

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

*1112 I Street, Suite #100
Sacramento, California 95814
(916) 874-6458*

September 1, 2010

TO: Sacramento Local Agency Formation Commission

FROM: Peter Brundage, Executive Officer

RE: **Rio Linda/Elverta Community Water District – Municipal Service Review – Report Back (LAFC 07-10)**

RECOMMENDATION:

1. Receive and File Status Report.
2. MSR Questionnaire is attached and has been distributed for interested party comments

DISCUSSION:

Staff has commenced the Rio Linda/Elverta Community Water District Municipal Service Review. The following actions have been taken:

On April 27, 2010 met with California Department of Public Health to discuss Compliance Orders related to the Rio Linda/Elverta Community Water District and to obtain background information.

June 8, 2010 met with Mychael Cardenas, Interim General Manager and Mary Harris, Board President to discuss the purpose and timeline for the District's MSR. Requested that the District complete the MSR questionnaire and return it to LAFCo by the first of August.

June 21, 2010 met with the Rio/Elverta Community District Board of Directors to explain the purpose of the Municipal Service Review.

June 25, 2010 received Rio Linda/Elverta Community Water District response to the Grand Jury investigation for informational purposes. A copy of the District's response is attached to this report.

August 18, 2010 Rio Linda Elverta Community Water District submitted the attached MSR Questionnaire.

August 23, 2010 sent notice and questionnaire to interested parties for review and comment.

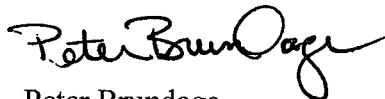
Next Steps and Tentative Project Schedule

<u>Date</u>	<u>Task</u>
August-September	Review and evaluate information from Rio Linda Elverta Community Water District. Sent notice to interested parties, stakeholders, and community groups to provide comments and provide additional input on the MSR Questionnaire. Offer to meet with interested parties and stakeholders to solicit concerns and issues that should be addressed in the MSR.
September-October	Complete Draft MSR and distribute to the public, interested parties, and stakeholders for review and comment.
October-November	Revise Draft MSR based on public input.
December, 1, 2010	Present Draft MSR and Determinations to the Commission.
January-February 2011	Prepare and present Final MSR to the Commission.

Information and reports are available on LAFCo's web site at www.saclafco.org.

Respectfully submitted,

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION



Peter Brundage
Executive Officer

Cc: Rio Linda/Elverta Community Water District

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

***MUNICIPAL SERVICE REVIEW WORKSHEET*
*AND QUESTIONNAIRE RESPONSE***

DRAFT

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

1112 I Street, Suite 100, Sacramento, California 95814

(916) 874-6458

August 20, 2010

DISTRICT SUMMARY PROFILE

Date: Approved by the RLECWD Board of Directors: August 16, 2010

District: Rio Linda/Elverta Community Water District
Location: 730 L Street
Rio Linda, California 95673

Telephone: (916) 991-1000
FAX: (916) 991-6616
e-mail Address:
Website: www.rlecwd.com

Administrator: Mychael Cardenas, Interim General Manager
Contact: Luis Ching, Assistant General Manager

Staffing: Seven Full Time Employees
Two Part Time Employees

Service Provided: Water and Associated Services

Service Area: Northwest Sacramento County

Sphere of Influence: Coterminous with Existing District Boundary

Population: 14,750

Registered Voters: Approximately 9,850

Date of Formation: 1948

Governing Body: Five Member Board of Directors

Latent Powers: Fire Protection, Parks and Recreation, Sewers, and Public Works

Total Budget: \$1,777,000 FY 2010-2011 (Attached)

Primary Revenue Source: Water Sales and Related Services

Water Source: 9 Wells and 1, 8-inch Intertic with Sacramento Suburban Water District

INTRODUCTION

Background Information

The Rio Linda/Elverta Community Water District (District) was established in 1948 for the purpose of providing domestic, irrigation and fire protection water to a portion of unincorporated residents of Rio Linda. The District grew over the years to include Elverta and operates as an independent special district that serves approximately 17.8 square miles.

Mission

The District's Mission is to serve our customers, provide clean, safe drinking water, install, improve, operate and maintain the public water system in Rio Linda and Elverta.

Setting

Located in Northwest Sacramento County, the District represents a small community of nearly 15,000 residents.

*Please see Attachment 'A' - **Map of District Boundary***

Services Provided

The Rio Linda/Elverta Community Water District provides water service and related consumer services to customers within the District.

Management, Consultants, and Staffing Structure

*Please see Attachment 'B' - **Organization Chart***

Management Structure: One General Manager, and one part-time Assistant General Manager

Employee Structure:

The District employs seven (7) full time positions. In addition, the District employs on average two (2) part-time positions.

Please see the attached Organization Chart which includes Board representatives.

Much of the technical and engineering resources are provided by consulting firms working through Master Service Agreement contracts for the District. For engineering, two firms are currently under contract, and for Information Technology Network Service, one consultant has a monthly service contract with the District.

Additionally, California 'A' licensed contractors are hired to perform emergency repairs and/or specialty work, such as main breaks, building repairs and well maintenance. The work is generally assigned on an as-needed basis with competitive bidding based on the circumstances. All public works construction and/or repairs are through solicitation or check bids.

District staff performs routine daily duties and manages the majority of all tasks necessary to operate the District. The areas of responsibility include, but are not limited to:

- Business Administration
- Field Operations and Maintenance
- Board of Directors Admin Support
- Customer Service
- Billing and Collections
- Accounting
- Engineering Management
- Community Outreach
- Conservation

The District is currently undergoing an organizational restructuring to reduce operating costs. Salaries were evaluated to eliminate three step (15%) reductions in the wage. Even with the pay and benefit cuts, it results in a very competitive wage package for the District employees. Supervisory positions were eliminated, as the District was paying supervisors the kind of wages and benefits supervisors in other districts who supervise larger numbers of employees. The District's position was to eliminate those positions as they were supervising only two employees. The proposal did not elect to lay off any employees. The medical benefits contribution of the District would still be sustainable, and hourly wages were reduced to save money.

On April 22, 2010 The Brotherhood of Teamsters, Local 150 proposed a tentative Memorandum of Understanding (MOU) to the District negotiators. Subsequently, the Board of Directors held a special session on April 26, 2010 where a consensus was reached to accept the terms and conditions of the April 22nd negotiation. On May 4, 2010 the proposal was presented to the members and has yet to be ratified. As this report is being prepared, the negotiations continue with optimism that an agreement will be reached soon.

With a few exceptions, wages and salaries are comparable to regional standards, although less than paid prior to November 2009. The District medical benefits contribution of the District would still be a substantial benefits package.

We currently employ five certified Distribution Operators of varying levels, with Treatment certifications as their backup. Additionally, our staff includes a certified Conservation Specialist that oversees the water conservation program, and we have two certified Backflow Prevention Specialists to manage our Cross Connection Control and backflow prevention programs.

Various free training programs are offered to staff as available. Each employee is required to maintain contact hours in their respective areas of expertise, although a formalized program has

not been implemented. As a budgetary consideration, employees are required to pay for any training requiring tuition.

RLECWD serves a small community, so the business practices and organizational structure are akin to a small town atmosphere with fewer provisions than other large service providers in the area. In contrast, however, the District manages its operations in conformance with all regulatory agencies, even though the small distribution system requires less maintenance and repairs than larger municipalities.

MUNICIPAL SERVICE REVIEW INFORMATION AND DETERMINATIONS

Growth and Population Projections

The District currently services a population of approximately 14,750 residents through 4,616 residential and commercial water meters from a distribution system that exceeds 61.2 miles of pipeline infrastructure. Our maximum day demand is approximately 6,800 gpm with a peak hour demand at approximately 10,200 gpm.

RLECWD serves the District with 9 active wells that produce approximately 5,900 gpm, and a 125,000 Gallon Water Tower. We are currently in the design and development phase to construct 3 new high capacity wells to increase source capacity within the next two years. To supplement capacity, an intertie with Sacramento Suburban Water District was put into service through an Interim Supply Agreement between the agencies in July 2007. The intertie is seldom utilized and generally only on exceptionally warm days or when a RLECWD well in the vicinity is being serviced.

Due to a California Department of Public Health (CDPH) moratorium that was implemented in November 2007 because of inadequate water supply issues, the District is unable to install new services until our source capacity has been increased to sufficient levels to meet peak hour demand. Several large subdivisions are proposed, with Elverta Villages being the largest with a projection of 4,950 dwelling units at build out. California American Water Company will service a small percentage of the connections in Elverta Villages, but the larger portion will be serviced by RLECWD. Plans are currently being engineered with both agencies providing oversight.

Other infill projects are proposed throughout Rio Linda and Elverta to be developed upon lifting of the moratorium in Spring/Summer 2011.

The District was recently granted a conditional waiver from CDPH to allow 36 new residential connections to be built in the meantime because the applicants had met all capacity fee issues prior to the implementation of the moratorium.

LAFCo MSR Determination

Note: LAFCo to complete

Facilities

Summary of Facilities

Please see Attachment 'C' - Facilities Map

Present and Planned Capacity of Public Facilities

RLECWD's current service capacity includes:

- 3,637, 5/8-inch Metered Connections
- 26, 3/4-inch Metered Connections
- 696, 1-inch Metered Connections
- 22, 1 1/2-inch Metered Connections
- 22, 2-inch Metered Connections
- 8, 3-inch Metered Connections
- 5, 4-inch Metered Connections
- 15, Private Fire Service Connections of varying sizes

As previously explained, the District has been unable to install new services until source capacity has been increased to sufficient levels to meet peak hour demand of 10,200 gpm. Several large subdivisions are proposed within the District's service boundaries, with Elverta Villages being the largest with a projection of 4,950 dwelling units at build out. California American Water Company will service a small percentage of the connections in Elverta Villages, but the larger portion will be serviced by RLECWD.

Other infill projects are proposed throughout Rio Linda and Elverta to be developed upon lifting of the moratorium in Spring/Summer 2011.

The District was recently granted a conditional waiver from CDPH to allow new 28 residential connections to be built by Beazer Homes for Fox Hollow Subdivision, and 8 additional residential services by other developers in the meantime because the applicants had met all capacity fee issues prior to the implementation of the moratorium. Beazer Homes has announced commencement of construction is underway.

Infrastructure Needs or Deficiencies/Capital Improvement Program

The District is currently being closely monitored and supervised by CDPH under Compliance Order 01-09-09-CO-004 to increase Source Capacity and build redundancy by spring 2011. RLECWD has been working very diligently with CDPH oversight to design and construct 3 wells to meet peak demand requirements as necessary to comply with state regulations. In order to finance the engineering, construction, and activation of the wells and infrastructure improvements, the District is in the final stages of state review for SRF Loan funding with only the Fiscal Services Unit review to be completed. To provide advance engineering and project development funding, the District implemented a 3 Phase Surcharge program that went into effect in May 2009. The Surcharge is also designed to repay SRF funding for 20 years upon completion of the project which is scheduled for winter 2011, or early spring 2012.

Beyond the immediate Source Capacity CIP, the District has the following projects to complete within 5 years:

- Build an 800,000 gal. steel reservoir for additional fire storage
- Replace approximately 1.5 miles of aging or undersized distribution mains and valves
- Place two wells back into emergency standby service due to them having high arsenic levels
- Install 2 additional power generators at existing wells for emergency backup power
- Install a new radio read antenna and retrofit 1678 meters with radio read equipment
- Provide additional SCADA improvements and upgrades
- Install surveillance equipment at the office and each well
- Effectively reactivate the District's Developer Services Unit to potentially double the number of service connections due to large development projects in the region.

Please see Attachment 'D' - 5 year Capital Improvement Plan Budget

Summary of Programs

Water Conservation Program: The District actively participates in Water Forum Conservation practices with rebates and public outreach programs in effect. The District reimburses customers for water efficient toilet replacements, as well as water conservation washing machine rebates. The District also provides educational programs and public workshops on conservation through a link on our webpage. Staff conducts routine patrols to promote water conservation as well.

