

**ROSAMOND COMMUNITY SERVICES DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2013**

**ROSAMOND COMMUNITY SERVICES DISTRICT**

**LIST OF ELECTED AND APPOINTED OFFICIALS**

**JUNE 30, 2013**

**Elected Officials**

**BOARD OF DIRECTORS**

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

**Appointed Official**

General Manager

Steve Perez

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

**ROSAMOND COMMUNITY SERVICES DISTRICT  
JUNE 30, 2013**

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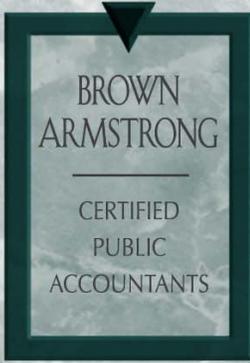
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## **FINANCIAL SECTION**



# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Rosamond Community Services District (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

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

## **Opinions**

In our opinion, the 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, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts, as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

## **Emphasis of Matter**

As described in Note 16 to the financial statements, during the year ended June 30, 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Statements of Revenues and Expenses – Budget and Actual for the Water and Wastewater Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Statements of Revenues and Expenses – Budget and Actual have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
March 17, 2014

**ROSAMOND COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Rosamond Community Services District (District) provides an introduction to the basic financial statements of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- Net position increased by 3.24% or \$1,152,089 to \$36,715,652 as a result of this year's operations.
- Total revenues increased by 8.85% or \$600,073 due primarily to an increase in charges for services of \$591,656.
- Total expenses increased by 4.27% or \$255,407 due primarily to a \$152,361 increase in salaries and benefits expense and a \$183,407 increase in operations expense.

**Using This Financial Report**

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

**Government-Wide Financial Statements**

**Statement of Net Position and Statement of Activities**

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

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

## **Fund Financial Statements**

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

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

Because the focus of governmental funds is 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 19 through 41.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information (RSI) and supplementary information* concerning the District's major-fund budgetary information. The RSI and supplementary information can be found on pages 42 through 45.

## Statement of Net Position

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

	Condensed Statement of Net Position					
	Governmental Activities		Business-Type Activities		Total District	
	2013	2012	2013	2012	2013	2012
<b>Assets:</b>						
Current and other assets	\$ 188,027	\$ 248,657	\$ 7,422,163	\$ 5,738,824	\$ 7,610,190	\$ 5,987,481
Restricted assets	-	-	239,467	239,452	239,467	239,452
Noncurrent assets	(1,922,912)	(1,792,932)	6,948,441	6,311,689	5,025,529	4,518,757
Capital assets, net	1,337,344	1,367,119	33,344,784	34,883,351	34,682,128	36,250,470
<b>Total assets</b>	<b>(397,541)</b>	<b>(177,156)</b>	<b>47,954,855</b>	<b>47,173,316</b>	<b>47,557,314</b>	<b>46,996,160</b>
<b>Liabilities:</b>						
Current liabilities	97,088	68,267	1,292,200	1,266,782	1,389,288	1,335,049
Noncurrent liabilities	23,723	25,098	9,428,651	10,072,450	9,452,374	10,097,548
<b>Total liabilities</b>	<b>120,811</b>	<b>93,365</b>	<b>10,720,851</b>	<b>11,339,232</b>	<b>10,841,662</b>	<b>11,432,597</b>
<b>Net position:</b>						
Net investment in capital assets	1,337,344	1,367,119	27,714,906	28,361,204	29,052,250	29,728,323
Restricted	15,190	15,141	239,467	239,452	254,657	254,593
Unrestricted	(1,870,886)	(1,652,781)	9,279,631	7,233,428	7,408,745	5,580,647
<b>Total net position</b>	<b>\$ (518,352)</b>	<b>\$ (270,521)</b>	<b>\$ 37,234,004</b>	<b>\$ 35,834,084</b>	<b>\$ 36,715,652</b>	<b>\$ 35,563,563</b>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$36,715,652 as of June 30, 2013. Compared to prior year, net position of the District increased 3.24% or \$1,152,089. The District's net position is made-up of three components: (1) net investment in capital assets of \$29,052,250, (2) restricted of \$254,657, and (3) unrestricted of \$7,408,745.

## Statement of Activities

The following table is a summary of the Statement of Activities for the year ended June 30, 2013.

<b>Condensed Statement of Activities</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total District</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 361,840	\$ 368,068	\$ 6,745,119	\$ 6,147,235	\$ 7,106,959	\$ 6,515,303
Capital grants and contributions	12,041	9,000	16,543	2,676	28,584	11,676
General revenues:						
Property taxes	226,958	233,796	-	-	226,958	233,796
Interest earnings	2,041	2,585	17,612	18,721	19,653	21,306
<b>Total revenues</b>	<b>602,880</b>	<b>613,449</b>	<b>6,779,274</b>	<b>6,168,632</b>	<b>7,382,154</b>	<b>6,782,081</b>
<b>Expenses:</b>						
Salaries and benefits	278,751	263,080	1,585,996	1,449,306	1,864,747	1,712,386
Operations	517,844	430,806	1,780,816	1,684,447	2,298,660	2,115,253
Depreciation	54,116	60,954	1,671,311	1,713,691	1,725,427	1,774,645
Interest	-	5,993	341,231	366,381	341,231	372,374
<b>Total expenses</b>	<b>850,711</b>	<b>760,833</b>	<b>5,379,354</b>	<b>5,213,825</b>	<b>6,230,065</b>	<b>5,974,658</b>
<b>Change in net position</b>	<b>(247,831)</b>	<b>(147,384)</b>	<b>1,399,920</b>	<b>954,807</b>	<b>1,152,089</b>	<b>807,423</b>
<b>Net position, beginning of year</b>	<b>(270,521)</b>	<b>(123,137)</b>	<b>35,834,084</b>	<b>34,879,277</b>	<b>35,563,563</b>	<b>34,756,140</b>
<b>Net position, end of year</b>	<b><u>\$ (518,352)</u></b>	<b><u>\$ (270,521)</u></b>	<b><u>\$ 37,234,004</u></b>	<b><u>\$ 35,834,084</u></b>	<b><u>\$ 36,715,652</u></b>	<b><u>\$ 35,563,563</u></b>

Governmental and business-type activities increased the District's net position by \$1,152,089, thereby accounting for the 3.24% increase in the net position of the District.

The District's total revenues increased by 8.85% or \$600,073, due primarily to an increase in charges for services of \$591,656.

The District's total expenses increased by 4.27% or \$255,407 due primarily to a \$152,361 increase in salaries and benefits expense and a \$183,407 increase in operations expense.

### Budgetary Highlights

The District adopts an annual budget each year to project the expected coming year's operations. The budget includes proposed expenses and the means of financing them. The District's budget remains in effect the entire year and is not revised. A 2013 budget versus actual comparison is analyzed by management throughout the year.

A 2013 budget versus actual comparison combined for all funds is presented in the table below.

