to reporting of component units within a financial reporting entity. The District has determined that is not applicable to the District’s financial statements.

**GASB Statement No. 62** - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011.

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

However, as the statement codifies what is in current practice, there is no net effect on the District's accounting or financial reporting upon the statement's implementation, unless removing the GASB Statement No. 20 election to follow FASB statement's not in conflict, in which case "except for removal of the disclosure of the election made by the District to follow FASB, AICPA, and other statements not in conflict with GASB statements."

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

**GASB Statement No. 64** - *Derivative instruments: Application of Hedge Accounting Termination Provisions* amends current accounting and financial reporting related to terminations of swap agreements due to default or other termination events. In certain instances where swap counterparties or credit support providers are replaced, hedge accounting may continue, rather than cease. The provisions of GASB Statement No. 64 are effective for financial statements beginning after June 15, 2011. As of the date of the basic financial statements, the District has not made an assessment of any changes that will occur upon this statement's implementation.

**SUPPLEMENTAL INFORMATION**

**ROSAMOND COMMUNITY SERVICES DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL (By Object)  
PARKS AND RECREATION FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>					
Property taxes	\$ 265,720	\$ -	\$ 265,720	\$ 246,329	\$ (19,391)
Special assessments	231,000	-	231,000	230,851	(149)
Charges for services	89,620	-	89,620	51,135	(38,485)
Capital grants and facility charges	-	-	-	105	105
Interest earnings	1,200	-	1,200	3,210	2,010
<b>Total revenues</b>	<u>587,540</u>	<u>-</u>	<u>587,540</u>	<u>531,630</u>	<u>(55,910)</u>
<b>Expenditures:</b>					
Salaries	485,410	-	485,410	374,952	110,458
Operations	334,964	-	334,964	379,804	(44,840)
Capital outlay	-	-	-	5,304	(5,304)
<b>Total expenditures</b>	<u>820,374</u>	<u>-</u>	<u>820,374</u>	<u>760,060</u>	<u>60,314</u>
<b>Net change in fund deficit</b>	(232,834)	-	(232,834)	(228,430)	<u>\$ 4,404</u>
<b>Fund deficit, beginning of year</b>	<u>(1,340,267)</u>	<u>-</u>	<u>(1,340,267)</u>	<u>(1,340,267)</u>	
<b>Fund deficit, end of year</b>	<u>\$ (1,573,101)</u>	<u>\$ -</u>	<u>\$ (1,573,101)</u>	<u>\$ (1,568,697)</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, 2011**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>					
Special assessment	\$ 95,279	\$ -	\$ 95,279	\$ 96,596	\$ 1,317
Interest earnings	500	-	500	193	(307)
<b>Total revenues</b>	<u>95,779</u>	<u>-</u>	<u>95,779</u>	<u>96,789</u>	<u>1,010</u>
<b>Expenditures:</b>					
Operations	<u>99,828</u>	<u>-</u>	<u>99,828</u>	<u>108,778</u>	<u>(8,950)</u>
<b>Total expenditures</b>	<u>99,828</u>	<u>-</u>	<u>99,828</u>	<u>108,778</u>	<u>(8,950)</u>
<b>Net change in fund balance</b>	(4,049)	-	(4,049)	(11,989)	<u>\$ (7,940)</u>
<b>Fund balance, beginning of year</b>	<u>72,049</u>	<u>-</u>	<u>72,049</u>	<u>72,049</u>	
<b>Fund balance, end of year</b>	<u>\$ 68,000</u>	<u>\$ -</u>	<u>\$ 68,000</u>	<u>\$ 60,060</u>	