Backflow Prevention Device Testing Program: The District maintains an annual backflow prevention device testing program that is monitored by CDPH. We currently test 411 devices annually through a fee schedule that is included in our bimonthly billing to customers owning Backflow Prevention Devices. All reports are furnished to the appropriate regulatory agencies.

Cross Connection Control Program: Water audits and site surveys are conducted periodically to ensure District operations are not affected by cross connections or unprotected loops through private plumbing. The Cross Connection Control Program follows CDPH guidelines and annual reports are provided to the department.

LAFCo Determination

NOTE: LAFCo to Complete

FINANCIAL INFORMATION

Budget

Please see Attachment 'E' – Operating Budget Profit Loss 10/11 Forecast

Revenue

- Revenue primarily comes from water sales, administration fees, and associated services. Additional revenue derives from leases, taxes, developer fees, grants and miscellaneous non-operating sources as shown on the attached ***Operating Budget Profit Loss 10/11 Forecast***

Rates, Fees, Charges, and Assessments

Water Rates (effective January 1, 2010 – Service Charges / per Ordinance 2009-02)

Water Service – Fees for water service from the District Water System are as indicated below based upon meter size servicing the premises and includes 600 cubic feet of water:

<u>Meter Size</u>	<u>Bi-Monthly Service Charge</u>	<u>+</u>	<u>Capital Improvements Surcharge</u>	<u>=</u>	<u>Total Bi-Monthly</u>
5/8"	\$29.00		\$15.00		\$44.00
3/4"	\$34.80		\$15.00		\$49.80
1"	\$52.50		\$15.00		\$67.50
1-1/2"	\$101.50		\$15.00		\$116.50
2"	\$162.40		\$15.00		\$177.40
3"	\$304.50		\$15.00		\$319.50
4"	\$507.50		\$15.00		\$522.50

Plus any usage over 600 cubic feet, charges per 100 cubic feet or portion thereof as follows:

<u>Meter Size</u>	<u>Cubic Feet Used</u>		
<u>Rate Per 100</u>	<u>\$0.43</u>	<u>\$0.54</u>	<u>\$0.68</u>
	Tier 1	Tier 2	Tier 3
5/8"	601 – 2,600	2,601 – 15,600	15,601+
3/4" – 1-1/2"	601 – 5,800	5,801 – 44,800	44,801+
2" – 4"	601 – 55,200	55,201 – 286,000	286,001+

Rates, Fees, Charges, and Assessments (cont.)

The bi-monthly service charge for Standby Fire Protection Services shall be \$10.00 per inch diameter for the service pipe.

<u>SVC Code</u>	<u>Charge</u>
FP4 = 4"	\$40.00
FP6 = 6"	\$60.00
FP8 = 8"	\$80.00
FP12 = 12"	\$120.00
FP14 = 14"	\$140.00

Rates are set based on comparative regional criteria and rate study evaluations. California Proposition 218 Analysis and Public Notifications precede public hearings to quantify and establish appropriate rate adjustments prior to Board approval and/or issuing constraints. The District conducts rate studies when necessary and remains abreast with current market analysis.

Expenditures

RLECWD service levels and cost of services are comparable to regional industry standards and fair market schedules. The District expenditures are reported to its Board during monthly meetings to maintain oversight and management meet budgetary expectations throughout the year.

Assets, Liabilities, Debt, Equity, and Reserves

Please see Attachment 'F' – RLECWD Financial Statements June 30, 2009 and 2008

LAFCo Determination

NOTE: LAFCo to Complete.

STATUS OF AND OPPORTUNITIES FOR INNOVATION AND SHARED FACILITIES

The District does not currently share facilities, infrastructure, or staff with other agencies. However, as previously mentioned and further described below, an intertie with Sacramento Suburban Water District (SSWD) supplements RLECWD's ability to maintain adequate system pressure during peak demand or operational maintenance outages for well repairs, etc.

RLECWD has three neighboring water districts; the City of Sacramento on the South side, SSWD on the East side, and California American Water (Cal-Am) at the extreme Northeast corner of the District.

Due to place of use issues, the City of Sacramento is not a feasible consolidation alternative because it does not provide for satisfactory results without considerable pipeline improvements to facilitate the expansion. The cost of the improvements would outweigh the end result without providing suitable reliability, so it is not a viable consolidation option.

An 8-inch intertie with SSWD is utilized as an emergency backup supply for the East side of the District's service area. The intertie can be enlarged in the future, but consolidation with SSWD would be a more expensive alternative than installing new wells due to the cost of water added to the infrastructure required to support this option.

This alternative would not significantly improve conditions in the Central and Western portions of the District's distribution system, where the majority of our customers are located. Consolidation was considered in the Engineering Report by Montgomery Watson Harza entitled "Evaluation of Source Capacity and Compliance Plan", completed in January 2008, but this option was found not to be feasible.

Consolidation with Cal-Am is not feasible because it would amplify the circumstances described in both scenarios above, along with adding additional costs for transmission facilities that do not presently exist.

The District has completed numerous engineering and modeling studies to overcome its source capacity limitations and improve the flow characteristics in the distribution facilities to move more water throughout the system. Consolidation to the South, the East, or Northeast would defeat the impetus of developing more source from within, so the feasibility of consolidation is dramatically diminished and not subject to consideration without significant infrastructure improvements and less cost effective means than developing high-production wells. It is because of these factors, consolidation is neither feasible nor affordable in any of the present conditions.

LAFCo Determination

NOTE: LAFCo to Complete.

ACCOUNTABILITY FOR COMMUNITY SERVICE NEEDS, INCLUDING GOVERNMENTAL STRUCTURE AND OPERATIONAL EFFICIENCIES

The RLECWD Board of Directors has five seats that are currently filled. The length of term is normally 4 years unless a vacancy occurs creating a 2 year seat.

Appoints are a result of a vacancies, all other officials are voted into office during a General Election.

Each candidate must reside within Rio Linda or Elverta City Boundaries.

Board Compensation includes:

- \$100.00 per Public Board Meeting
- \$100.00 per Water Affiliation Meeting – Designated Representative Only
- Board members are not provided post-term allowances in any form

The Board holds Regular Board Meetings on the third Monday each month and Special Sessions are scheduled as the needs arise. It is the intent of the Board that meetings shall remain as informal as reasonably possible consistent with business needs of the District. The Board President or a majority of the Board may invoke formal proceedings pursuant to Robert's Rules of Order should action be deemed necessary. The Board may discuss and take action on any item listed on the agenda. The Board may also listen to other items that do not appear on the agenda, but the board will not discuss or take any action on those items, except for items determined by the Board pursuant to State law to be of an emergency or urgent nature requiring immediate action. Copies of the agenda are posted 72 hours in advance at the Community Center, the District Office and on the District's Web Site at <http://www.RLECWD.com> .

The Public attends meetings and are given the opportunity to directly address the Board on each listed item during the Board consideration of that item. An opportunity for public comment on other items within the jurisdiction of the Board is offered under the item "Public Comment" and such comments are welcomed. Reasonable time limitations may be imposed on each speaker by the Board President. The meetings are conducted following the Brown Act and the public participates in the discussions, evaluations, and presentations, etc.

Public participation is welcomed in a public forum and encouraged by filling out speaker cards.

The District has begun using the forum framework for public outreach, educational workshops, and water industry presentations.

The Board and the public receive Expenditures, Budget Statements, and Operations Reports along with viewing Minutes from previous meetings during Regular Sessions.

Community members can access public documents through the District by filling out Public Records Requests (PRR) or viewing information at the office counter when appropriate. All PRRs are reviewed and approved by the General Manager prior to release. The General

Manager, in turn, seeks legal advice from General Counsel prior to releasing sensitive documents. As a rule, documents are redacted when necessary.

LAFCo Determination

NOTE: LAFCo to Complete.

ISSUES, CONCERNS AND OPPORTUNITIES

RLECWD is diligently working with CDPH and Sacramento County Public Works agencies to comply with all compliance and reporting rules and regulations as necessary. Currently, the focus is to increase source capacity through funding by the State Revolving Fund process, and to that end, CDPH is monitoring the District in all areas of regulatory compliance. Where previous administrations allowed reporting deficiencies to occur, the current administration has met all CDPH compliance requirements in a timely and effective manner.

Concurrently, new management practices are being instituted to remain in compliance with local Public Works codes and reporting rules by following the standards set forth in the Sacramento County Standards and Specifications.

The District is actively and effectively restructuring its financial, operational, and regulatory practices to adequately meet industry and regional requirements. At issue, however, is the speed and effectiveness to overcome deficiencies previous RLECWD administrations created. Not only does the District recognize the importance to meet all health and safety standards, better business practices are beginning to emerge to increase and promote better community outreach, public relations, and customer service for greater effectiveness overall. With these, the opportunities are boundless, especially in increasing and improving infrastructure to serve our customers. As we move forward with complete awareness and continued support by CDPH and other regulatory agencies, Rio Linda/Elverta Community Water District can only continue to improve over time.

LAFCo Determination



NOTE: LAFCo to Complete.