**Budget vs. Actual Comparison  
Year Ended June 30, 2013**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
<b>Operating revenues:</b>			
Property taxes	\$ 226,958	\$ 242,858	\$ (15,900)
Special assessments	324,398	314,342	10,056
Charges for services	37,444	25,200	12,244
Water consumption sales	3,596,754	3,169,908	426,846
Wastewater service charges	<u>3,148,365</u>	<u>3,022,340</u>	<u>126,025</u>
<b>Total operating revenues</b>	<u>7,333,919</u>	<u>6,774,648</u>	<u>559,271</u>
<b>Operating expenses:</b>			
Salaries and benefits	1,864,747	2,083,878	(219,131)
Operations	2,300,494	2,422,460	(121,966)
Capital outlay	<u>12,300</u>	<u>-</u>	<u>12,300</u>
<b>Total operating expenses</b>	<u>4,177,541</u>	<u>4,506,338</u>	<u>(328,797)</u>
Operating income before capital contributions	3,156,378	2,268,310	888,068
Depreciation expense	<u>(1,671,311)</u>	<u>-</u>	<u>(1,671,311)</u>
<b>Operating income</b>	<u>1,485,067</u>	<u>2,268,310</u>	<u>(783,243)</u>
<b>Nonoperating revenue (expense):</b>			
Interest earnings	19,653	21,560	(1,907)
Interest expense	<u>(341,231)</u>	<u>(350,512)</u>	<u>9,281</u>
Total nonoperating, net	<u>(321,578)</u>	<u>(328,952)</u>	<u>7,374</u>
<b>Capital contributions and purchases:</b>			
Conservation fees	6,775	-	6,775
Connection fees	<u>9,768</u>	<u>-</u>	<u>9,768</u>
Total capital contributions and purchases	<u>16,543</u>	<u>-</u>	<u>16,543</u>
<b>Net Change</b>	<u>\$ 1,180,032</u>	<u>\$ 1,939,358</u>	<u>\$ (759,326)</u>

Operating revenues in total for the fiscal year ended June 30, 2013, are over budget by \$559,271 due primarily to water sales and wastewater revenues being more than anticipated. Water and wastewater costs are under budget due to lower salaries and operation expenses. The District does not budget for depreciation.

## Capital Asset Administration

### Capital Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total District</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Capital assets:						
Non-depreciable assets	\$ 733,035	\$ 749,972	\$ 14,591,190	\$ 14,535,313	\$ 15,324,225	\$ 15,285,285
Depreciable assets	961,662	920,384	50,422,033	50,345,166	51,383,695	51,265,550
<b>Total capital assets</b>	1,694,697	1,670,356	65,013,223	64,880,479	66,707,920	66,550,835
Accumulated depreciation	(357,353)	(303,237)	(31,668,439)	(29,997,128)	(32,025,792)	(30,300,365)
<b>Total capital assets, net</b>	<u>\$ 1,337,344</u>	<u>\$ 1,367,119</u>	<u>\$ 33,344,784</u>	<u>\$ 34,883,351</u>	<u>\$ 34,682,128</u>	<u>\$ 36,250,470</u>

At the end of fiscal year 2013, the District's investment in capital assets amounted to \$34,682,128 (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

	<u>Business-Type Activities</u>	
	<u>2013</u>	<u>2012</u>
Long-term debt:		
Notes payable	<u>\$ 9,879,878</u>	<u>\$ 10,522,147</u>

Long-term debt decreased due to authorizing repayments of \$642,269 in note payables during the fiscal year. The long-term debt position of the District is more fully analyzed in Note 10 of the basic financial statements.

## Conditions Affecting Current Financial Position

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

## Requests for Information

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

## **BASIC FINANCIAL STATEMENTS**

**ROSAMOND COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

<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)	\$ 18,493	\$ 6,002,600	\$ 6,021,093
Restricted - cash and cash equivalents (Notes 2 and 3)	15,190	-	15,190
Accrued interest receivable	423	2,512	2,935
Accounts receivable - utilities, net (Note 4)	6,922	694,500	701,422
Accounts receivable - other	144,532	302,987	447,519
Materials and supplies inventory	-	220,986	220,986
Prepaid expenses and other deposits	2,467	198,578	201,045
	<u>188,027</u>	<u>7,422,163</u>	<u>7,610,190</u>
<b>Noncurrent assets:</b>			
Restricted - cash and cash equivalents (Notes 2 and 3)	-	239,467	239,467
Banked water inventory (Note 6)	-	775,529	775,529
Internal balances (Note 5)	(1,922,912)	1,922,912	-
Investment in water banking - JPA (Note 7)	-	4,250,000	4,250,000
Capital assets, not being depreciated (Note 8)	733,035	14,591,190	15,324,225
Depreciable capital assets, net (Note 8)	604,309	18,753,594	19,357,903
	<u>(585,568)</u>	<u>40,532,692</u>	<u>39,947,124</u>
<b>Total assets</b>	<u>(397,541)</u>	<u>47,954,855</u>	<u>47,557,314</u>
Deferred Outflows of Resources	-	-	-
<b>Total assets and deferred outflows of resources</b>	<u>\$ (397,541)</u>	<u>\$ 47,954,855</u>	<u>\$ 47,557,314</u>
<b>Liabilities and Net Position</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	\$ 59,204	\$ 243,101	\$ 302,305
Accrued wages and related payables	14,938	55,237	70,175
Customer deposits and deferred revenue	15,039	207,457	222,496
Accrued interest on long-term debt	-	50,880	50,880
Long-term liabilities - due within one year:			
Compensated absences (Note 9)	7,907	71,075	78,982
Notes payable (Note 10)	-	664,450	664,450
	<u>97,088</u>	<u>1,292,200</u>	<u>1,389,288</u>
<b>Noncurrent liabilities:</b>			
Long-term liabilities - due in more than one year:			
Compensated absences (Note 9)	23,723	213,223	236,946
Notes payable (Note 10)	-	9,215,428	9,215,428
	<u>23,723</u>	<u>9,428,651</u>	<u>9,452,374</u>
<b>Total liabilities</b>	<u>120,811</u>	<u>10,720,851</u>	<u>10,841,662</u>
Deferred inflows of resources	-	-	-
<b>Total liabilities and deferred inflows of resources</b>	<u>\$ 120,811</u>	<u>\$ 10,720,851</u>	<u>\$ 10,841,662</u>
<b>Net position: (Note 11)</b>			
Net investment in capital assets	1,337,344	27,714,906	29,052,250
Restricted	15,190	239,467	254,657
Unrestricted	(1,870,886)	9,279,631	7,408,745
<b>Total net position</b>	<u>\$ (518,352)</u>	<u>\$ 37,234,004</u>	<u>\$ 36,715,652</u>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
Parks and recreation	\$ 668,976	\$ 262,172	\$ 12,041	\$ -	\$ (394,763)	\$ -	\$ (394,763)
Street lighting	181,735	99,668	-	-	(82,067)	-	(82,067)
Total governmental activities	850,711	361,840	12,041	-	(476,830)	-	(476,830)
<b>Business-type activities:</b>							
Water	3,686,351	3,596,754	-	5,000	-	(84,597)	(84,597)
Sewer	1,693,003	3,148,365	-	11,543	-	1,466,905	1,466,905
Total business-type activities	5,379,354	6,745,119	-	16,543	-	1,382,308	1,382,308
<b>Total</b>	<b>\$ 6,230,065</b>	<b>\$ 7,106,959</b>	<b>\$ 12,041</b>	<b>\$ 16,543</b>	<b>(476,830)</b>	<b>1,382,308</b>	<b>905,478</b>
<b>General revenues:</b>							
Property taxes					226,958	-	226,958
Interest earnings					2,041	17,612	19,653
<b>Total general revenues</b>					<b>228,999</b>	<b>17,612</b>	<b>246,611</b>
<b>Change in net position</b>					<b>(247,831)</b>	<b>1,399,920</b>	<b>1,152,089</b>
<b>Net position (deficit), beginning of year</b>					<b>(270,521)</b>	<b>35,834,084</b>	<b>35,563,563</b>
<b>Net position (deficit), end of year</b>					<b>\$ (518,352)</b>	<b>\$ 37,234,004</b>	<b>\$ 36,715,652</b>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	<b>Parks and Recreation</b>	<b>Street Lighting</b>	<b>Total Governmental Activities</b>
<b>Assets and deferred outflows of resources</b>			
<b>Assets:</b>			
Cash and cash equivalents (Note 2)	\$ 17,701	\$ 792	\$ 18,493
Restricted - cash and cash equivalents (Notes 2 and 3)	-	15,190	15,190
Accrued interest receivable	399	24	423
Accounts receivable - utilities, net (Note 4)	600	6,322	6,922
Accounts receivable - other	144,532	-	144,532
Prepaid expenses and other deposits	2,467	-	2,467
<b>Total assets</b>	<b>165,699</b>	<b>22,328</b>	<b>188,027</b>
<b>Deferred outflows of resources</b>	-	-	-
<b>Total assets and deferred outflows of resources</b>	<b>\$ 165,699</b>	<b>\$ 22,328</b>	<b>\$ 188,027</b>
<b>Liabilities, deferred inflows of resources and fund balance</b>			
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 23,820	\$ 35,384	\$ 59,204
Accrued wages and related payables	14,938	-	14,938
Customer deposits and deferred revenue	-	15,039	15,039
Due to other funds (Note 5)	1,922,912	-	1,922,912
<b>Total liabilities</b>	<b>1,961,670</b>	<b>50,423</b>	<b>2,012,093</b>
<b>Deferred inflows of resources</b>	-	-	-
<b>Fund balances (deficit):</b>			
Nonspendable	2,467	-	2,467
Unassigned	(1,798,438)	(28,095)	(1,826,533)
<b>Total fund balances (deficit)</b>	<b>(1,795,971)</b>	<b>(28,095)</b>	<b>(1,824,066)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 165,699</b>	<b>\$ 22,328</b>	<b>\$ 188,027</b>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT  
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET POSITION  
JUNE 30, 2013**

