

DURHAM IRRIGATION DISTRICT
Durham, California

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
December 31, 2010

**DURHAM IRRIGATION DISTRICT
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December 31, 2010**

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**DURHAM IRRIGATION DISTRICT
BOARD OF DIRECTORS
December 31, 2010**

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Nick Gore	President/General Manager	December 2012
Gary Wolf	Director	Stepped Down
Raymond Cooper	Director	December 2012
Dirck Sauer	Director	December 2013



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Durham Irrigation District
Durham, California

We have audited the accompanying statement of net assets of Durham Irrigation District (District) as of December 31, 2010, and the related statement of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented a Management Discussion and Analysis or budgetary comparison information for the proprietary fund as required supplementary information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Matthews Hutton & Warren

MATTHEWS, HUTTON & WARREN, CPAS
Paradise, California

June 21, 2011

DURHAM IRRIGATION DISTRICT
STATEMENT OF NET ASSETS
December 31, 2010

ASSETS

Current Assets:

Cash and cash equivalents	\$ 93,404
Accounts receivable	9,170
Total Current Assets	<u>102,574</u>

Noncurrent Assets:

Capital assets, net of depreciation	479,669
Total Assets	<u><u>\$ 582,243</u></u>

LIABILITIES

Current Liabilities:

Accounts payable	\$ 8,550
Total Liabilities	<u>8,550</u>

NET ASSETS

Invested in capital assets, net of related debt	479,669
Unrestricted	94,024
Total Net Assets	<u>573,693</u>
Total Liabilities and Net Assets	<u><u>\$ 582,243</u></u>

See Accompanying Notes to Financial Statements

DURHAM IRRIGATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS
For the Year Ended December 31, 2010

OPERATING REVENUES	
Water sales	\$ 129,200
Meter installations	2,225
Other income	392
Total Operating Revenues	<u>131,817</u>
OPERATING EXPENSES	
Repairs and maintenance	62,688
Power	38,373
Water treatment	6,448
Transmission and distribution	3,019
Administration and general	69,441
Total Operating Expenses	<u>179,969</u>
OPERATING INCOME (LOSS)	(48,152)
NONOPERATING REVENUES	
Interest income	212
CHANGE IN NET ASSETS	(47,940)
NET ASSETS - BEGINNING OF YEAR	<u>621,633</u>
NET ASSETS - END OF YEAR	<u>\$ 573,693</u>

See Accompanying Notes to Financial Statements

DURHAM IRRIGATION DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2010

Cash Flows From Operating Activities:

Cash receipts from customer water sales	\$ 131,482
Cash payments to employees for services	(14,007)
Cash payments to suppliers of goods and services	(146,538)
Net Cash Provided (Used) by Operating Activities	<u>(29,063)</u>

Cash Flows From Investing Activities

Interest earnings	<u>212</u>
Net Cash Provided (Used) By Investing Activities	<u>212</u>

Net Increase (Decrease) in Cash and Cash Equivalents	(28,851)
Cash and Cash Equivalents - Beginning of year	<u>122,255</u>
Cash and Cash Equivalents - End of year	<u>\$ 93,404</u>

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities

Operating income (loss)	\$ (48,152)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	19,135
Decrease (Increase) in accounts receivable	(335)
Increase (decrease) in accounts payable	289
Net Cash Provided (Used) By Operating Activities	<u>\$ (29,063)</u>

See Accompanying Notes to Financial Statements

DURHAM IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Durham Irrigation District (District) is a political subdivision of the State of California, existing pursuant to Section 20700 et seq. of the California Water Code. The District provides domestic water to residents located in Durham, California. The District is governed by a three-member Board of Directors.

Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales). The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. The District applies all applicable GASB pronouncements in accounting and reporting its operations.

Operating revenues, such as water sales, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as investments income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

Enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by the Governmental Accounting Standards Board (GASB).

During 2009, FASB unanimously voted that the FASB Accounting Standards Codification ("Codification") will be the single source of authoritative nongovernmental Generally Accepted Accounting Principles in the United States of America (GAAP). The Codification will be effective for financial statements that cover interim and annual periods ending after September 15, 2009. Other than resolving certain minor inconsistencies in current GAAP, the Codification is not supposed to change GAAP, but is intended to make it easier to find and research GAAP applicable to a particular transaction or specific accounting issue. The Codification is a new structure which takes accounting pronouncements and organizes them by approximately 90 accounting topics.

DURHAM IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Cash and Cash Equivalents

For the purpose of the statements of cash flows, Durham Irrigation District considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents.

Accounts Receivable

Durham Irrigation District utilizes the allowance method of accounting for uncollectible accounts receivable. At December 31, 2010, no allowance was deemed necessary.

Capital Contributions

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

Capital Assets

Capital asset acquisitions are recorded at historical cost. When assets are retired or otherwise disposed of, the carrying value and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, ranging from five to fifty years using the straight-line method. The cost of repairs and maintenance is charged to expense as incurred and significant renewals and betterments are capitalized. The capitalization threshold is based on the Board's discretion.

Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

Invested in Capital Assets, Net of Related Debt

This consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt related to the acquisition, construction or improvement of those assets.

Unrestricted Net Assets

This consists of net assets that do not meet the definition of *restricted* or *invested in capital assets, net of related debt*.