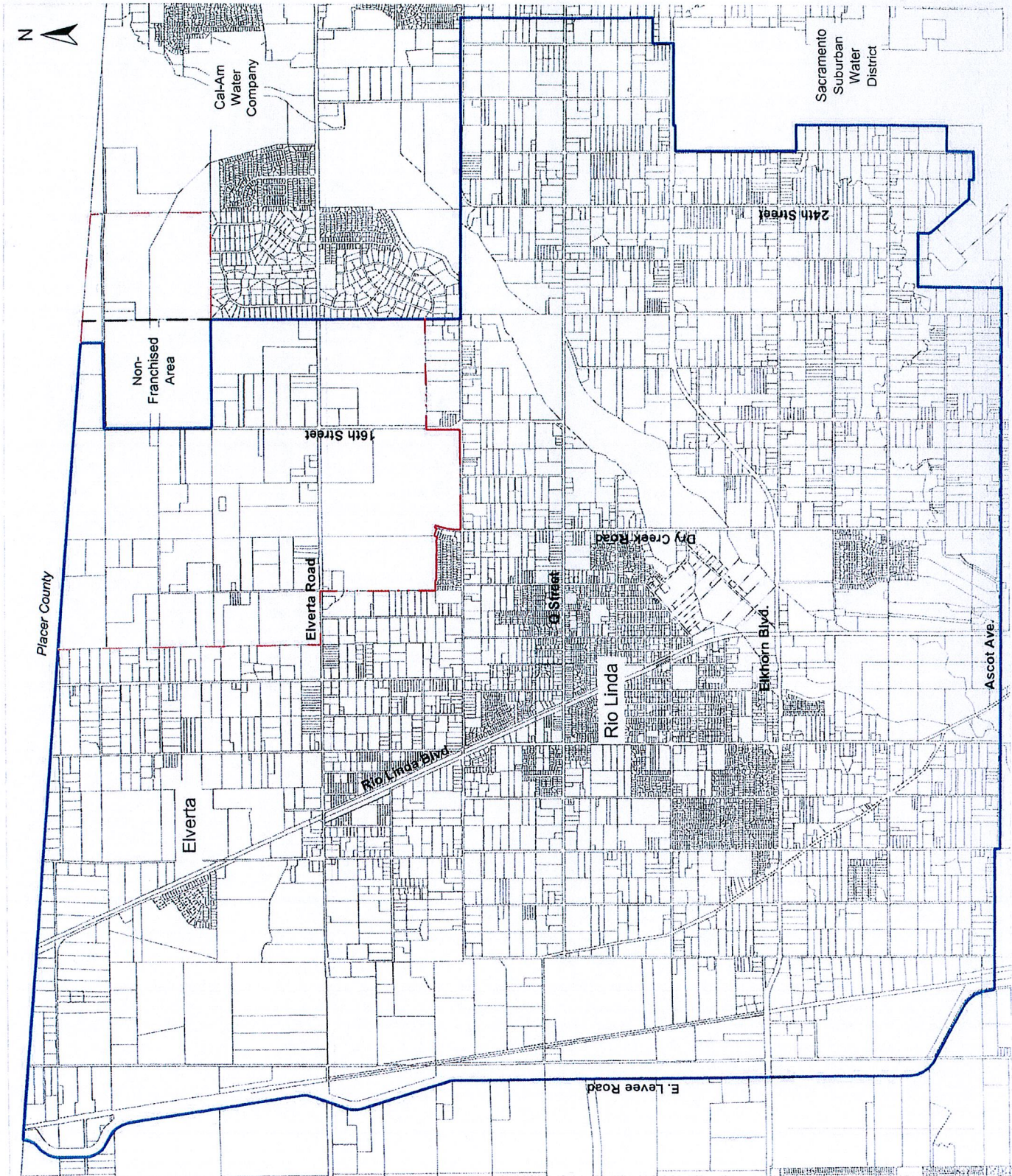


**Rio Linda / Elverta
Community
Water District**
730 L Street
Rio Linda, CA 95673

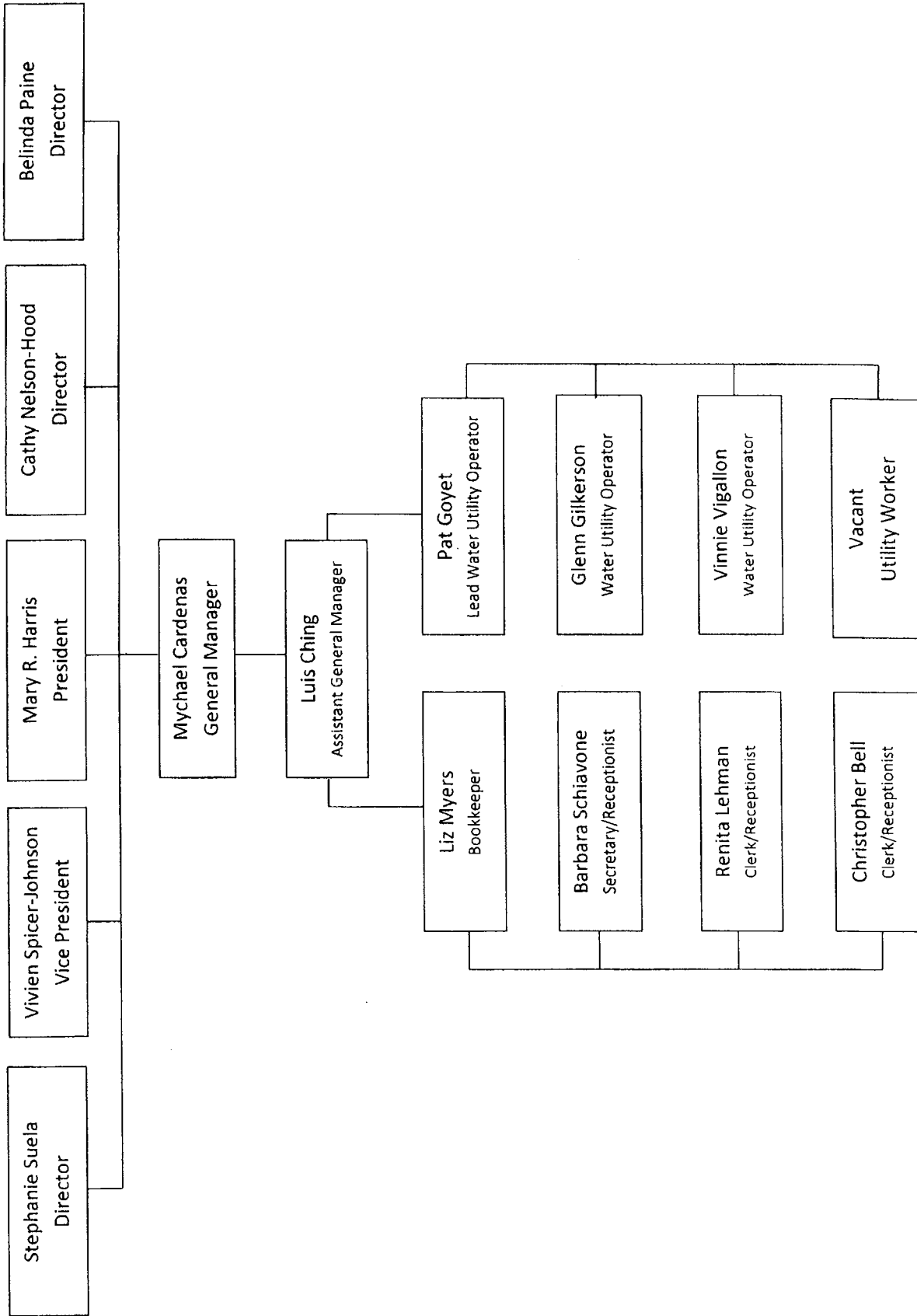
District Boundary

Attachment - A

Legend:
 District Boundary
 Elverta Specific Plan Boundary



Rio Linda/Elverta Community Water District Organization Chart





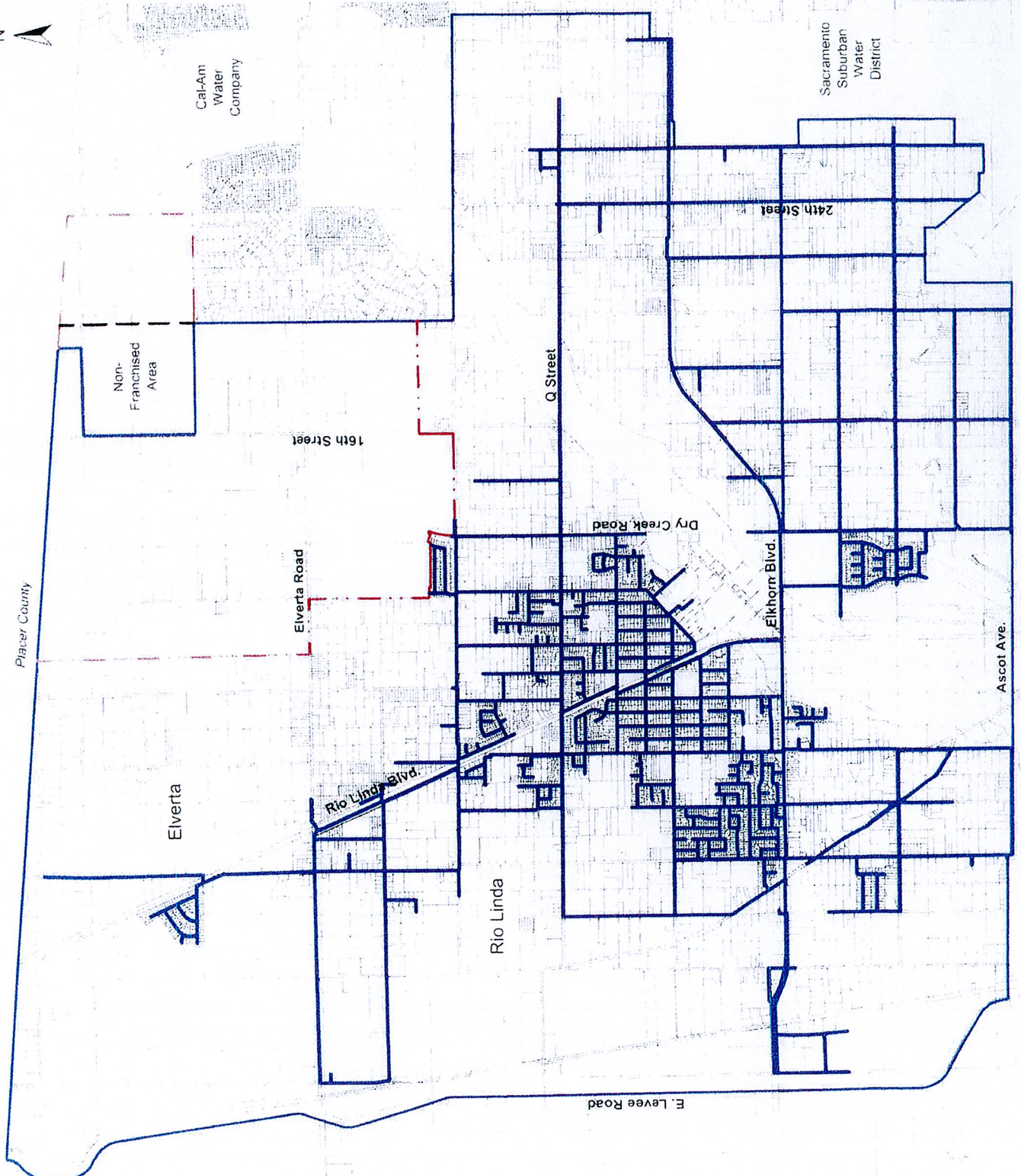
Rio Linda / Elverta
Community
Water District
730 L Street
Rio Linda, CA 95673



Water System
Layout

Cal-Am
Water
Company

Non-
Franchised
Area



- Legend:
- District Boundary
 - - - Elverta Specific Plan Boundary
 - Water System Main

Sacramento
Suburban
Water
District

Placer County

Elverta

Rio Linda Blvd.

Rio Linda

Elverta Road

16th Street

Q Street

Dry Creek Road

24th Street

Elkhorn Blvd.

Ascot Ave.

E. Levee Road

FIVE YEAR BUDGET PROJECTION (Small Community water System)

INSTRUCTIONS: Yellow-shaded cells are for data entry; all other cells are locked except line item descriptions which can be changed if needed. Years 2 through 5 will be compounded automatically by the inflation factor in Cell G6.

Inflation Factor (%): 3.2
 System ID Number: 3410018

System Name: Rio Linda/Elverta Community Water District

LINE	EXPENSES AND SOURCE OF FUNDS	2010	2011	2012	2013	2014
OPERATIONS AND MAINTENANCE (O&M) EXPENSES						
1	Salaries and Benefits	589,400.00	608,260.80	627,725.15	647,812.35	668,542.35
2	Contract Operation and Maintenance	15,000.00	15,480.00	15,975.36	16,486.57	17,014.14
3	Power and Other Utilities	233,400.00	240,868.80	248,576.60	256,531.05	264,740.05
4	Fees Regulatory	14,500.00	14,964.00	15,442.85	15,937.02	16,447.00
5	Treatment Chemicals	15,000.00	15,480.00	15,975.36	16,486.57	17,014.14
6	Coliform Monitoring	3,000.00	3,096.00	3,195.07	3,297.31	3,402.83
7	Chemical Monitoring	16,000.00	16,512.00	17,040.38	17,585.68	18,148.42
8	Transportation	17,000.00	17,544.00	18,105.41	18,684.78	19,282.69
9	Materials, Supplies, and Parts	110,000.00	113,520.00	117,152.64	120,901.52	124,770.37
10	Office Supplies	17,000.00	17,544.00	18,105.41	18,684.78	19,282.69
11	Miscellaneous	73,587.50	75,942.30	78,372.45	80,880.37	83,468.54
12	Additional O&M for New Project	0.00	55,200.00	57,100.00	58,800.00	60,681.60
13	Total O&M Expenses:	1,103,887.50	1,194,411.90	1,232,766.68	1,272,088.01	1,312,794.83
14						
GENERAL AND ADMINISTRATIVE EXPENSES						
16	Engineering and Professional Services	231,800.00	239,217.60	246,872.56	254,772.49	262,925.20
17	Depreciation and Amortization	23,500.00	24,252.00	25,028.06	25,828.96	26,655.49
18	Insurance	29,500.00	30,444.00	31,418.21	32,423.59	33,461.15
19	Existing Contribution to CIP (From CIP J48)	159,023.81	159,023.81	159,023.81	159,023.81	159,023.81
20	O&M Reserve	0.00	0.00	0.00	0.00	0.00
21	Other Reserves	0.00	0.00	0.00	0.00	0.00
22	Miscellaneous	67,800.00	69,969.60	72,208.63	74,519.30	76,903.92
23	New Funding Project Costs	60,000.00	80,000.00	85,000.00	95,000.00	110,000.00
24	Additional New Project Contribution to CIP (From CIP J59)	0.00	0.00	0.00	332,000.00	332,000.00
25	Debt Service	243,800.00	243,800.00	243,800.00	243,800.00	243,800.00
26	Total General and Administrative Expenses:	815,423.81	846,707.01	863,351.27	1,217,368.15	1,244,769.57
27	TOTAL EXPENSES (Line 14+ Line 27):	1,919,311.31	2,041,118.91	2,096,117.95	2,489,456.17	2,557,564.40
28						
REVENUES RECEIVED						
30	Cash Revenues (Water Rates)	1,642,800.00	1,900,000.00	2,500,000.00	2,900,000.00	3,100,000.00
31	Depreciation Reserves	314,500.00	318,000.00	316,500.00	312,000.00	306,000.00
32	Fees and Services	98,000.00	98,000.00	103,000.00	103,000.00	103,000.00
33	Hookup Charges	0.00	35,000.00	60,000.00	88,000.00	85,000.00
34	Withdrawal from CIP or Other Reserves	0.00	0.00	0.00	0.00	0.00
35	Other Fund Sources: Interest, Etc.	470,832.00	526,224.00	526,224.00	526,224.00	526,224.00
36	Grants	0.00	35,000.00	25,000.00	10,000.00	10,000.00
37	SRF Loan	166,000.00	1,660,000.00	1,660,000.00	1,660,000.00	1,660,000.00
38	Business Loans	0.00	0.00	0.00	0.00	0.00
39	TOTAL REVENUE (Lines 31 through 39):	4,186,132.00	4,572,224.00	5,190,724.00	5,599,224.00	5,790,224.00
40	NET LOSS OR GAIN:	2,266,820.69	2,531,105.09	3,094,606.05	3,109,767.83	3,232,659.60
41						