**Reconciliation:**

Fund balance (deficit) of governmental funds	\$ (1,824,066)
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Amounts reported for governmental activities in the statement of net position 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 position includes those capital assets among the assets of the District as a whole.	1,337,344
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Long-term liabilities applicable to the District are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position as follows:

Compensated absences	<u>(31,630)</u>
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Net position of governmental activities	<u><u>\$ (518,352)</u></u>
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**ROSAMOND COMMUNITY SERVICES DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Total Governmental Activities</u>
<b>Revenues:</b>			
Property taxes	\$ 226,958	\$ -	\$ 226,958
Special assessments	224,728	99,668	324,396
Charges for services	37,444	-	37,444
Interest earnings	1,907	134	2,041
<b>Total revenues</b>	<u>491,037</u>	<u>99,802</u>	<u>590,839</u>
<b>Expenditures:</b>			
Parks and recreation	616,694	-	616,694
Street lighting	-	181,735	181,735
Capital outlay	12,300	-	12,300
<b>Total expenditures</b>	<u>628,994</u>	<u>181,735</u>	<u>810,729</u>
<b>Net change in fund balances (deficit)</b>	(137,957)	(81,933)	(219,890)
<b>Fund balances (deficit), beginning of year</b>	<u>(1,658,014)</u>	<u>53,838</u>	<u>(1,604,176)</u>
<b>Fund balances (deficit), end of year</b>	<u>\$ (1,795,971)</u>	<u>\$ (28,095)</u>	<u>\$ (1,824,066)</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, 2013**

**Reconciliation:**

Net change in fund balances (deficit) of total governmental funds \$ (219,890)

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	12,300
Depreciation expense	(54,116)

Donated capital assets: In governmental funds, donated capital assets are not reported because they do not affect current financial resources. In the government-wide statements, donated capital assets are reported as revenue and increases to capital assets at their market value on the date of donation. The fair market value of capital assets donated was:

12,041

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	1,834
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Change in net position of governmental activities	\$ (247,831)
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**ROSAMOND COMMUNITY SERVICES DISTRICT  
STATEMENT OF NET POSITION  
ENTERPRISE FUNDS  
JUNE 30, 2013**