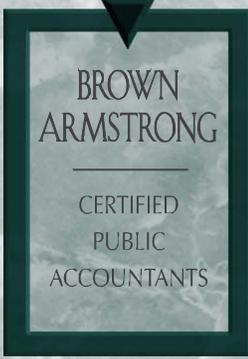
**ROSAMOND COMMUNITY SERVICES DISTRICT  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL  
WATER FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
<b>Operating revenues:</b>					
Water consumption sales	\$ 2,697,242	\$ -	\$ 2,697,242	\$ 2,821,858	\$ 124,616
<b>Total operating revenues</b>	<u>2,697,242</u>	<u>-</u>	<u>2,697,242</u>	<u>2,821,858</u>	<u>124,616</u>
<b>Operating expenses:</b>					
Salaries and benefits	1,225,395	-	1,225,395	1,103,078	122,317
Operations	1,411,365	-	1,411,365	1,183,393	227,972
<b>Total operating expenses</b>	<u>2,636,760</u>	<u>-</u>	<u>2,636,760</u>	<u>2,286,471</u>	<u>350,289</u>
Operating income before capital contributions	60,482	-	60,482	535,387	474,905
Depreciation expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,527,194)</u>	<u>(1,527,194)</u>
<b>Operating income (loss)</b>	<u>60,482</u>	<u>-</u>	<u>60,482</u>	<u>(991,807)</u>	<u>(1,052,289)</u>
<b>Nonoperating revenue (expense):</b>					
Interest earnings	4,000	-	4,000	3,818	(182)
Interest expense	<u>(161,213)</u>	<u>-</u>	<u>(161,213)</u>	<u>(153,541)</u>	<u>7,672</u>
Total nonoperating revenue (expense), net	<u>(157,213)</u>	<u>-</u>	<u>(157,213)</u>	<u>(149,723)</u>	<u>7,490</u>
<b>Capital contributions and purchases:</b>					
Connection fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,015</u>	<u>5,015</u>
Total capital contributions and purchases	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,015</u>	<u>5,015</u>
<b>Change in net assets</b>	<u>(96,731)</u>	<u>-</u>	<u>(96,731)</u>	<u>(1,136,515)</u>	<u>\$ (1,039,784)</u>
<b>Net assets, beginning of year</b>	<u>25,605,893</u>	<u>-</u>	<u>25,605,893</u>	<u>25,605,893</u>	
<b>Net assets, end of year</b>	<u>\$ 25,509,162</u>	<u>\$ -</u>	<u>\$ 25,509,162</u>	<u>\$ 24,469,378</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, 2011**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
<b>Operating revenues:</b>					
Wastewater service charges	\$ 2,165,072	\$ -	\$ 2,165,072	\$ 2,326,017	\$ 160,945
<b>Total operating revenues</b>	<u>2,165,072</u>	<u>-</u>	<u>2,165,072</u>	<u>2,326,017</u>	<u>160,945</u>
<b>Operating expenses:</b>					
Salaries and benefits	488,772	-	488,772	636,388	(147,616)
Operations	600,644	-	600,644	456,804	143,840
<b>Total operating expenses</b>	<u>1,089,416</u>	<u>-</u>	<u>1,089,416</u>	<u>1,093,192</u>	<u>(3,776)</u>
Operating income before capital contributions	1,075,656	-	1,075,656	1,232,825	157,169
Depreciation expense	-	-	-	(217,351)	(217,351)
<b>Operating income</b>	<u>1,075,656</u>	<u>-</u>	<u>1,075,656</u>	<u>1,015,474</u>	<u>(60,182)</u>
<b>Nonoperating revenue (expense):</b>					
Interest earnings	15,000	-	15,000	19,740	4,740
Interest expense	(224,042)	-	(224,042)	(231,312)	(7,270)
Total nonoperating revenue (expense), net	<u>(209,042)</u>	<u>-</u>	<u>(209,042)</u>	<u>(211,572)</u>	<u>(2,530)</u>
<b>Capital contributions and purchases:</b>					
Conservation fees	-	-	-	1,650	1,650
Connection fees	-	-	-	2,400	2,400
Total capital contributions and purchases	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,050</u>	<u>4,050</u>
<b>Change in net assets</b>	866,614	-	866,614	807,952	<u>\$ (58,662)</u>
<b>Net assets, beginning of year</b>	<u>9,601,947</u>	<u>-</u>	<u>9,601,947</u>	<u>9,601,947</u>	
<b>Net assets, end of year</b>	<u>\$ 10,468,561</u>	<u>\$ -</u>	<u>\$ 10,468,561</u>	<u>\$ 10,409,899</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 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 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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and recommendations, that we consider to be significant deficiencies in internal control over financial reporting. Finding 3 was considered to be a significant deficiency. 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.