Report Prepared by (Name and Title): _____ Date: _____

2010	2011	2012	2013	2014
4616	4616	4710	4870	5110
33.57	35.40	35.58	40.97	39.91

(** Inflation factor not applied to future year projections)
Number of Customers:
Average Monthly Revenue Needed Per Customer:
(total expenses + # of customers + 12)

SIMPLIFIED CAPITAL IMPROVEMENT PLAN (CIP)

Date: 7/1/2010

System ID No.: 3410018

System Name: Rio Linda/Elverta Community Water District

Service Connections: 4616

*Enter information only in YELLOW shaded cells

QTY	COMPONENT	UNIT COST	INSTALLED COST	AVG LIFE, YEARS	ANNUAL RESERVE	MONTHLY RESERVE	MONTHLY RESERVE PER CUSTOMER	
	Drilled Well, 18", steel casing	Depth:	0	25	0.00	0.00	0.00	
	Drilled Well, 18", steel casing	Depth:	0	25	0.00	0.00	0.00	
	Drilled Well, 18", steel casing	Depth:	0	25	0.00	0.00	0.00	
1	Wellhead Electrical Controls		30000	25	1200.00	100.00	0.02	
	Verticle Turbine Pump, 300 HP		0	7	0.00	0.00	0.00	
	Submersible Pump, 300 HP		0	7	0.00	0.00	0.00	
1	Submersible Pump Motor, 25 HP		13000	7	1857.14	154.76	0.03	
	Booster Pump Station, 25 HP, complete		0	5	0.00	0.00	0.00	
	Booster Pump Station Electrical Controls		0	5	0.00	0.00	0.00	
	Pressure Tank	Gallons:	0.0	10	0.00	0.00	0.00	
	Pressure Tank	Gallons:	0.0	10	0.00	0.00	0.00	
	Storage Tank, Plastic	Gallons:	0.0	10	0.00	0.00	0.00	
	Storage Tank, Redwood	Gallons:	0.0	40	0.00	0.00	0.00	
	Storage Tank, Redwood	Gallons:	0.0	40	0.00	0.00	0.00	
1	Storage Tank, Steel	Gallons: 800,000	2.8	2240000	50	44800.00	3733.33	
	Storage Tank, Steel	Gallons:	0.0	50	0.00	0.00	0.00	
	Storage Tank, Steel	Gallons:	0.0	50	0.00	0.00	0.00	
	Storage Tank, Concrete	Gallons:	0.0	80	0.00	0.00	0.00	
1	Surveillance Equipment		600000	10	60000.00	5000.00	1.08	
	Master Meter, 3"		0	10	0.00	0.00	0.00	
	Master Meter, 4"		0	10	0.00	0.00	0.00	
1	Hypochlorinator w/ Tank & Pump, Complete		12000	10	1200.00	100.00	0.02	
	Pipe w/ sand bedding, 4" (Enter linear feet for quantity)		0	50	0.00	0.00	0.00	
	Pipe w/ sand bedding, 6" (Enter linear feet for quantity)		0	50	0.00	0.00	0.00	
750	Pipe w/ sand bedding, 8" (Enter linear feet for quantity)		85	63750	50	1275.00	106.25	
1250	Pipe w/ sand bedding, 10" (Enter linear feet for quantity)		95	118750	50	2375.00	197.92	
900	Pipe w/ sand bedding, 12" (Enter linear feet for quantity)		110	99000	50	1980.00	165.00	
1	Pressure Regulating Valve		15000	15000	20	750.00	62.50	
3	Dry Barrel Hydrant, 2-1/2"		2500	7500	20	375.00	31.25	
36	Customer Meter w/ Box & Shutoff, Complete		1250	45000	20	2250.00	187.50	
	Distribution Valve, 4"		350	0	10	0.00	0.00	
	Distribution Valve, 6"		450	0	10	0.00	0.00	
12	Distribution Valve, 8"		600	7200	20	360.00	30.00	
10	Distribution Valve, 10"		850	8500	20	425.00	35.42	
6	Distribution Valve, 12"		950	5700	20	285.00	23.75	
2200	Radio Read Meters		500	1100000	30	36666.67	3055.56	
1	Radio Read Antenna		25000	25000	40	625.00	52.08	
1	SCADA Improvements		26000	26000	10	2600.00	216.67	
SUBTOTAL Existing CIP Costs				\$4,416,400.00		\$159,023.81	\$13,251.98	\$2.87
NEW Project CIP Costs								
1	Well #15		2,900,000	2900000	25	116000.00	9666.67	2.09
1	Well #16		2,800,000	2800000	25	112000.00	9333.33	2.02
1	Well #17		2,600,000	2600000	25	104000.00	8666.67	1.88
			0	0	1	0.00	0.00	0.00
			0	0	1	0.00	0.00	0.00
			0	0	1	0.00	0.00	0.00
			0	0	1	0.00	0.00	0.00
			0	0	1	0.00	0.00	0.00
SUBTOTAL New Project CIP Costs				\$8,300,000.00		\$332,000.00	\$27,666.67	\$5.99
TOTAL Existing and New Project CIP:				\$12,716,400.00		\$491,023.81	\$40,918.65	\$8.86

Report Prepared by (Title): _____

Date: _____

NOTE: Installed costs are averages and include all materials and contracted labor and equipment.

NOTES:

Rio Linda/Elverta Community Water District Operating Budget Profit Loss 10/11 Forecast

Attachment - E

	Previous	Proposed
	Jul '09 - Jun '10	Jul '10 - Jun '11
Income		
OPERATING REVENUES		
Water Service Rates		
Basic Service Charge	924,000	946,000
Usage Charge	580,000	590,000
Backflow Charge	26,000	26,000
Fire Protection/Hydrant Meter	8,000	8,000
Total Water Service Rates	1,538,000	1,570,000
Account Service Charges		
Service App/New Location Fee	17,000	20,000
Late Payment Fee	30,000	30,000
Disconnect Tag Fee/NSF Fees	42,000	42,000
Termination/Reconnection	10,000	10,000
Other Account Service Charges	3,500	3,500
Total Account Service Charges	102,500	105,500
Field Water Service Fees		
Plan Check/Inspections/FireFlow	600	1,500
* Installation/Modification Fees	0	0
Field Serv/Sys Damage/T&M/RMR	700	1,000
Total Field Water Service Fees	1,300	2,500
Miscellaneous Revenue	1,000	5,000
Total OPERATING REVENUES	1,642,800	1,683,000
NONOPERATING REVENUES		
Tower Leases	48,000	48,000
Earnings on Monies	7,000	1,000
Property Taxes & Related	40,000	40,000
** Capacity Fees	0	0
Miscellaneous Non-Operating	3,000	5,000
State Grants 2009	0	0
Total NONOPERATING REVENUES	98,000	94,000
GRAND TOTAL INCOME	1,740,800	1,777,000

* CDPH Compliance Order No. 9 - New Service Connection Moratorium-Revenue to Operating Budget

** CDPH Compliance Order No. 9 - New Service Connection Moratorium-Revenue to Capital Outlay Budget

Rio Linda/Elverta Community Water District Operating Budget Profit Loss 10/11 Forecast

	Previous	Proposed
	Jul '09 - Jun '10	Jul '10 - Jun '11
Expense		
OPERATING EXPENSES		
Officers Fees		
Legal Fees	46,000	60,000
Special Counsel-Labor Attorney	80,000	50,000
Auditor's Fees	15,000	15,000
Board of Directors Meeting Fees	15,000	18,000
Board Trainings-Training & Travel	1,000	1,000
Total Officers Fees	157,000	144,000
 Wages & Benefit Expenses		
Salary		
General Manager Contract	96,000	76,800
Asst. General Manager	0	54,600
Staff Regular Pay	307,000	250,000
Extra Help	5,000	5,000
Staff Standby Pay	14,000	14,000
Staff Overtime Pay	12,000	10,000
Total Salary	434,000	410,400
 Benefits & Expenses		
Workers Compensation	18,000	18,000
FICA/Medicare	33,800	29,500
PERS	48,000	35,000
Group Insurance	88,000	58,200
Retirees Insurance	22,000	23,000
Uniforms	4,000	4,000
Training	4,000	2,000
Meetings & Conferences	100	300
Unemployment Insurance	9,000	9,000
Total Benefits & Expenses	226,900	179,000
 Total Wages & Benefit Expenses	 660,900	 589,400
TOTAL EXPENSES	817,900	733,400

Rio Linda/Elverta Community Water District Operating Budget Profit Loss 10/11 Forecast

	Previous	Proposed
	Jul '09 - Jun '10	Jul '10 - Jun '11
Contractual Services/Agreements		
Special Projects-Task Orders	10,000	5,000
Settlement-Dillon	40,000	0
Election	0	10,000
Total Contractual Services/Agreements	50,000	15,000
Memberships:		
Regional Water Authority	6,000	5,000
SGA	19,500	21,000
ACWA	6,000	6,000
Rio Linda Chamber of Commerce		
AWWA	500	
CSDA	2,300	2,300
Membership-Other	500	500
Total Memberships	34,800	34,800
Governmental Fees/Lien Fees		
Governmental Fees/Lien Fees	1,100	4,000
Total Governmental Fees/Lien Fees	1,100	4,000
Insurance:		
Liability/Vehicle	26,000	26,000
Property	3,700	3,500
Total Insurance	29,700	29,500
Conservation:		
Toilet Replacement Program	600	1,000
Regional Conservation Program	3,500	3,500
Washing Machine Rebates	100	300
Education Supplies	1,500	3,000
Contract Services	500	500
Community Outreach	600	500
Total Conservation	6,800	8,800
Total Contractual Services/Agreements	122,400	92,100

Rio Linda/Elverta Community Water District Operating Budget Profit Loss 10/11 Forecast

	Previous	Proposed
	Jul '09 - Jun '10	Jul '10 - Jun '11
Field Operation Expenses		
Transportation:		
Fuel	7,000	7,000
Maintenance	4,000	4,000
Total Transportation	11,000	11,000
Transmission & Distribution:		
Water Purchases	3,000	3,000
Service Connections	5,000	5,000
Mains/Fire Hydrants/USA	5,000	2,500
Tanks	500	1,000
Hydrant Meters	0	500
Emergency Repairs	88,000	88,000
Contract Repairs	60,000	60,000
Total Transmission & Distribution	161,500	160,000
Treatment:		
Chemicals & Supplies	10,500	15,000
Total Treatment	10,500	15,000
Laboratory Services:		
Coliform Test & Non-Customer	2,000	3,000
Physical/Chemical Tests	14,000	16,000
Total Laboratory Services	16,000	19,000
Permit/Certification/Inspection		
	16,000	20,000
Total Permit/Certification/Inspection	16,000	20,000
Field Communication:		
Cellular Phones	3,000	2,000
Pagers	40	50
Total Field Communication	3,040	2,050
Pumping:		
Pumps	10,000	15,000
Electricity	170,000	215,000
Gas/Diesel for Well Sites	100	1,000
Telemetry Lines	3,600	4,500
Total Pumping	183,700	235,500
Other:		
Construction Equipment Maint.	2,000	1,000
Small Tools & Shop Supplies	2,000	1,000
Safety Equipment	4,000	2,000
Cross-Connection Control	300	300
Total Other:	8,300	4,300
Fixed Assets:		
Utility Truck	10,000	0
Radio Read Meters	0	60,000
Total Fixed Assets Field	10,000	60,000
Total Field Operation Expenses	420,040	526,850