<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)	\$ 633,076	\$ 5,369,524	\$ 6,002,600
Accrued interest receivable	-	2,512	2,512
Accounts receivable - utilities, net (Note 4)	432,010	262,490	694,500
Accounts receivable - other	241,525	61,462	302,987
Materials and supplies inventory	220,986	-	220,986
Prepaid expenses and other deposits	185,093	13,485	198,578
Total current assets	<u>1,712,690</u>	<u>5,709,473</u>	<u>7,422,163</u>
<b>Noncurrent assets:</b>			
Restricted - cash and cash equivalents (Notes 2 and 3)	212,408	27,059	239,467
Banked water inventory (Note 6)	775,529	-	775,529
Due from other funds (Note 5)	327,882	1,595,030	1,922,912
Investment in water banking - JPA (Note 7)	4,250,000	-	4,250,000
Capital assets, not being depreciated (Note 8)	2,416,687	12,174,503	14,591,190
Capital assets, being depreciated, net (Note 8)	17,323,506	1,430,088	18,753,594
Total noncurrent assets	<u>25,306,012</u>	<u>15,226,680</u>	<u>40,532,692</u>
<b>Total assets</b>	<u><u>\$ 27,018,702</u></u>	<u><u>\$ 20,936,153</u></u>	<u><u>\$ 47,954,855</u></u>
<b>Liabilities and Net Position</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	\$ 180,245	\$ 62,856	\$ 243,101
Accrued wages and related payables	34,541	20,696	55,237
Customer deposits and deferred revenue	137,923	69,534	207,457
Accrued interest on long-term debt	4,692	46,188	50,880
Long-term liabilities - due within one year:			
Compensated absences (Note 9)	32,309	38,766	71,075
Notes payable (Note 10)	218,043	446,407	664,450
Total current liabilities	<u>607,753</u>	<u>684,447</u>	<u>1,292,200</u>
<b>Noncurrent liabilities:</b>			
Long-term liabilities - due in more than one year:			
Compensated absences (Note 9)	96,925	116,298	213,223
Notes payable (Note 10)	2,287,391	6,928,037	9,215,428
Total noncurrent liabilities	<u>2,384,316</u>	<u>7,044,335</u>	<u>9,428,651</u>
<b>Total liabilities</b>	<u><u>2,992,069</u></u>	<u><u>7,728,782</u></u>	<u><u>10,720,851</u></u>
<b>Net position: (Note 11)</b>			
Net investment in capital assets	21,484,759	6,230,147	27,714,906
Restricted	212,408	27,059	239,467
Unrestricted	2,329,466	6,950,165	9,279,631
<b>Total net position</b>	<u><u>\$ 24,026,633</u></u>	<u><u>\$ 13,207,371</u></u>	<u><u>\$ 37,234,004</u></u>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Water</u>	<u>Wastewater</u>	<u>Total Business-Type Activities</u>
<b>Operating revenues:</b>			
Water consumption sales	\$ 3,596,754	\$ -	\$ 3,596,754
Sewer service charges	-	3,148,365	3,148,365
<b>Total operating revenues</b>	<u>3,596,754</u>	<u>3,148,365</u>	<u>6,745,119</u>
<b>Operating expenses:</b>			
Salaries and benefits	942,695	643,301	1,585,996
Operations	1,128,748	652,068	1,780,816
<b>Total operating expenses</b>	<u>2,071,443</u>	<u>1,295,369</u>	<u>3,366,812</u>
Operating income before depreciation	1,525,311	1,852,996	3,378,307
Depreciation expense	(1,484,131)	(187,180)	(1,671,311)
<b>Operating income</b>	<u>41,180</u>	<u>1,665,816</u>	<u>1,706,996</u>
<b>Nonoperating revenue (expense):</b>			
Interest earnings	1,851	15,761	17,612
Interest expense	(130,777)	(210,454)	(341,231)
Total nonoperating revenue (expense), net	<u>(128,926)</u>	<u>(194,693)</u>	<u>(323,619)</u>
<b>Capital contributions and purchases:</b>			
Conservation fees	-	6,775	6,775
Connection fees	5,000	4,768	9,768
Total capital contributions and purchases	<u>5,000</u>	<u>11,543</u>	<u>16,543</u>
<b>Change in net position</b>	<u>(82,746)</u>	<u>1,482,666</u>	<u>1,399,920</u>
<b>Net position, beginning of year</b>	<u>24,109,379</u>	<u>11,724,705</u>	<u>35,834,084</u>
<b>Net position, end of year</b>	<u>\$ 24,026,633</u>	<u>\$ 13,207,371</u>	<u>\$ 37,234,004</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, 2013**

	<u>Water</u>	<u>Wastewater</u>	<u>Total Business-Type Activities</u>
Cash flows from operating activities:			
Cash receipts from customers	\$ 3,686,468	\$ 3,198,072	\$ 6,884,540
Cash paid to employees for salaries and benefits	(949,440)	(615,761)	(1,565,201)
Cash paid to vendors and suppliers	(1,477,118)	(612,633)	(2,089,751)
Net cash provided by operating activities	<u>1,259,910</u>	<u>1,969,678</u>	<u>3,229,588</u>
Cash flows from capital and related financing activities:			
Acquisitions and construction of capital assets	(135,797)	(3,200)	(138,997)
Write-off construction in progress	2,173	4,080	6,253
Transfer of construction in progress	38,434	(38,434)	-
Proceeds from capital contributions	5,000	11,543	16,543
Internal cash advanced	(125,299)	(4,681)	(129,980)
Principal payments on notes payable	(208,604)	(433,665)	(642,269)
Interest payments on notes payable	(130,965)	(213,049)	(344,014)
Net cash used by capital and related financing activities	<u>(555,058)</u>	<u>(677,406)</u>	<u>(1,232,464)</u>
Cash flows from investing activities:			
Interest earnings	1,851	15,803	17,654
Payment for investment in water banking - JPA	(250,000)	-	(250,000)
Net cash provided (used) by investing activities	<u>(248,149)</u>	<u>15,803</u>	<u>(232,346)</u>
Net increase in cash and cash equivalents	456,703	1,308,075	1,764,778
Cash and cash equivalents, beginning of year	<u>388,781</u>	<u>4,088,508</u>	<u>4,477,289</u>
Cash and cash equivalents, end of year	<u>\$ 845,484</u>	<u>\$ 5,396,583</u>	<u>\$ 6,242,067</u>
Reconciliation of operating income to net cash provided by operating activities:			
<b>Operating income</b>	<u>\$ 41,180</u>	<u>\$ 1,665,816</u>	<u>\$ 1,706,996</u>
Depreciation expense	1,484,131	187,180	1,671,311
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable - utilities, net	(22,360)	(24,437)	(46,797)
Accounts receivable - other	127,643	5,410	133,053
Materials and supplies inventory	4,674	-	4,674
Prepaid expenses and other deposits	(25,179)	15,631	(9,548)
Banked water inventory	(256,772)	-	(256,772)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	(71,093)	23,804	(47,289)
Accrued wages and related payables	(8,229)	1,488	(6,741)
Customer deposits and deferred revenue	(15,569)	68,734	53,165
Compensated absences	1,484	26,052	27,536
Total adjustments	<u>1,218,730</u>	<u>303,862</u>	<u>1,522,592</u>
Net cash provided by operating activities	<u>\$ 1,259,910</u>	<u>\$ 1,969,678</u>	<u>\$ 3,229,588</u>

See accompanying notes to the basic financial statements.

**ROSAMOND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

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

B. Basis of Accounting and Measurement Focus (Continued)

*Fund Financial Statements*

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

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

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

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

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

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

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

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

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

B. Basis of Accounting and Measurement Focus (Continued)

*Fund Financial Statements* (Continued)

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

The funds of the District are described below:

*Governmental Funds*

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

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

*Enterprise Funds*

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

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

C. Financial Statement Elements

1. Cash and Cash Equivalents

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

2. Accounts Receivable

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

3. Property Taxes and Assessments

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

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

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

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

C. Financial Statement Elements (Continued)

4. Prepaid Expenses

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

5. Banked Water Inventory

The amount of banked water is recorded at historical cost.

6. Capital Assets

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

*Governmental Activities*

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

*Business-Type Activities*

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

7. Materials and Supplies Inventory

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

8. Net Position/Fund Balances

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

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

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

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

C. Financial Statement Elements (Continued)

8. Net Position/Fund Balances (Continued)

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

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

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

9. Fund Balance Deficit

The deficits in the Parks and Recreation Fund and Street Lighting Fund as of June 30, 2013, in the amounts of \$1,795,971 and \$28,095, respectively, are expected to be covered in the near term with interfund transfers. In the future, the District is contemplating a parcel tax, that if it goes through, would cover operations.