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Compliance and Other Matters

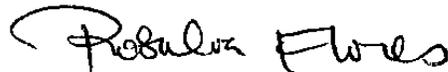
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect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

We noted certain matters that we reported to management of the District, in a separate letter dated November 17, 2011.

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

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

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION



Bakersfield, California  
November 17, 2011

## **SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

**ROSAMOND COMMUNITY SERVICES DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2011**

**Current Year Findings**

**Finding 1 – Adjusting Journal Entries**

Criteria

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

Condition

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

Effect

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

Cause

There are no written policies.

Recommendation

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

Management Response

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

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

**Finding 2 – Wire Transfers**

Criteria

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

Condition

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

### Effect

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

### Cause

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

### Recommendation

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

### Management Response

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

## **Finding 3 – Payroll**

### Criteria

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

### Condition

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

- We tested a sample of 30 individuals to view the personnel files and verify pay authorizations. We noted two instances in which pay increases appeared to be approved by the former General Manager; however, they were outside the approved salary schedules. We also noticed another instance in which the employee file did not contain the employee status change form to properly substantiate the increased pay rate.
- There are no written procedures to define the roles and responsibilities of the compensation committee.

### Effect

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

### Cause

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

### Recommendation

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

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

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

#### Management Response

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

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

#### **Finding 4 – Inventory**

##### Criteria

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

##### Condition

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

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

##### Effect

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

##### Cause

Lack of formal procedures for the performance of inventory counts.

##### Recommendation

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

#### Management Response

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

#### **Finding 5 – Capital Assets**

##### Criteria

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

### Condition

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

### Effect

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

### Cause

Lack of a formal policy to perform a physical inspection.

### Recommendation

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

### Management Response

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

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

## **Finding 6 – GASB Statement No. 54 Fund Balance**

### Criteria

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

### Condition

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

### Effect

Resources being spent not in accordance with its intent.

### Cause

Time constraints due to shortage in accounting staff.

### Recommendation

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

### Management Response

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

## **Finding 7 – Accounts Receivable Write-Offs**

### Criteria

Establishing a policy with respect to write-offs

### Condition

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

### Effect

Possible misappropriation of funds.

### Cause

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

### Recommendation

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

### Management Response

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

## **Status of Prior Year Findings**

### **Finding 1 – Accounts Receivable Write-offs**

#### Criteria

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

### Condition

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

### Effect

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

### Cause

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

### Recommendation

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

### Management Response

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

### Current Year Status

See current year similar finding.

## **Finding 2 – Physical Inventory of Materials and Supplies**

### Criteria

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

### Condition

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

### Effect

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

### Cause

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

### Recommendation

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

### Management Response

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

### Current Year Status

See current year similar finding.

## **Finding 3 – Adjusting Journal Entries**

### Criteria

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

### Condition

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

### Effect

Unauthorized journal entries could be posted.

### Cause

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

### Recommendation

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

### Management Response

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

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

### Current Year Status

See current year similar finding.

## **Finding 4 – Capital Assets**

### Criteria

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

### Condition

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

### Effect

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

### Cause

Lack of a formal policy to perform a physical inspection.

### Recommendation

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

### Management Response

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

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

## Current Year Status

See current year similar finding.

## **Finding 5 – Payroll**

### Criteria

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

### Condition

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

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

### Effect

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

### Cause

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

## Recommendations

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

## Management Response

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

## Current Year Status

See current year similar finding.