Rio Linda/Elverta Community Water District Operating Budget Profit Loss 10/11 Forecast

	Previous <u>Jul '09 - Jun '10</u>	Proposed <u>Jul '10 - Jun '11</u>
Office Operation Expenses		
Subscriptions/Licensing/Regular Telephone:		
Computer Supplies-Software	3,000	8,500
ISP/Web site	2,500	2,500
MetroScan	1,625	1,625
Miscellaneous	200	200
Regular Telephone Service	6,000	6,000
Total Subscriptions/Licensing	13,325	18,825
Banking Fee:		
Bank Charges	4,500	4,500
Payroll Services	4,000	4,000
ATM/Credit Card Service/Direct	4,300	4,300
Total Banking Fees	12,800	12,800
Printing:		
Bill Stock	6,400	1,500
Printing - Other	4,000	1,000
Total Printing	10,400	2,500
Office Other:		
Inserter/Postage Machine Lease	12,400	0
Postage	16,000	2,000
Office Supplies	11,000	10,000
Total Office Other	39,400	12,000
Office Equipment Maintenance:		
Billing Software Maintenance	2,600	2,600
Inserter Maintenance	3,100	0
Computer System Maintenance	5,000	5,000
Photocopy Maintenance	2,000	2,000
Contract Billing	0	20,000
Total Office Equipment Maintenance	12,700	29,600
Publishing:		
Legal Advertising	3,000	1,500
Newsletters	1,000	1,000
Total Publishing	4,000	2,500
Building:		
Utilities	7,300	7,300
Janitorial	1,900	2,100
Maintenance	2,000	7,000
Security	500	2,000
Total Building	11,700	18,400
Fixed Assets:		
Accounting System Upgrade	10,000	10,000
Digital Document System	20,000	20,000
Computer System Improvements	8,000	8,000
Total Fixed Assets Office	38,000	38,000
Total Office Operation Expenses	142,325	134,625

Rio Linda/Elverta Community Water District Operating Budget Profit Loss 10/11 Forecast

	Previous	Proposed
	Jul '09 - Jun '10	Jul '10 - Jun '11
TOTAL OPERATING EXPENSES	1,659,665	1,486,975
NONOPERATING EXPENSES		
Nonoperating Expense	0	1,000
Debt Service		
Bond Administration	1,800	1,800
Revenue Bond 2003-Interest	156,963	156,963
Revenue Bond 2003-Principle	85,000	85,000
Total Debt Service	243,763	243,763
Building and Site Improvements		
Fixed Asset Container	3,643	0
SCADA Improvements	6,400	6,400
Reserve Fund	0	38,862
Emergency Reserve	0	38,862
TOTAL NONOPERATING EXPENSES	253,806	290,025
GRAND TOTAL EXPENSES	1,750,796	1,777,000
GRAND TOTAL REVENUE	1,740,800	1,777,000
Net Income (Loss)	(9,996)	0
Carryover from 09/10	35,140	0
TOTAL NET INCOME (LOSS)	25,144	0

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

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Board of Directors
Rio Linda/Elverta Community Water District
Rio Linda, California

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of, the business-type activities, of Rio Linda/Elverta Community Water District (the District) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Rio Linda/Elverta Community Water District's management. My responsibility is to express opinions on these financial statements based on my audit. The prior years comparative information has been derived from the District's 2008 financial statements prepared by the other auditors, in their report dated July 10, 2009, they expressed an unqualified opinion with a going concern condition on the respective financial statements of the business-type activities.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the District, as of June 30, 2009 and 2008, and the respective changes in financial position and, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 11 to the financial statements, the District has expended the majority of its operating reserves and continues to run deficit budgets. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. The financial statements do not include any adjustment relating to the amounts and classification of liabilities that might be necessary if the District is not able to meet its debts as they come due or if such debts are adjusted under the provisions of chapter 9 of the Federal Bankruptcy Code.

In accordance with Government Auditing Standards, I have also issued my report dated March 16, 2010, on my consideration of the Rio Linda/Elverta Community Water District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 my audit.

The District has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic financial statements.

Michael A Celentano
Certified Public Accountant

March 16, 2010

RIO LINDA / ELVERTA COMMUNITY WATER DISTRICT



RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009 AND 2008

Management's Discussion and Analysis June 30, 2009 and 2008

This narrative overview and analysis of the financial activities of the Rio Linda / Elverta Community Water District (District, or the District) for the fiscal year beginning July 1, 2008 and ending June 30, 2009 is provided as additional information in conjunction with the Independent Auditor's Report, which can be found on page 1, and pages 7 through 9 of this financial statement.

Financial Highlights

1. Water sales decreased by \$56,774 in fiscal year 2009 over last fiscal year primarily due to increased conservation efforts and an increase in inactive service connections. Our total operating revenue decreased as well by \$69,610 due to the change in economic conditions and less usage.
2. Total operating expenses decreased over the previous fiscal year by \$22,249 due to less pumping costs, less personnel services and lower field operation activities.
3. Operating expenses exceeded operating revenues by \$476,555 due to the loss of revenue in installation fees attributable to the new service moratorium mandated under CDPH Compliance Order No. 01-09-07-CO-004 issued November 19, 2007.
4. Overall net income (both operating and non-operating revenues less expenses) was (\$237,227) in 2008 to (\$1,133,672) in 2009. The majority of the decrease was attributable to Well #14 being placed on hold, which is contrary to the Auditor's assessment of the well being "abandoned". This is a misleading departure from the District's long range plan to utilize the site for source production, a storage facility, or both. The property is not currently considered "abandoned" and will ultimately be developed after further engineering and design work is completed. The remainder of the overall net income difference was due to a slight decrease in operating expenses.
5. Net assets decreased from \$6,964,815 in 2008 to \$5,866,088 primarily because of less field operating expenses and placing capital improvements on hold for Well #14.
6. The assets of the District exceeded its liabilities at the close of fiscal year 2009 in the amount of \$5,866,088 net assets, of this amount, \$607,461 is unrestricted. The assets of the District exceeded its liabilities at the end of 2008 in the amount of \$6,964,815 net assets; of this amount \$1,034,375 was unrestricted net assets.
7. The District's total long-term debt remained the same at \$85,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the district's basic financial audit report, which consists of the financial statements and notes to the financial statements. This report also contains narrative information about the implications of the financial statements on District operations.

**RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009 AND 2008**

Financial Statements

In public finance terms, the District accounts for its operations as an "enterprise fund" and maintains an accrual basis of accounting. This means that the costs and expenses associated with the operation and maintenance of the District are generally supported by user fees and charges directly related to the delivery of a service or product. This is in contrast to "non-enterprise funds" that are largely supported by tax revenues.

The accounts of the District are organized on the basis of fund accounting. A fund is a group of related accounts that is used to maintain control over the resources that have been segregated for specific activities or objectives. Thus, these financial statements are designed to provide the reader with a broad overview of the District's finances in a manner similar to a private sector business.

The statement of "net assets" presents information on all of the District's assets and liabilities with the difference between the two reported as "net assets". Over time increases or decreases in net assets may serve as a general indicator of whether the District's financial position is improving or deteriorating. However, this is not the sole indicator of financial stability.

The statement of revenues, expenses and changes in net assets presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change is known, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected water sales and amounts due vendors). Since the District's primary function is to provide water delivery to the community and recover most of the costs through user fees and charges, the financial statements only include enterprise-type activities.

The financial statements can be found on pages 7-9.

Notes to the Financial Statements The notes to the financial statements provide additional information that is essential to the full understanding of the financial transactions and data provided in the financial statements. These notes should be carefully reviewed to get a clear picture of what a particular item specifically addresses.

The notes to the financial statements begin on page 10 and continue through page 17.

Net Assets The largest portion of the District's net assets reflects its investment in capital assets (e.g. land, buildings, machinery equipment and water facilities) less any related debt currently outstanding. The District uses these capital assets to provide water service to its customers. This includes both District purchased assets, as well as developer donated or contributed facilities. Although the District's investment in its capital assets is reported net of related debt, financial resources are needed to repay this debt and must be provided from other sources, since these capital assets themselves cannot be used to liquidate these liabilities.

Net assets mainly increase due to contributed facilities by developers. Increases in water sales to pay for ongoing and future anticipated capital asset replacements need to be reviewed.

Restricted net assets represent resources from bond offerings and are restricted on how funds may be used. The unrestricted portion is used to cover operating expenses and provide an additional source of funding for capital projects.

**RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009 AND 2008**

Long-term Financing As of June 30, 2009 the District's principle balance (face value) on its Water Revenue Refunding Bonds Series 2003 stood at \$2,810,361. This bond issue constitutes the sole source of the District's long-term financing. These bonds were issued to refund the District's 1994 Certificates of Participation. Repayment of these bonds constitutes a special obligation of the District payable solely from "net revenues" and other funds provided for in the indenture agreement approved with the issuance of the bonds. Net revenues mean, for any period, all applicable revenues during that period less all of the applicable maintenance and operation costs of the District. These revenues include, but are not limited to, capacity fees, property taxes and rates, fees and charges for water service. However, they do not include specific revenues levied for purposes of reimbursing others for the cost of acquiring or constructing specific facilities (e.g. water service connection charges to install a water service).

A municipal bond rating of "AAA", "AA" or "A" was issued on the financing by Standard & Poor's Ratings Group, a division of McGraw-Hill and Moody's Investor Service respectively. These ratings were predicated on the delivery of a policy insuring the payment of the principle and interest when due on the bonds. Annual debt service on the bonds is scheduled thru November 1, 2032.

Capital Improvement Program The District's investment in capital assets at the end of the fiscal year totaled \$5,866,088 (total net assets). This investment includes land, buildings, water wells, distribution piping, equipment (in excess of \$600), vehicles and other machinery and water facilities. Due to pressure issues reported during the summer of 2007, the California Department of Public Health (CDPH) issued a compliance order on November 19, 2007 to resolve water pressure and supply problems to the District. Although the Board of Directors adopted a *Revised Water Master Plan* on August 18, 2003 which identified both long-term and near-term improvement projects, the District is now revisiting the improvement projects schedule. The priorities established for the near term were to improve water system reliability in the Rio Linda area by increasing source capacity with new wells and pumping equipment, replace aging and small diameter distribution facilities, and address the need to comply with new federal arsenic standards which went into effect on July 1, 2006. These arsenic regulations required the District to temporarily take two wells off line while completing the engineering and design work to construct three new wells to meet supply and reliability requirements for the system. During the design period, CDPH has temporarily placed a moratorium on all new service connections until such time as improved supply and redundancy conditions are satisfied. The near-term projects in the *Revised Water Master Plan* were identified as Phase 1-A. A summary of these projects and current estimated costs are as follow:

Construct new production well and install distribution piping at 30 th and Q Streets.....	\$2,900,000*
Construct new production well and install distribution piping at Elkhorn and 14 th Street.....	\$2,800,000*
Construct new well for redundancy in the 7700 block of Rio Linda Boulevard.....	\$2,600,000*
Expand computerized SCADA System.....	\$150,000**
Reactivate Well 5 as emergency backup supply facility.....	\$338,000**
Reactivate Well 3 as emergency backup supply facility.....	\$80,000**
Pipeline 7th Street north to S Street / K Street to Water Tower.....	\$395,000***
Replace aging and small diameter distribution pipelines at selected locations.....	\$1,500,000***

*Denotes project currently being designed for construction in the near future

** Denotes project under consideration for Capital Improvement

*** Project temporarily on hold pending additional engineering and flow studies

**RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009 AND 2008**

Capital Improvement Funding New funding to complete the construction of the three new wells is anticipated to come from loans and paid through Surcharge Fees initiated in incremental phases which began in 2009. It may be necessary for the District to sell bonds to support critical infrastructure improvements besides delaying or eliminating projects based on the priorities established by the Board of Directors. Compliance with CDPH for Source Capacity improvements is mandatory, however, and the District is completing the necessary design work to meet the engineering criteria required to increase pressures and reliability while providing redundancy throughout the distribution system.