10. Utility Sales

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

11. Capital Contributions

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

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

C. Financial Statement Elements (Continued)

12. Budgetary Policies

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

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

13. California State Water Project (SWP)

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

14. Use of Estimates

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

15. Date of Management's Review

Subsequent events were evaluated through March 17, 2014, which is the date the basic financial statements were available to be issued.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of June 30, 2013, are classified by fund as follows:

Governmental activity funds:	
Parks and recreation	\$ 17,701
Street lighting	15,982
	<hr/>
Total	33,683
	<hr/>
Business-type activity funds:	
Water	845,484
Wastewater	5,396,583
	<hr/>
Total	6,242,067
	<hr/>
Total cash and cash equivalents	<u>\$ 6,275,750</u>

Cash and cash equivalents as of June 30, 2013, consist of the following:

Cash on hand	\$ 350
Deposits held with financial institutions	672,827
Deposit of note proceeds held with financial institutions	239,467
Certificate of deposit	42,936
Investment Fund (LAIF)	5,320,170
	<hr/>
Total	<u>\$ 6,275,750</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
Bankers' Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements *	92 days	None	None
Medium-Term Notes ****	5 years	30%	None
Mutual Funds	N/A	None	None

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

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

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

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

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

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

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. The District had deposits with a bank balance of \$733,022 as of June 30, 2013. Of the bank balances, up to \$250,000 for 2013 is federally insured, and the remaining balance of \$483,022 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	\$ 42,936	\$ 42,936
Local Agency Investment Fund (LAIF)	5,320,170	5,320,170
	\$ 5,363,106	\$ 5,363,106

**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	\$ 42,936	N/A	\$ 42,936	\$ -	\$ -
Local Agency Investment Fund (LAIF)	5,320,170	N/A	-	-	5,320,170
	<u>\$ 5,363,106</u>		<u>\$ 42,936</u>	<u>\$ -</u>	<u>\$ 5,320,170</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 85% of the District's total depository and investment portfolio as of June 30, 2013.

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

Restricted funds of \$212,408 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. The restricted funds in the Street Lighting Fund of \$15,190 represent funds on deposit for various street light projects.

**NOTE 4 – ACCOUNTS RECEIVABLE – UTILITIES, NET**

The accounts receivable – utilities balance consists of the following balances as of June 30, 2013:

	<u>Parks and Recreation</u>	<u>Street Lighting</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Accounts receivable - utilities	\$ 600	\$ 6,322	\$ 432,010	\$ 262,490	\$ 701,422
Allowance for uncollectible receivables	-	-	-	-	-
Accounts receivable - utilities, net	<u>\$ 600</u>	<u>\$ 6,322</u>	<u>\$ 432,010</u>	<u>\$ 262,490</u>	<u>\$ 701,422</u>

## **NOTE 5 – INTERNAL BALANCES**

### *Due To/From Other Funds*

Internal balances consist of the following at June 30, 2013:

<u>Purpose</u>	<u>Funds</u>		<u>Amount</u>
	<u>Receivable</u>	<u>Payable</u>	
Loan	Water	Parks and Recreation	\$ 327,882
Loan	Wastewater	Parks and Recreation	1,595,030
			<u>\$ 1,922,912</u>

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

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

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

As of June 30, 2013, the Board of Directors has approved a total of \$1,922,912 internal borrowing between funds, in accordance to the agreements referenced above. As of June 30, 2013, the Parks Fund has borrowed from the Water Fund and Wastewater Fund a total of \$327,882 and \$1,595,030, respectively. These balances shall be paid back in accordance to the parameters mentioned above.

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

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

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

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

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

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

The following is a summary of the changes in banked water recorded as inventory as of June 30, 2013:

	<b>AVEK</b>		
	<u>Delivered Acre-Feet</u>	<u>Banked Acre-Feet</u>	<u>Cost</u>
Fiscal Year 2009-2010	503	445	\$ 233,557
Fiscal Year 2010-2011	112	99	40,000
Fiscal Year 2011-2012	1000	875	245,200
Fiscal Year 2012-2013	976	873	256,772
Total	<u>2591</u>	<u>2292</u>	<u>\$ 775,529</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 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.

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

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>). An amendment was made effective October 2012 changing the due date and amount to July 1 for \$250,000 and will continue to do so until the total payments by the District, including the initial payment, equal \$6,000,000. As of June 30, 2013, the District has paid SRWBA \$4,250,000.

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 \$80,760 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 2012</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land	\$ 678,441	\$ -	\$ -	\$ 678,441
Construction-in-progress	71,531	12,300	(29,237)	54,594
Total non-depreciable assets	<u>749,972</u>	<u>12,300</u>	<u>(29,237)</u>	<u>733,035</u>
Depreciable assets:				
Park improvements	842,563	29,237	-	871,800
Vehicles and equipment	77,821	12,041	-	89,862
Total depreciable assets	<u>920,384</u>	<u>41,278</u>	<u>-</u>	<u>961,662</u>
Accumulated depreciation:				
Park improvements	(230,987)	(50,334)	-	(281,321)
Vehicles and equipment	(72,250)	(3,782)	-	(76,032)
Total accumulated depreciation	<u>(303,237)</u>	<u>(54,116)</u>	<u>-</u>	<u>(357,353)</u>
Total depreciable assets, net	<u>617,147</u>	<u>(12,838)</u>	<u>-</u>	<u>604,309</u>
Total capital assets, net	<u>\$ 1,367,119</u>	<u>\$ (538)</u>	<u>\$ (29,237)</u>	<u>\$ 1,337,344</u>

**NOTE 8 – CAPITAL ASSETS** (Continued)*Construction-in-Progress*

The balance at June 30 consists of the following projects:

	<u>2013</u>	<u>2012</u>
Felsite park design	\$ 54,594	\$ 54,594
Pool pump and filter	-	16,937
	<u>\$ 54,594</u>	<u>\$ 71,531</u>

*Depreciation Expense*

Depreciation expense under governmental activities was allotted as follows for the year ended June 30, 2013:

	<u>Depreciation Expense</u>
Parks and recreation	<u>\$ 54,116</u>

*Business-Type Activities*

Changes in capital assets for the year were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land	\$ 2,468,515	\$ -	\$ -	\$ 2,468,515
Construction-in-progress	12,066,798	138,998	(83,121)	12,122,675
Total non-depreciable assets	<u>14,535,313</u>	<u>138,998</u>	<u>(83,121)</u>	<u>14,591,190</u>
Depreciable assets:				
Facilities system	48,226,447	76,867	-	48,303,314
Vehicles and equipment	2,118,719	-	-	2,118,719
Total depreciable assets	<u>50,345,166</u>	<u>76,867</u>	<u>-</u>	<u>50,422,033</u>
Accumulated depreciation:				
Facilities system	(28,100,498)	(1,546,621)	-	(29,647,119)
Vehicles and equipment	(1,896,630)	(124,690)	-	(2,021,320)
Total accumulated depreciation	<u>(29,997,128)</u>	<u>(1,671,311)</u>	<u>-</u>	<u>(31,668,439)</u>
Total depreciable assets, net	<u>20,348,038</u>	<u>(1,594,444)</u>	<u>-</u>	<u>18,753,594</u>
Total capital assets, net	<u>\$ 34,883,351</u>	<u>\$ (1,455,446)</u>	<u>\$ (83,121)</u>	<u>\$ 33,344,784</u>