DURHAM IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of December 31, 2010:

Deposits held with financial institutions	\$ 93,304
Cash on hand	100
Total	<u>\$ 93,404</u>

Authorized Deposits and Investments

The District has not formally adopted deposit and investment policies but is generally authorized under state statute and local resolutions to invest in demand deposits with financial institutions, savings accounts, certificates of deposit, U.S. Treasury securities, federal agency securities, State of California notes or bonds, notes or bonds of agencies within the State of California, obligations guaranteed by the Small Business Administration, bankers' acceptances, commercial paper, and the Local Agency Investment Fund of the State of California.

Custodial Credit Risk

Under the California Government Code, California Banks and Savings and Loan Associations are required to secure deposits made by state or local governmental units by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Deposits of cities and other state or local governments are classified in three categories of credit risk.

Category 1 - includes deposits that are insured or collateralized with securities held by Durham Irrigation District or its agent in Durham Irrigation District's name.

Category 2 - includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in Durham Irrigation District's undivided collateral pool held by an authorized Agent of Depository and subject to certain regulatory requirements under State law.

Category 3 - includes deposits collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in Durham Irrigation District's name. Category 3 also includes any uncollateralized deposits.

**DURHAM IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

At December 31, 2010, the carrying amounts of Durham Irrigation District's deposits were \$93,304. The bank balances were \$91,696. The difference is due to normal deposits in transit and outstanding checks. Durham Irrigation District's cash deposits are as follows:

	<u>Category</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Bank deposits at December 31, 2010	<u>\$91,696</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$91,696</u>	<u>\$93,304</u>

NOTE 3 – CAPITAL ASSETS

Changes in capital assets for 2010, is summarized as follows:

	<u>Balance 2009</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets:				
Land	\$ 20,331	0	0	\$ 20,331
Total non-depreciable assets:	<u>20,331</u>	<u>0</u>	<u>0</u>	<u>20,331</u>
Depreciable assets:				
Structures	13,764	0	0	13,764
Wells	76,105	0	0	76,105
Pumps	74,877	0	0	74,877
Mains	555,394	0	0	555,394
Equipment	<u>59,287</u>	<u>0</u>	<u>0</u>	<u>59,287</u>
Total depreciable assets	779,427	0	0	779,427
Less accumulated depreciation	<u>(300,954)</u>	<u>(19,135)</u>	<u>0</u>	<u>(320,089)</u>
Total depreciable assets, net	<u>478,473</u>	<u>(19,135)</u>	<u>0</u>	<u>459,338</u>
Total capital assets, net	<u>\$ 498,804</u>			<u>\$ 479,669</u>

Depreciation expense for the year ended December 31, 2010 was \$19,135.

DURHAM IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 4 – RISK MANAGEMENT - INSURANCE

Durham Irrigation District is a member of the Special District Risk Management Authority (SDRMA), and intergovernmental risk sharing joint powers authority, created pursuant to California Government Code Sections 6500 et. Seq. SDRMA's board of directors consists of seven members, five of whom are employees or board members of a member district. The board reviews insurance brokers' recommendations, potential exposures and other applicable information to determine membership eligibility. SDRMA has 150 member districts. Any district created under California law and a member of the California Special Districts Association may apply for membership and risk financing.

The following policies are in effect for Durham Irrigation District as of December 31, 2010:

General Liability: \$2,500,000 per occurrence from personal injury and property damage subject to a \$500 deductible.

Public Officials and Employees Errors: \$2,500,000 per occurrence, with an annual aggregate of \$2,500,000.

Personal Liability Coverage for Board Members: \$500,000 per occurrence, \$500,000 general aggregate, subject to a \$500 deductible.

Employment Practices and Benefits Liability: \$2,500,000 per occurrence with an annual aggregate of \$2,500,000.

Employee Dishonesty Coverage: \$400,000 per occurrence.

Property Loss: Replacement cost, for property on file, if replaced, and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of \$1 billion per occurrence, subject to a \$2,000 deductible per occurrence.

Boiler and Machinery: Replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible.

Auto Liability: \$2,500,000 per occurrence for personal injury and property damage subject to a \$1,000 deductible.

Uninsured/Underinsured Motorists: \$750,000 for each accident.

As of December 31, 2010 there were no reported claims filed against Durham Irrigation District.

**DURHAM IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

NOTE 5 – PENSION PLAN

Durham Irrigation District employees participate in a simplified employee pension plan, which covers all employees who have reached 21 years of age and have completed at least two years of service within the previous five years. Employer contributions, which are based on 7.65% of the employee's regular salary, amounted to \$981 for the year ended December 31, 2010.

NOTE 6 – BUDGETARY COMPARISON INFORMATION

The District has not adopted a budget for the year ended December 31, 2010 since it is not legally required to do so. Therefore comparative budget and actual results have not been included as required supplementary information.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The District is party to various claims, legal actions and complaints that arise in the normal operation of business. Management and the District's legal counsel believe that there are no material loss contingencies that would have a material adverse impact on the financial position of the District.

NOTE 8 – SUBSEQUENT EVENTS

During 2010, the District commissioned a study to look at capital improvements and increasing water and meter installation rates. The District has not raised their rates in over 11 years and plans on phasing in the increases over the next four years. The District held a public meeting on March 14, 2011 to take comments and answer questions. The rates will increase in the first year at approximately 50% of the former rates and at 10% for each of the following years until July 1, 2014. The first rate increase went into effect April 1, 2011.

Management has evaluated subsequent events through the date which the financial statements have been issued and has verified that all relevant subsequent events have been reported in this section of the notes to the financial statements.