Budgets and Rates Total operating revenues changed from \$1,672,111 to \$1,602,501 between 2008 and 2009. This decrease of \$69,610 can largely be attributed to a change in installation fees since the CDPH compliance order was issued.

The District implemented a phased Surcharge Fee in 2009 in order to begin identifying the engineering and design criteria for three new wells while establishing a foundation to repay loans and/or grant monies in the future. The plan is to begin the much-needed upfront planning to overcome supply deficiencies described in the CDPH Compliance Order. The ultimate goal is to construct two wells for increased capacity while developing a third for reliability and redundancy. All design and implementation of standards have been in accordance with CDPH guidelines and periodically monitored by the department for adherence to specific schedules. The District plans to complete the most easterly well at 30th and Q Streets in the fall of 2010, and the remaining wells in spring 2011.

In respect to overall operating expenses personnel costs, field operation expenses and the depreciation and amortization of District facilities and equipment represent the largest cost centers. For example, under field operations, electrical energy costs associated with water pumping typically consume approximately 10% of the entire District operating budget. These costs will continue to climb as the Sacramento Municipal Utility District has proposed several rate increases.

District Non-operating revenues and expenses are associated with activities not directly attributable to the District's core mission of providing water service. On the revenue side this includes income from interest on the investment of District funds, property tax, rental of water tower space for antennas, and new water facilities built and donated to the District as a result of developer activities. On the expense side it includes costs associated with interest paid on long-term debt and trustee fees paid to administer bond payments.

With the moratorium on developer/capacity fees, which have historically been used to pay a portion of the yearly debt service and anticipated capital improvements, the District plans to meet CDPH requirement in the near-term to increase source capacity, thereby removing the development limitations promulgated by the Compliance Order and its resultant moratorium.

Economic Factors Considered in Financial Planning The District is located in northern Sacramento County and as a result is affected by regional economic activities. Based on the July 2009 Sacramento County Forecast Project report prepared by California State University Sacramento, the annual average Unemployment Rate for Sacramento County rose slightly from 5.5% in June of 2008 to 8.3% in June of 2009. The forecast for June 2010 is at a higher rate of 12.4%.

Likewise, the Forecast Project looked at taxable sales for the County as a whole. Taxable Sales, for all outlets, posted a 2.55% decrease over the sales forecast in 2008. These general regional trends indicate a steady economic slow down associated with a decrease in taxable sales.

**RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009 AND 2008**

As of June 2009, the District serves approximately 4,616 meters. The differences between billed customers and installed meters vary from billing cycle to billing cycle due to foreclosures, transitional owners, or per customer request for services to be discontinued. On average over the last five years, the District has added less than 100 new customers annually. However, during the 08/09 year, the District added no new customers due to the moratorium. Per the District's operations report of July 2009, pumping demands have decreased during 2009 by 6.5%. The following factors have affected or will affect the District's financials:

- Continuance of the CDPH moratorium limitation.
- Infill projects and developer installations being placed on hold.
- The District requested, due to the CDPH Compliance Order, that all customers reduce their water use by 10% or request a variance from the District. The General Manager determines the award of a variance case by case.

Future anticipated affects on the system:

- Approval to construct new wells and distribution facilities through grants and loan funding to increase capacity and reliability for community development, specifically with the land use plan for the Elverta Villages project in the northeast section of the District, which includes 4,950 residential dwellings, (of which at least 4,500 will be within the District's boundaries) as well as significant land set aside for parks, schools and commercial developments.

Labor Relations, Litigation, and Interim Grand Jury Report The District drafted a tentative Motion of Understanding (MOU) in July 2009 to overcome and steady labor relation issues that have affected the organization since June 16, 2007 when the employees voted to disband their former Employee Association in favor of joining the International Brotherhood of Teamsters, Local 150, for its representation. During the 2008-2009 Fiscal Year, negotiations to ratify an agreement moved closer to fruition and it is anticipated the MOU will be ratified in the near future.

Other litigation concerning a former General Manager began in 2008 and continued into 2009. The District expects to resolve the legal matters very soon to settle the case without further cost or additional claims.

On April 5, 2010 the Sacramento County Grand Jury issued its Interim Report which outlined recommendations for the District to implement new procedures and policies to overcome operational deficiencies resulting from ongoing management problems. By aligning more favorably with local regulatory agencies, industry standards, and government laws to follow regional guidelines practiced by other water agencies, the District is rapidly correcting the problems described in the Grand Jury Report through outside resources and with new management accountabilities from within. We view the Interim Report as another avenue to address important business obligations, trends, and operational issues that have affected the District's ability to perform in the best interest of the community. By following and improving upon the Grand Jury recommendations, we are taking immediate corrective measures to meet the challenges we currently face along with implementing new business practices in order to position the District as a leader in the regional water industry.

Requests for Information This financial report is intended to provide a general financial overview for anyone interested in the District's financial statements. Questions pertaining to the information provided in this report, or requests for additional information should be addressed to the General Manager, Rio Linda / Elverta Community Water District, 730 L Street, Rio Linda, CA 95673.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009 AND 2008

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
<u>Current Assets</u>		
Cash and investments	\$ 90,235	\$ 488,276
Accounts receivable	247,197	244,263
Interest receivable	207	4,565
Inventory	45,894	41,344
Prepaid expenses	<u>21,800</u>	<u>18,575</u>
Total Current Assets	405,333	797,023
<u>Non Current Assets</u>		
Capital assets, Net	7,868,195	8,620,242
Restricted cash and investments	287,207	248,608
Restricted surcharge receivable	14,475	
Other assets	<u>403,880</u>	<u>428,840</u>
Total Non Current Assets	<u>8,573,757</u>	<u>9,297,690</u>
Total Assets	<u>\$ 8,979,090</u>	<u>\$ 10,094,713</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts payable	\$ 118,934	\$ 88,124
Customer deposits	33,879	37,100
Compensated absences	42,794	46,047
Unearned revenue	22,034	20,246
Current portion of long-term debt	<u>85,000</u>	<u>85,000</u>
Total Current Liabilities	302,641	276,517
Compensated absences - long term portion bonds payable	4,793	1,579
Bonds payable	<u>2,805,568</u>	<u>2,851,802</u>
Total Long Term Liabilities	<u>2,810,361</u>	<u>2,853,381</u>
Total Liabilities	<u>\$ 3,113,002</u>	<u>\$ 3,129,898</u>
Commitment and Contingencies - Note 7,8,9 and 10		
<u>Net Assets</u>		
Capital assets, net of related debt	\$ 4,977,627	\$ 5,683,440
Restricted for		
Capital assets		
Bonds debt service	247,000	
Surcharge	<u>34,000</u>	<u>247,000</u>
Total Restricted Assets	<u>281,000</u>	<u>247,000</u>
Unrestricted	<u>607,461</u>	<u>1,034,375</u>
Total Net Assets	<u>\$ 5,866,088</u>	<u>\$ 6,964,815</u>

See accompanying notes to the basic financial statements

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>Operating Revenues</u>		
Water sales	\$ 1,484,016	\$ 1,540,790
Installation fees		17,010
Account service charges	113,507	85,954
Miscellaneous	<u>4,978</u>	<u>28,357</u>
 Total Operating Revenue	 1,602,501	 1,672,111
<u>Operating Expenses</u>		
Personnel services	983,465	923,311
Professional services	117,738	64,418
Contractual services	111,505	112,855
Field operations		
Transmission and distribution	146,129	371,803
Treatment	11,254	10,497
Pumping	174,286	208,528
Transportation	16,613	27,990
Small tools and shop supplies	6,116	14,414
Depreciation and amortization	378,194	233,483
Administration	<u>133,756</u>	<u>134,006</u>
 Total Operating Expenses	 <u>2,079,056</u>	 <u>2,101,305</u>
 Operating Income (Loss)	 (476,555)	 (429,194)
<u>Non-Operating Revenues (Expenses)</u>		
Interest income	8,528	59,114
Property taxes	80,447	82,376
Surcharge	58,800	
Development fees		160,605
Rental income, net of expenses	51,715	48,675
Lawsuit	123,158	
Abandonment of well #14	(802,673)	
Interest expense	(154,838)	(156,963)
Bond administration	(1,700)	
Other non operating expenses	<u>(6,851)</u>	<u>(1,840)</u>
 Net Non Operating Revenues (Expenses)	 <u>(643,414)</u>	 <u>191,967</u>
 Change in Net Assets	 <u>(1,119,969)</u>	 <u>(237,227)</u>
 Net Assets, Beginning of Year	 <u>6,964,815</u>	 <u>7,202,042</u>
 Prior period adjustment - correction of general fixed assets	 <u>21,242</u>	 <u>-</u>
 Net Assets, Ending of Year	 <u>\$ 5,866,088</u>	 <u>\$ 6,964,815</u>

The accompanying notes are an integral part of these statements

RIO LINDA/ELVERTA COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>Cash Flows From Operating Activities</u>		
Cash received from customers	\$ 1,586,880	\$ 1,713,534
Cash paid to employees and related benefits and taxes	(683,426)	(924,815)
Cash paid to suppliers	<u>(693,304)</u>	<u>(915,115)</u>
Net Cash From Operating Activities	(89,850)	(126,396)
<u>Cash Flows From Non-Capital Financing Activities</u>		
Property tax proceeds	80,447	82,376
Rental income	51,715	
Settlements	<u>123,158</u>	<u>48,675</u>
Net Cash From Non-Capital Financing Activities	255,320	131,051
<u>Cash Flows From Investing Activities</u>		
Interest on cash	<u>8,528</u>	<u>69,138</u>
Net Cash Provided From Investing Activities	<u>8,528</u>	<u>69,138</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Surcharge	58,800	
Proceeds from developer fees		165,874
Bond administration payment	(1,700)	(1,840)
Repayment of long-term debt	(85,000)	(85,000)
Purchase of property	(254,242)	(1,244,701)
Interest payments on long-term debt	(154,838)	
Less on abandonment of well #14	(89,609)	
Other non operating	<u>(6,851)</u>	<u>(156,963)</u>
Net Cash From Capital Financing Activities	(533,440)	(1,322,630)
Net Increase (Decrease) in Cash and Cash Equivalents	(359,442)	(1,248,837)
<u>Cash - Beginning of Year</u>	<u>736,884</u>	<u>1,985,721</u>
<u>Cash - Ending of Year</u>	<u>\$ 377,442</u>	<u>\$ 736,884</u>

The accompanying notes are an integral part of these statements

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of reporting entity – The District was formed on November 9, 1948 and provided water and sewer services. Sewer services were transferred to Sacramento County in 1976. The District no longer provides sewer service. The District currently provides domestic water service and fire flows to approximately 4,610 metered accounts, including procurement, quality, and distribution.

An elected five-member board of directors establishes policy for the District. The conduct of day-to-day maintenance and operations is the responsibility of the General Manager.

Basis of Accounting – The District accounts for its operation in an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are earned when services are performed and expenses are recorded when an obligation has been incurred.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Revenue Recognition – Operating revenues for domestic, irrigation and recycled water sales are recognized when billed. Any assets, liabilities, expenses and revenues created as a result of nonexchange transactions are recognized when the transaction occurs. A nonexchange transaction occurs when a government receives (or gives) value without directly giving (or receiving) equal value in return.

Cash and Investments – The District participates in an investment pool managed by the State of California, the Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities. Based on information obtained from LAIF, the investment in LAIF has been recorded at fair value.

Cash Equivalents – For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Use of Estimates – The financial statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management's best estimates and judgments.