**NOTE 8 – CAPITAL ASSETS** (Continued)*Construction-in-Progress*

The balance at June 30 consists of the following projects:

	<u>2013</u>	<u>2012</u>
Wastewater treatment plant	\$ 11,315,753	\$ 11,315,753
Various projects <\$100,000	806,922	751,045
Construction-in-progress	<u>\$ 12,122,675</u>	<u>\$ 12,066,798</u>

*Depreciation Expense*

Depreciation expense under business-type activities was allotted as follows for the year ended June 30, 2013:

	<u>Depreciation Expense</u>
Water facility and systems	\$ 1,484,131
Wastewater facility and systems	187,180
	<u>\$ 1,671,311</u>

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

<u>Water Enterprise</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land	\$ 1,943,923	\$ -	\$ -	\$ 1,943,923
Construction-in-progress	416,007	135,797	(79,040)	472,764
Total non-depreciable assets	<u>2,359,930</u>	<u>135,797</u>	<u>(79,040)</u>	<u>2,416,687</u>
Depreciable assets:				
Water transmission and distribution	42,421,306	38,433	-	42,459,739
Vehicles and equipment	1,455,875	-	-	1,455,875
Total depreciable assets	<u>43,877,181</u>	<u>38,433</u>	<u>-</u>	<u>43,915,614</u>
Accumulated depreciation:				
Water transmission and distribution	(23,833,266)	(1,378,435)	-	(25,211,701)
Vehicles and equipment	(1,274,711)	(105,696)	-	(1,380,407)
Total accumulated depreciation	<u>(25,107,977)</u>	<u>(1,484,131)</u>	<u>-</u>	<u>(26,592,108)</u>
Total depreciable assets, net	<u>18,769,204</u>	<u>(1,445,698)</u>	<u>-</u>	<u>17,323,506</u>
Total capital assets, net	<u>\$ 21,129,134</u>	<u>\$ (1,309,901)</u>	<u>\$ (79,040)</u>	<u>\$ 19,740,193</u>

Depreciation expense for the year ended June 30, 2013, was \$1,484,131.

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

<u>Wastewater Enterprise</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land	\$ 524,591	\$ -	\$ -	\$ 524,591
Construction-in-progress	<u>11,650,792</u>	<u>3,200</u>	<u>(4,080)</u>	<u>11,649,912</u>
Total non-depreciable assets	<u>12,175,383</u>	<u>3,200</u>	<u>(4,080)</u>	<u>12,174,503</u>
Depreciable assets:				
Wastewater system	5,805,140	38,434	-	5,843,574
Vehicles and equipment	<u>662,846</u>	<u>-</u>	<u>-</u>	<u>662,846</u>
Total depreciable assets	<u>6,467,986</u>	<u>38,434</u>	<u>-</u>	<u>6,506,420</u>
Accumulated depreciation:				
Wastewater system	(4,267,232)	(168,186)	-	(4,435,418)
Vehicles and equipment	<u>(621,920)</u>	<u>(18,994)</u>	<u>-</u>	<u>(640,914)</u>
Total accumulated depreciation	<u>(4,889,152)</u>	<u>(187,180)</u>	<u>-</u>	<u>(5,076,332)</u>
Total depreciable assets, net	<u>1,578,834</u>	<u>(148,746)</u>	<u>-</u>	<u>1,430,088</u>
Total capital assets, net	<u>\$ 13,754,217</u>	<u>\$ (145,546)</u>	<u>\$ (4,080)</u>	<u>\$ 13,604,591</u>

Depreciation expense for the year ended June 30, 2013, was \$187,180.

**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, 2013, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Compensated absences, beginning	\$ 33,464	\$ 256,762
Current year employee earnings	12,388	156,925
Employee vacation time taken	<u>(14,222)</u>	<u>(129,389)</u>
Compensated absences, ending	31,630	284,298
Less: current portion payable	<u>(7,907)</u>	<u>(71,075)</u>
Long-term portion payable	<u>\$ 23,723</u>	<u>\$ 213,223</u>

**NOTE 10 – NOTES PAYABLE**

<u>Business-type activities:</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2013</u>
<b>Water Fund:</b>				
LaSalle National Bank Note	\$ 356,909	\$ -	\$ (114,175)	\$ 242,734
Zions Bank Note	2,357,129	-	(94,429)	2,262,700
<b>Wastewater Fund:</b>				
LaSalle National Bank Note	237,940	-	(76,118)	161,822
Zions Bank Note	300,288	-	(12,029)	288,259
State Water Pollution Control Note	<u>7,269,881</u>	<u>-</u>	<u>(345,518)</u>	<u>6,924,363</u>
Total	10,522,147	<u>\$ -</u>	<u>\$ (642,269)</u>	9,879,878
Less: current portion due	<u>(642,269)</u>			<u>(664,450)</u>
Long-term portion due	<u>\$ 9,879,878</u>			<u>\$ 9,215,428</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 4.5% 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>
2014	\$ 198,190	\$ 14,612	\$ 212,802
2015	<u>206,366</u>	<u>6,437</u>	<u>212,803</u>
Total	404,556	<u>\$ 21,049</u>	<u>\$ 425,605</u>
Less: current	<u>(198,190)</u>		
Long-term	<u>\$ 206,366</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 4.976% 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 Wastewater Funds to better reflect the outstanding amounts on the actual projects. The note is scheduled to mature in fiscal year 2029. Principal and interest semi-annual installments of \$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>
2014	\$ 111,758	\$ 127,680	\$ 239,438
2015	117,483	121,957	239,440
2016	123,503	115,937	239,440
2017	129,832	109,608	239,440
2018	136,485	102,955	239,440
2019-2023	794,774	402,422	1,197,196
2024-2028	1,020,358	176,840	1,197,198
2029	116,766	2,955	119,721
Total	2,550,959	<u>\$ 1,160,354</u>	<u>\$ 3,711,313</u>
Less: current	<u>(111,758)</u>		
Long-term	<u>\$ 2,439,201</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 \$534,535 will be payable annually each year. Annual estimated debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 354,502	\$ 180,027	\$ 534,529
2015	363,719	170,816	534,535
2016	373,176	161,359	534,535
2017	382,878	151,657	534,535
2018	392,833	141,702	534,535
2019-2023	2,122,785	549,890	2,672,675
2024-2028	2,413,476	259,199	2,672,675
2029-2030	520,994	13,544	534,538
Total	6,924,363	<u>\$ 1,628,194</u>	<u>\$ 8,552,557</u>
Less: current	<u>(354,502)</u>		
Long-term	<u>\$ 6,569,861</u>		