Investments – Fair value is determined by examining quoted market prices for all investments. The change in fair value is included in interest income in the statement of revenues, expenses and changes in net assets. Permissible investments include the County Treasury, the State Local Agency Investment Fund, federally insured deposits, and individual securities. Individual securities must be backed by the federal government or rated AAA, AA or A by Standards and Poor's or Moody's. In addition, maturities may not exceed five years. The proportion of investments in each of the permissible categories is restricted as defined in the State Government Code and further limited by the District's investment policy. The maximum average maturity of funds invested is three years. The District's investment policy established safety of principle as the primary investment objective. The District's investment strategy is to realize a reasonable interest yield, and investment decisions are executed with the intent that they will be held to maturity. The District is restricted by State law and the District's investment policy in the types of investments that can be made. All investments not required to be reported at fair value are stated at cost or amortized cost.

Restricted assets – Assets whose use is restricted to specific purpose by bond indenture or other wise, and related liabilities are segregated on the balance sheet. These assets are primarily restricted for construction and debt service purposes.

Capital Assets – Capital assets, which include property, plant and equipment are defined by the District as assets with an initial cost of more than \$1,500 and an estimated useful life in excess of two years. Assets are recorded at cost. Contributed assets are recorded at fair market value at the time they are received. Contributed assets consist primarily of distribution lines and connections constructed and donated by developers. The estimated economic lives used to determine annual rates of depreciation are subject to periodic review and revision to assure that the cost of the respective assets will be written off over their economic lives. Depreciation is computed using straight-line method over estimated useful lives of 8 to 60 years for transmission and distribution and 3 to 50 years for general plant assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Accounts Receivable – The District issues water invoices bi-monthly based on meter readings. Delinquent water invoices may have a lien placed on the property. The District does not provide for an allowance for uncollectible accounts due to the lien process.

Inventories - Inventory consists primarily of materials used in the construction and maintenance of utility plant and is valued at lower of cost (first-in, first-out method) or market.

Debt Issuance Costs – Bond loss on refunding and issuance costs are deferred and amortized over the term of bonds using the effective interest method. Loss on refunding (\$594,032 and \$633,198 at June 30, 2009 and 2008, respectively) is presented as a reduction of the face amount of bonds payable, whereas issuance costs (\$189,725 and \$197,808 at June 30, 2009 and 2008, respectively) are recorded as other assets.

Deferred revenues – Deferred revenue represents funds received for future service installation and is recognized as revenue when installations are performed.

Net Assets – The District's net assets are classified as follows:

Capital assets, net of related debt: This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted for capital assets: This represents the unspent portion of debt that has been incurred for capital assets.

Restricted for unspent developer fees: Restricted for construction represents constraints placed on certain net assets as a result of legally restricted monies received and unspent from developers as required by State law.

Restricted for bond debt service: Restricted for debt service/covenants represents constraints placed on certain net assets as required by third party general obligation bondholders.

Unrestricted: This represents funds not subject to any restrictions on use of these funds.

Contributed Facilities – The District receives facilities (hydrants, pipes, valves, etc.) from developers resulting from the developers preparing the sites to connect to the District. The District records these items as capital assets and depreciates them over their estimated useful life. These assets are also recognized as non-operating revenue – contributed facilities.

Property Taxes – Property tax in California is levied in accordance with Article XIII A of the State Constitution at 1% of countywide assessed valuations. The property taxes are placed in a pool and are then allocated to the local governmental units based upon complex formulas. The County of Sacramento is responsible for collection of property tax, and the District recognizes property taxes when received from or collected by the County. Amounts levied but not collected at June 30 (delinquent property taxes) have not been reported since these amounts could not be readily determined.

Compensated Absences – The District has a policy whereby an employee can accumulate unused sick leave and vacation. Sick leave is to be used for extended periods of sickness; however, upon termination or

retirement, a portion will be paid as additional benefits to the employee. At termination or retirement, employees are entitled to reimbursement for all accumulated vacation days up to 400 hours (reduced to 240 hours after July 1, 2006), per the District's policy and paid as required by State law; and sick leave earned after July 1, 2005 up to 240 hours + additional hours up to 1/3rd of excess for hourly employees. The District has provided for these future costs by accruing 100% of earned and unused sick leave up to the maximum number of hours, and 100% of the earned and unused vacation.

Note 2 – Cash and Investments

Cash and investments in the balance sheet are classified as follows:

	2009	2008
Cash and Investments	\$ 90,235	\$ 488,276
Restricted Cash and Investments	<u>287,207</u>	<u>248,608</u>
	<u>\$ 377,442</u>	<u>\$ 736,884</u>

Cash and investments consist of the following:

	2009	2008
Deposits with financial institutions	\$ 69,100	\$ 51,414
Investments in LAIF	<u>308,342</u>	<u>685,470</u>
	<u>\$ 377,442</u>	<u>\$ 736,884</u>

Investments Authorized by the District's Investment Policy -The District's investment policy authorizes investments in the local government investment pool administered by the State of California (LAIF). The investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk and concentration of credit risk.

Investments Authorized by the Debt Agreement - Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The debt agreement states the debt proceeds shall be invested in investments (i) having an average aggregate weighted term to maturity not greater than five years, or (ii) of any maturity, but callable at par for any purpose required by the debt agreement.

Disclosures Relating to Interest Rate Risk -Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. At June 30, 2009, the average maturity of the investments contained in the LAIF investment pool was approximately 165 days.

Disclosures Relating to Credit Risk –Generally, 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. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

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 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 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. 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. California law also allows financial institutions to secure local governmental unit deposits by pledging first trust deed

mortgage notes having a value of 150% of the secured deposits. 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 (such as LAIF).

At June 30, 2009 and 2008, the District's bank balances were \$103,297 and \$37,367, respectively (\$0 and \$0 were in excess of federal depository insurance limits in 2009 and 2008, respectively).

Investment in State Investment Pool - The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The fair value of the investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rate share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are reported on an amortized cost basis.

NOTE 3 – CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2009 is as follows:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
Capital assets, not being depreciated:				
Land	\$ 112,183	\$	\$	\$ 112,183
Construction in progress	1,011,603	290,586	1,101,214	200,975
Total capital assets, not being depreciated	1,123,786	290,586	1,101,214	313,158
Capital assets, being depreciated:				
Transmission & distribution	11,273,400			11,273,400
General plan assets	707,509	74,508		782,017
Total Capital assets, being depreciated	11,980,909	74,508		12,055,417
Less accumulated depreciation				
Transmission & distribution	(3,842,129)	(274,897)		(4,117,026)
General plan assets	(642,324)	(39,570)		(681,894)
Total accumulated depreciation	(4,484,453)	(314,467)		(4,798,920)
Capital assets, net	<u>\$ 8,620,242</u>	<u>\$ 50,627</u>	<u>\$ 1,101,214</u>	<u>\$ 7,569,655</u>

A summary of the changes in capital assets for the year ended June 30, 2008 is as follows:

	Balance June 30, 2007	Additions	Disposals	Transfers	Balance June 30, 2008
Capital assets, not being depreciated:					
Land	\$ 112,183	\$ -	\$ -	\$ -	\$ 112,183
Construction in progress	865,267	458,822		(312,486)	1,011,603
Total capital assets, not being depreciated	<u>977,450</u>	<u>458,822</u>	<u>-</u>	<u>(312,486)</u>	<u>1,123,786</u>
Capital assets, being depreciated:					
Transmission & distribution	10,153,302	642,759		477,339	11,273,400
General plan assets	731,176	141,186		(164,853)	707,509
Total Capital assets, being depreciated	<u>10,884,478</u>	<u>783,945</u>	<u>-</u>	<u>312,486</u>	<u>11,980,909</u>
Less accumulated depreciation					
Transmission & distribution	(3,642,192)	(199,937)			(3,842,129)
General plan assets	(608,778)	(33,546)			(642,324)
Total accumulated depreciation	<u>(4,250,970)</u>	<u>(233,483)</u>	<u>-</u>		<u>(4,484,453)</u>
Capital assets, net	<u>\$ 7,610,958</u>	<u>\$ 1,009,284</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,620,242</u>

NOTE 4 – LONG – TERM DEBT

Long-term debt consists of Water Revenue Refunding Bonds which carry interest of 2% to 4.75%, payable semi-annually on May 1 and November 1 of each year, due serially until 2032. Original amount of outstanding debt was \$3,970,000.

Annual maturities of long-term debt for years subsequent to June 30, 2009 are as follows:

<u>Year Ending June 30,</u>	<u>Principle</u>	<u>Interest</u>
2010	\$ 85,000	\$ 153,563
2011	90,000	151,013
2012	95,000	148,312
2013	95,000	145,225
2014	100,000	141,900
2015-2019	560,000	647,831
2020-2024	695,000	428,450
2025-2029	885,000	339,150
2030-2033	<u>880,000</u>	<u>65,493</u>
	3,485,000	<u>\$ 2,220,937</u>
Less Current Portion	(85,000)	
Less Unamortized Defeasance	<u>(594,032)</u>	
Total	<u>\$ 2,805,968</u>	

The difference between the reacquisition price of the 1999 Certificates of Participation and the 2003 Water Revenue Bonds and the net carrying value of the 1999 Certificates of participation and the 2003 Water Revenue Bonds is deferred and amortized as a component of interest expense in a systematic manner over the remaining life of the 2003 Water Revenue Bonds. The deferred amount is reported on the balance sheet as a deduction from the 2003 Water Revenue Bonds balance.

	2009	2008
Total Defeasance	\$ 854,898	\$ 854,898
Less Accumulated Amortization	<u>(260,866)</u>	<u>(221,700)</u>
	<u>\$ 594,032</u>	<u>\$ 633,198</u>

Changes in long-term debt for the year ended June 30, 2009 was as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Defeasance</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	\$ 2,936,802	\$ -	\$ (85,000)	\$ 38,766	\$ 2,890,568	\$ 85,000
Compensated Absences	\$ 46,775	\$ 47,590	\$ (46,775)		\$ 47,590	\$ 4,793

NOTE 5- DEFINED BENEFIT PLAN

The District's defined benefit pension plan, Miscellaneous Plan, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers with the State of California. Menus of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The District selects optional benefits provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report which can be obtained from CalPERS Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

Funding Policy - Active employees in the Miscellaneous Plan are required to contribute 7% of their annual covered salary. The District at the December 1, 2000 Board meeting, opted to pay 4% of the employees portion in lieu of a cost of living increase negotiated between the employees and the General Manager. At the November 19, 2001 Board meeting, the District opted to pay the other 3% of the employee's portion in lieu of a cost of living increase as negotiated between the employees and the General Manager. The District is required to contribute the actuarially determined amount to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. For the year ended June 30, 2008, the required contribution was 14.284%. The required employer contribution rate for the year ending June 30, 2009 will be 14.278%. 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.

Annual Pension Cost

For the year ended 2009, the District's annual pension cost was \$88,291. The required contribution was determined as part of the June 30, 2006 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members. Both (a) and (b) include an inflation component of 3.00%. The actuarial value of Miscellaneous Plan's assets was determined using a technique

that smoothes the effect of short-term volatility in the market value of investments over a fifteen-year period. As of June 30, 2006, the District joined a risk pool with other agencies of similar size and benefits.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement included: (a) a rate of return on the investment of present and future assets of 8.25% (net of administrative expenses) compounded annually; (b) projected payroll increases of 3.75% attributable to inflation; (c) projected annual salary and merit increases that vary by duration of service; and (d) a rate of inflation of 3.5%.

Trend Information

Three-year trend information for PERS:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>% of APC</u> <u>Contributions</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/2007	\$ 90,451	100% \$	\$ 0
6/30/2008	\$ 115,606	100% \$	\$ 0
6/30/2009	\$ 88,291	100% \$	\$ 0

NOTE 6 – OTHER POST-RETIREMENT BENEFITS

In addition to the pension benefits described in Note 5, the District provides post-retirement health care benefits in accordance with District employment policies. Those employees electing a PERS retirement date with the District are eligible to receive post – retirement health care benefits subject to District’s vesting schedule and/or terms of the medical plan provider. The District shall pay the full cost of the monthly health premium charges for employees and their qualified dependants as set forth in Health Benefits Memorandum of Understanding between the ACWA Health Benefits Authority and the Rio Linda / Elverta Community Water District.