**NOTE 11 – NET POSITION**

Net position categories are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Investment in water banking - JPA	\$ -	\$ 4,250,000	\$ 4,250,000
Capital assets - not being depreciated	733,035	14,591,190	15,324,225
Capital assets - being depreciated, net	604,309	18,753,594	19,357,903
Note payable - current portion	-	(664,450)	(664,450)
Note payable - long-term portion	-	(9,215,428)	(9,215,428)
Net investment in capital assets	<u>\$ 1,337,344</u>	<u>\$ 27,714,906</u>	<u>\$ 29,052,250</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Street lighting	\$ 15,190	\$ -	\$ 15,190
Water Fund - capital improvements	-	212,408	212,408
Wastewater Fund - capital improvements	-	27,059	27,059
Restricted net assets	<u>\$ 15,190</u>	<u>\$ 239,467</u>	<u>\$ 254,657</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 2013, 2012, and 2011 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 2013, 2012, and 2011, 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>
2010-2011	\$ 220,313	100%	\$ -	12.200%
2011-2012	319,403	100%	-	14.850%
2012-2013	207,239	100%	-	15.640%

### *Annual Pension Cost*

For 2012, the District's annual pension cost of \$207,239, 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, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary from 3.30% to 14.20%, and (c) 3.00% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period is 21 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>
6/30/2008	\$ 1,337,707,835	\$ 1,537,909,933	\$ 200,202,098	86.98%	\$ 333,307,600	60.07%
6/30/2009	1,493,430,831	1,834,424,640	340,993,809	81.41%	355,150,151	96.01%
6/30/2010	1,603,482,152	1,972,910,641	369,428,489	81.27%	352,637,380	104.76%
6/30/2011	1,724,200,585	2,135,350,204	411,149,619	80.75%	350,121,750	117.43%

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

## **NOTE 13 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk-sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to manage and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2013, the District participated in the liability and property programs of the SDRMA as follows:

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

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

- Employee dishonesty coverage up to \$400,000 per loss includes public employee dishonesty; forgery or alteration; and theft, disappearance, and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced, and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of \$1.0 billion per occurrence, subject to a \$25,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$25,000 deductible per occurrence.
- 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 2013, 2012, and 2011. 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, 2013, 2012, and 2011.

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

### *Litigation – Antelope Valley Groundwater Cases*

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

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

*Litigation – Antelope Valley Groundwater Cases (Continued)*

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

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

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

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

In October 2013, the Woods Class moved for preliminary approval of a partial class action settlement. On October 25, 2013, the courts granted preliminary approval of the Woods Class settlement, and the District, along with four others, was to pay specific amounts, including class action attorney’s fees and costs. Final approval of the settlement occurred on December 11, 2013, and on January 7, 2014, a hearing was held and the court confirmed the District payment for the settlement and attorney’s costs and fees would be \$110,453. The District is currently negotiating payments, which are expected to be an initial payment of \$10,000 with monthly payments of \$5,941 for 18 months, for a total of \$116,952.

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

For the year ended June 30, 2013, expenditures exceeded appropriations in individual funds as follows:

<u>Fund</u>	<u>Appropriations Category</u>	<u>Excess Expenditures</u>
Street Lighting Fund	Operations	\$ 45,748
Parks and Recreation Fund	Capital Outlay	12,300

**NOTE 16 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS IMPLEMENTED**

**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. There was no effect in the financial statements as a result of implementing this statement.

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

**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. However, as the statement codifies what is in current practice, there was no net effect on the District's accounting or financial reporting as a result of implementing this statement.

**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 was the replacement of the current Statement of Net Assets with a Statement of Net Position and a Statement of Changes in Net Position instead of the current Statement of Changes in Net Assets upon implementation. The District did not have deferred outflows or inflows of resources to report.

**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. Because the District does not enter into hedge agreements with swap providers for the purpose of managing risk beyond investment return, GASB Statement No. 64 did not have an effect on the District's financial statements.

**NOTE 17 – FUTURE GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS**

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

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

**NOTE 17 – FUTURE GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS**  
(Continued)

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

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

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

**GASB Statement No. 70**, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* is effective for fiscal years beginning after June 15, 2013. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The District has elected not to early implement Statement No. 70 and has not determined its effects on the District's financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**ROSAMOND COMMUNITY SERVICES DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL (By Object)  
PARKS AND RECREATION FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
<b>Revenues:</b>					
Property taxes	\$ 242,858	\$ -	\$ 242,858	\$ 226,958	\$ (15,900)
Special assessments	213,000	-	213,000	224,728	11,728
Charges for services	25,200	-	25,200	37,444	12,244
Interest earnings	2,416	-	2,416	1,907	(509)
<b>Total revenues</b>	<u>483,474</u>	<u>-</u>	<u>483,474</u>	<u>491,037</u>	<u>7,563</u>
<b>Expenditures:</b>					
Salaries	320,988	-	320,988	278,751	42,237
Operations	403,993	-	403,993	337,943	66,050
Capital outlay	-	-	-	12,300	(12,300)
Interest	6,000	-	6,000	-	6,000
<b>Total expenditures</b>	<u>730,981</u>	<u>-</u>	<u>730,981</u>	<u>628,994</u>	<u>101,987</u>
<b>Net change in fund deficit</b>	(247,507)	-	(247,507)	(137,957)	<u>\$ (94,424)</u>
<b>Fund deficit, beginning of year</b>	<u>(1,658,014)</u>	<u>-</u>	<u>(1,658,014)</u>	<u>(1,658,014)</u>	
<b>Fund deficit, end of year</b>	<u>\$ (1,905,521)</u>	<u>\$ -</u>	<u>\$ (1,905,521)</u>	<u>\$ (1,795,971)</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, 2013**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
<b>Revenues:</b>					
Special assessment	\$ 101,342	\$ -	\$ 101,342	\$ 99,668	\$ (1,674)
Interest earnings	144	-	144	134	(10)
<b>Total revenues</b>	<u>101,486</u>	<u>-</u>	<u>101,486</u>	<u>99,802</u>	<u>(1,684)</u>
<b>Expenditures:</b>					
Operations	<u>135,987</u>	<u>-</u>	<u>135,987</u>	<u>181,735</u>	<u>(45,748)</u>
<b>Total expenditures</b>	<u>135,987</u>	<u>-</u>	<u>135,987</u>	<u>181,735</u>	<u>(45,748)</u>
<b>Net change in fund balance</b>	(34,501)	-	(34,501)	(81,933)	<u><u>\$ (47,432)</u></u>
<b>Fund balance, beginning of year</b>	<u>53,838</u>	<u>-</u>	<u>53,838</u>	<u>53,838</u>	
<b>Fund balance (deficit), end of year</b>	<u><u>\$ 19,337</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,337</u></u>	<u><u>\$ (28,095)</u></u>	

**SUPPLEMENTARY INFORMATION**

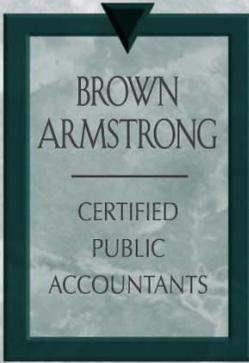
**ROSAMOND COMMUNITY SERVICES DISTRICT  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL  
WATER FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
<b>Operating revenues:</b>					
Water consumption sales	\$ 3,169,908	\$ -	\$ 3,169,908	\$ 3,596,754	\$ 426,846
<b>Total operating revenues</b>	<u>3,169,908</u>	<u>-</u>	<u>3,169,908</u>	<u>3,596,754</u>	<u>426,846</u>
<b>Operating expenses:</b>					
Salaries and benefits	925,895	-	925,895	942,695	(16,800)
Operations	1,020,760	-	1,020,760	1,128,748	(107,988)
<b>Total operating expenses</b>	<u>1,946,655</u>	<u>-</u>	<u>1,946,655</u>	<u>2,071,443</u>	<u>(124,788)</u>
Operating income before capital contributions	1,223,253	-	1,223,253	1,525,311	302,058
Depreciation expense	-	-	-	(1,484,131)	(1,484,131)
<b>Operating income (loss)</b>	<u>1,223,253</u>	<u>-</u>	<u>1,223,253</u>	<u>41,180</u>	<u>(1,182,073)</u>
<b>Nonoperating revenue (expense):</b>					
Interest earnings	1,868	-	1,868	1,851	(17)
Interest expense	(131,462)	-	(131,462)	(130,777)	685
Total nonoperating revenue (expense), net	<u>(129,594)</u>	<u>-</u>	<u>(129,594)</u>	<u>(128,926)</u>	<u>668</u>
<b>Capital contributions and purchases:</b>					
Connection fees	-	-	-	5,000	5,000
Total capital contributions and purchases	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>5,000</u>
<b>Change in net position</b>	1,093,659	-	1,093,659	(82,746)	<u>\$ (1,176,405)</u>
<b>Net position, beginning of year</b>	<u>24,109,379</u>	<u>-</u>	<u>24,109,379</u>	<u>24,109,379</u>	
<b>Net position, end of year</b>	<u>\$ 25,203,038</u>	<u>\$ -</u>	<u>\$ 25,203,038</u>	<u>\$ 24,026,633</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, 2013**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
<b>Operating revenues:</b>					
Wastewater service charges	\$ 3,022,340	\$ -	\$ 3,022,340	\$ 3,148,365	\$ 126,025
<b>Total operating revenues</b>	<u>3,022,340</u>	<u>-</u>	<u>3,022,340</u>	<u>3,148,365</u>	<u>126,025</u>
<b>Operating expenses:</b>					
Salaries and benefits	836,995	-	836,995	643,301	193,694
Operations	861,720	-	861,720	652,068	209,652
<b>Total operating expenses</b>	<u>1,698,715</u>	<u>-</u>	<u>1,698,715</u>	<u>1,295,369</u>	<u>403,346</u>
Operating income before capital contributions and purchases	1,323,625	-	1,323,625	1,852,996	529,371
Depreciation expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(187,180)</u>	<u>(187,180)</u>
<b>Operating income</b>	<u>1,323,625</u>	<u>-</u>	<u>1,323,625</u>	<u>1,665,816</u>	<u>342,191</u>
<b>Nonoperating revenue (expense):</b>					
Interest earnings	17,132	-	17,132	15,761	(1,371)
Interest expense	<u>(213,050)</u>	<u>-</u>	<u>(213,050)</u>	<u>(210,454)</u>	<u>2,596</u>
Total nonoperating revenue (expense), net	<u>(195,918)</u>	<u>-</u>	<u>(195,918)</u>	<u>(194,693)</u>	<u>1,225</u>
<b>Capital contributions and purchases:</b>					
Conservation fees	-	-	-	6,775	6,775
Connection fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,768</u>	<u>4,768</u>
Total capital contributions and purchases	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,543</u>	<u>11,543</u>
<b>Change in net position</b>	1,127,707	-	1,127,707	1,482,666	<u>\$ 354,959</u>
<b>Net position, beginning of year</b>	<u>11,724,705</u>	<u>-</u>	<u>11,724,705</u>	<u>11,724,705</u>	
<b>Net position, end of year</b>	<u>\$ 12,852,412</u>	<u>\$ -</u>	<u>\$ 12,852,412</u>	<u>\$ 13,207,371</u>	

**REPORT ON COMPLIANCE AND INTERNAL CONTROLS**



# BROWN ARMSTRONG

*Certified Public Accountants*

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

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

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We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Rosamond Community Services District (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated March 17, 2014.

### **Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and recommendations, that we consider to be significant deficiencies in internal control over financial reporting. Findings 1 through 3 were considered to be significant deficiencies.



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

## **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 March 17, 2014.

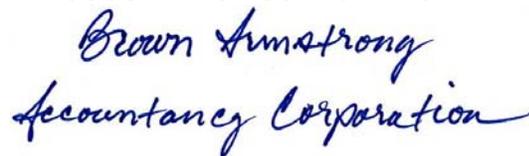
## **District's Responses to Findings**

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

## **Purpose of this Report**

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

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California  
March 17, 2014

## **SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

**ROSAMOND COMMUNITY SERVICES DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2013**

**Current Year Findings**

**Finding 1 – Inventory**

Criteria

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

Condition

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

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

Effect

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

Cause

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

Recommendation

We recommend the following:

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

Management Response

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

**Finding 2 – Donated Equipment Not Recorded**

Criteria

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

Condition

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

Effect

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

### Cause

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

### Recommendation

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

### Management Response

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

## **Finding 3 – Capital Assets**

### Criteria

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

### Condition

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

### Effect

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

### Cause

Lack of formal policy requiring physical inspections.

### Recommendation

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

### Management Response

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

## **Status of Prior Year Findings**

### **Finding 1 – Inventory**

#### **Criteria**

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

#### **Condition**

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

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

#### **Effect**

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

#### **Cause**

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

#### **Recommendation**

We recommend the following:

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

#### **Management Response**

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

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

#### **Current Year Status**

See Finding 1.

## **Finding 2 – Capital Assets**

### Criteria

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

### Condition

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

### Effect

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

### Cause

Lack of formal policy requiring physical inspections.

### Recommendation

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

### Management Response

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

### Current Year Status

See Finding 3.

## **Finding 3 – Wire Transfers**

### Criteria

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

### Condition

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

### Effect

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

Cause

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

Recommendation

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

Management Response

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

Current Year Status

Resolved.

**Finding 4 – GASB Statement No. 54 Fund Balance**

Criteria

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

Condition

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

Effect

Resources are not being spent in accordance with this intent.

Cause

Time constraints due to shortage in accounting staff.

Recommendation

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

Management Response

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

Current Year Status

Resolved.