The District finances the plan on a pay-as-you-go basis. For the year ended June 30, 2009 and 2008, respectively, the District paid \$25,021 and \$23,091 in post-employment health care benefits and had three former employees and one former director eligible for benefits. Two of the three former employees shall each receive a maximum monthly District contribution of \$300.00 in postemployment health care benefits that shall end at ten (10) years. There is no stand-alone financial report.

NOTE 7 – LESSOR ACTIVITIES

The District leases a portion of its administrative office property and a portion of a water tower in three separate antennae leases. Minimum future rents to be received are:

Total lease income received was \$51,715 and \$48,675 during the years ended June 30, 2009 and 2008, respectively.

Year Ended June 30,	Amount
2010	\$ 39,207
2011	<u>33,751</u>
	<u>\$ 72,958</u>

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The District is involved in two litigation issues. Management believes the resolution of such issues will not have a material impact on the District.

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets, and injuries to employees. The District mitigates these risks through internal control procedures, physical security of assets, and safety training of employees. Additionally, the District maintains liability, excess liability, and property insurance through participation in the Joint Powers Authority, Association of California Water Agencies Joint Power Insurance Authority (ACWA/JPIA). See the Joint Power Agreement footnote (Note 10) for nature of participation. Settled claims have not exceeded this coverage in any of the past three years.

The District also requires all contractors working for the District to provide a Certificate of Insurance in the amount of \$1,000,000 prior to work started. These also include Workers Compensation policies.

NOTE 10 – JOINT VENTURE

The District participates in a Joint Powers Agreement (JPA); the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA). The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA is governed by a board consisting of a representative from each district. The JPA Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the governing board. The insurance group arranges and provides property and liability insurance for its members. The District pays a premium commensurate with the level of coverage requested.

Member districts share surpluses and deficits proportionately to their participation in the JPA.

The JPA is independently accountable for its fiscal matters. The insurance group maintains its own accounting records. Budgets are not subject to any approval other than that of the governing board. The District's share of year-end assets, liabilities or fund equity has not been calculated. Complete separate financial statements for the ACWA/JPIA may be obtained at 5620 Birdcage Street, Suite 200, Citrus Heights, California 95610-7632.

NOTE 11 – GOING CONCERN

The financial statements for the years in question have been prepared assuming that the District will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The District has suffered reoccurring operating losses and diminishing working capital since 2007 through the period ended June 30, 2009. As a result of these factors, there is doubt about the District's ability to continue as a going concern. The District is planning to reduce personnel expenses, and plans to increase revenue through a capital surcharge, obtaining federal funding and/or issuing debt. While the District believes that success is achievable, that outcome cannot be assured at this time.

NOTE 12 – SUBSEQUENT EVENTS

On November 19, 2007 the District received the California Department of Public Health Compliance Order 01-09-07-CO-004 with a full compliant date of December 31, 2008. The Compliance Order documents finding of facts about the water source capacity and low-pressure problems observed in the District, and includes nine Directives to accurately characterize the problems, evaluate solution options, and implement interim measures towards the complete resolution of the water source capacity and low-pressure problems. On October 13, 2008, the District requested and received an extension to March 31, 2009 from the Department of Public Health to become fully compliant with Compliance Order No. 01-09-07-CO-004.

In February 2009 the District passed ordinance 2009-02 adopting a surcharge to fund capital improvements. The funds raised by the issuance of this surcharge are to be used for capital improvements to satisfy the California Department of Public Health Compliance Order No. 01-09-07-CO-004.

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Current Years Comments

2009-1 Organization of the District

During my engagement, I observed the structure and the roles of the Board, management and employees and the effectiveness of the District's lines of communication. I believe the District needs to review the tasks that have been assigned to the employees to ensure their completion but overall responsibilities of employees have not been formalized or properly defined. I believe the District needs to rebalance the current workloads to ensure that the proper functions are performed by the proper employee, therefore ensuring proper internal control. Additionally, balanced workloads will ensure that employees have the appropriate time to dedicate to the accurate completion of their tasks and will also improve employee morale.

Management Response

Contrary to this finding, the District has reorganized its business unit, implemented new Best Management Practices, began developing proper Operations/Maintenance and Procedures Manuals, and opened new lines of communications to address previous deficiencies between the Board, upper management, and staff. Work assignments are being reassessed and reassigned to provide a balanced and measurable accountability schedule, along with providing comprehensive and understandable job descriptions for each employee to follow. A completely refined and expansive Operations and Maintenance Manual is currently being drafted to incorporate easy-to-understand procedures and responsibility lines for each assignment center. This finding touches on past practices that have already begun to be corrected with quantitative Best Management Practices and better communications for Quality Assurance, institutional awareness, comprehensive monitoring controls, and improved employee morale.

2009-2 Develop an Organization Chart

The District does not have an organization chart. There is a natural tendency to dismiss the need for an organization chart in a small business where management deals more or less directly with each employee, and where all personnel know each other and are generally aware of each other's area of responsibility. However, without an organization chart, there may be confusion about who is really accountable for particular areas and to whom employees are responsible. The result could be that some areas of operations do not receive adequate attention or that duplicative or contradictory actions are taken. A good organization chart can prevent such misunderstandings and also increase administrative efficiency and control in the following ways:

- Indicate whether there is appropriate allocation of operating and supervisory responsibility.
- Indicate whether there is an adequate separation of duties.
- Inform management, new employees, and others of the District's management and operating style.

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- Provide information for management to monitor and inquire into operations and procedures, assign new duties or responsibilities that may arise, or make reassignments when employee turnover, promotions, operational needs, desire for better separation of duties, or other circumstances call for it.

I recommend that management prepare and maintain a chart of organization in sufficient detail to indicate the District's major areas of operations, the person responsible for each area, and who each supervisor reports to as well as which employees report to each supervisor. The chart should be updated whenever there is significant employee turnover or change in operations.

Management Response

The District has recently reorganized with a middle management layer for improved internal monitoring while creating another level of organizational structure for key leadership positions. Past performances relied simply on tenure and experience in a given job title without recognizing the need to disseminate responsibilities and workloads appropriately. This style of organizational accountability allowed for too many operational deficiencies to occur without proper managerial oversight and controls. With our improved business control measures, the District is developing an organizational structure that makes sense, and allows each employee an opportunity to understand responsibility divisions more clearly. As we move forward with increased staff representation, proper separation of duties will allow for more coverage and increased support within our rank and file.

It is important to note that during the Auditor's field visit the District was operating under a diminished organizational structure that has since been dramatically improved upon with the addition of an Assistant General Manager and two lead positions in Field Operations and Office Administration. We are now able to monitor workflow more efficiently and delegate assignments without relying on tenure as a determining factor.

Our Organization Chart is now available for District Operation purpose and public review.

Prior Years Comments

2008-2 Computer Controls

Our audit was delayed from the initially scheduled field work dates in October 2008 until December 2008 as a result of a computer hard drive crash on the Administrative Supervisors computer. Upon further investigation, it was brought to our attention that all of the financial records of the District are maintained on this same computer. The District's management was able to restore some of this data however; the potential loss could have been devastating to the District. In reviewing the District's computer network we learned that the District does not have a sufficient server capacity or routine system backups.

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We recommend that the District consider adopting one or more of the following reasonably priced alternative backup methods, which can address these shortcomings as well as address additional data security issues:

- Magnetic Tape Drive - the tape drive can hold very large amounts of data; however, it is relatively slow.
- Online Storage - the District could contract with an outside vendor for online storage service, which involves sending backup data over the Internet to the host storage site.

Some of these backup-recovery service providers (BRSP) offer real-time copying of data as well as retrieval and restoration service for lost data. In addition to backing up data, the District should also back up and store operating systems, applications, and the emergency startup CDs necessary for booting the computer. Also, it is important to keep these startup CDs updated for changes made to the computer hardware.

It was brought to our attention by the new executive director that as a result of the former executive director's transition process, some sensitive data is no longer accessible within the District's computers and servers. A properly set up network will prevent the storage of documents in local computers by requiring all data to be saved on a file server. If the file server is backed up routinely, hard drive failure or removal would not cause the loss of vital data.

Management Response

The District has entered into a Master Services Agreement with a qualified, bonded and licensed Computer and Network Resources Management company to overcome these serious deficiencies. As with many business organizations, this assessment was made during a time of internal confusion and disorganization, so certain applications were left unchanged or only partially remedied. The District is moving far and away from these sorts of limited system correction practices by utilizing better networking techniques to provide improved data backup system, better security, and expand our storage capabilities for improved data recovery.

2008-3 Budget

Our audit opinion has been issued with the contingency of a going concern. This states to the readers of the District's financial statements that the District's auditors have found substantial doubt about the District's ability to maintain operations at sufficient levels to remain in business. In response to our concerns management provided several updated budgets which were unclear in nature therefore ineffective. The fundamental purpose of budgetary control is to plan beforehand the most efficient operation and then maintain operations according to the budget.

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2007-1 Payroll

In our review of payroll and related liabilities we noted several manual procedures that can be automated. The District has purchased a new automated time card system. However, field staff is not using it and continue to note their hours manually on time cards. We recommend the District enact a policy of requiring all employees to use the time clock.

Most paychecks are being processed using an automated service that computes wages, withholding, and net pay based on the hours entered; and paychecks are automatically deposited to employees' checking accounts. However, checks for some employees are prepared manually and given to employees. This requires quarterly federal and state payroll reports to be prepared manually, because the automated service does not recognize the manual paychecks. To save labor costs and reduce the potential for error related to processing manual checks, we recommend the District purchase a more enhanced payroll processing service that can handle manual checks and process all regulatory filings. We noted that disbursement lists provided routinely to the Board do not include EFTs for net pay and payroll tax deposits. We recommend all EFT withdrawals be included.

Status

The Electronic Fund Transfer transactions are included in our monthly reports that are presented to the Board of Directors during Monthly Board meetings. Those same Electronic Fund Transfer transaction reports are available for public review. We addressed this finding with a change in 2009.

2007-2 Accounting Policies

Our review of internal controls brought to our attention the fact that the District has no current formal accounting policies and procedures. Having an up to date accounting policies and procedures manual will provide for efficient training of new staff, effective and timely financial reporting and consistency with in the Administrative department. We recommend the District update their accounting policies manual that should address management's risk factors in relation to financial reporting

Status

With the development of a comprehensive Operations and Maintenance Manual, we are currently drafting step-by-step procedures for staff to follow, improve upon and pass along for the District's posterity. Our Administrative Lead employee has been assigned the task of identifying historical consistency models for timely financial reporting and effective how-to procedures and practices. It is currently special work in progress that will be assessed, aligned with our Best Management Practices, incorporated with Operations and Maintenance guidelines, and updated regularly.

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2007-3 Policies Governing General Manager

Our review of internal controls brought to our attention the fact that the Board is inconsistent in their application of District policies. The duties of the General Manager are clearly stated in board resolution 1996-09-01 subsection 2.10.230 however; we noted disorganization in the current year budget process that could have been avoided if the policies had been followed. We recommend that the Board and General Manager follow written policies, and that such policies be adjusted if circumstances warrant it.

Status

The budget is now proposed, periodically checked, and presented to the Board by the General Manager who is also responsible for reviewing transactions prior to payment as set forth in Resolution 1996-09-01 Subsection 2.10.230. The previous disorganization and resulting confusion has been eliminated and thereby resolves this finding.

2007-4 Accounts Receivable Billings

The current system of accounts receivable for water customers is sufficiently designed for the District's needs. However, we noted a few receivables for which the District's current processes do not catch. These receivables are related to the additional billings the Water Utility Supervisor produces. We recommend these receivables be entered into QuickBooks prior to being mailed. This will provide the Administrative Supervisor oversight to ensure proper recording and collection of these bills.

Status

With the addition of our middle management layer and better communications between our field operations and office through our Assistant General Manager and Operations Lead employee, this finding has been systematically addressed and corrected. We have taken the necessary steps to provide field operations billing information directly to the Administrative Lead representative to remedy this problem.