

DURHAM IRRIGATION DISTRICT
Durham, California

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
December 31, 2012

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**DURHAM IRRIGATION DISTRICT
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December 31, 2012**

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DURHAM IRRIGATION DISTRICT
BOARD OF DIRECTORS
December 31, 2012

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Nick Gore	President/General Manager	December 2014
Raymond Cooper	Director	December 2014
Dirck Sauer	Director	December 2013

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Durham Irrigation District
Durham, California

We have audited the accompanying financial statements of the business-type activity of the Durham Irrigation District (the District), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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**INDEPENDENT AUDITOR'S REPORT
(Continued)**

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2012, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Management has omitted a management discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



MATTHEWS, HUTTON & WARREN, CPAS
Paradise, California

July 22, 2013

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**DURHAM IRRIGATION DISTRICT
STATEMENT OF NET POSITION
December 31, 2012**

ASSETS

Current assets:		
Cash and cash equivalents	\$	131,789
Accounts receivable		<u>17,823</u>
Total current assets		149,612
Capital assets:		
Capital assets, net of depreciation		<u>477,703</u>
Total Assets	\$	<u>627,314</u>

LIABILITIES

Current liabilities:		
Accounts payable	\$	<u>8,376</u>
Total liabilities		<u>8,376</u>

NET POSITION

Net investment in capital assets		477,703
Unrestricted		<u>141,235</u>
Total net position		<u>618,938</u>
Total liabilities and net position	\$	<u>627,314</u>

See Accompanying Notes to Financial Statements

DURHAM IRRIGATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2012

Operating revenues:	
Water sales	\$ 193,292
Meter installations	650
Other income	<u>881</u>
Total operating revenues	<u>194,823</u>
Operating expenses:	
Repairs and maintenance	39,649
Power	36,788
Water treatment	4,609
Transmission and distribution	10,350
Administration and general	<u>73,253</u>
Total operating expenses	<u>164,649</u>
Operating income (loss)	<u>30,174</u>
Non-operating revenues (expenses):	
Interest income	7
Gain on sale of capital assets	<u>3,500</u>
Total non-operating revenue (expense)	<u>3,507</u>
Change in net position	33,681
Net position - beginning of year	<u>585,257</u>
Net position - end of year	<u>\$ 618,938</u>

See Accompanying Notes to Financial Statements

DURHAM IRRIGATION DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2012

Cash flows from operating activities:

Cash receipts from water sales	\$ 191,376
Cash payments to employees for services	(14,572)
Cash payments to suppliers of goods and services	<u>(127,464)</u>
Net Cash Provided (Used) by Operating Activities	<u>49,341</u>

Cash flows from capital and related financing activities

Gain on sale of capital assets	3,500
Purchase of capital assets	<u>(14,323)</u>
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(10,823)</u>

Cash flows from investing activities

Interest earnings	<u>7</u>
Net Cash Provided (Used) By Investing Activities	<u>7</u>

Net increase (decrease) in cash and cash equivalents	38,524
Cash and cash equivalents - beginning of year	<u>93,265</u>
Cash and cash equivalents - end of year	<u><u>\$ 131,789</u></u>

Reconciliation of operating income (loss) to net cash provided (used) by operating activities

Operating income (loss)	\$ 30,174
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	20,397
Decrease (increase) in accounts receivable	(3,447)
Increase (decrease) in accounts payable	2,089
Increase (decrease) in accrued payroll expenses	<u>126</u>
Net cash provided (used) by operating activities	<u><u>\$ 49,341</u></u>

See Accompanying Notes to Financial Statements

DURHAM IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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).

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.

DURHAM IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Durham Irrigation District utilizes the allowance method of accounting for uncollectible accounts receivable. At December 31, 2012, 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 Position

The financial statements utilize a net position presentation. Net position are classified as follows:

Net investment in capital assets

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 Positions

This consists of unrestricted resources to satisfy future spending plans. There is no external restriction on these amounts and the future use of these funds may be modified, amended or removed by Board action.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of December 31, 2012:

Deposits held with financial institutions	\$ 131,689
Cash on hand	100
Total	<u>\$ 131,789</u>

DURHAM IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

At December 31, 2012, the carrying amounts of Durham Irrigation District's deposits were \$131,689. The bank balances were \$131,109. The difference is due to normal deposits in transit and outstanding checks.

Deposits with Financial Institutions

Deposits with financial institutions, effective October 3, 2008, are insured by the Federal Deposit Insurance Corporation ("FDIC") in the amount of \$250,000 per depositor. The FDIC's standard insurance amount was to revert to \$100,000 after December 31, 2013. On July 21, 2010, the \$250,000 amount was made permanent. Full deposit insurance coverage for non-interest bearing accounts is provided for under the Dodd-Frank Act, effective from December 31, 2010 through December 31, 2012. As of December 31, 2012, all of the District's deposits with financial institutions are fully insured.

Custodial Credit Risk

Cash is classified in three categories of credit risk based upon the following criteria:

Category 1 - The deposits are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 - The deposits are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. Under the California Government Code Section 53652, a financial institution is required to secure deposits in excess of \$250,000 made by state or local governmental units by pledging securities held in the form of an undivided collateral pool. 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 public deposits by pledging first trust deed mortgage notes having a value of 150% of those deposits. The collateral must be held at the pledging bank's trust department or other bank, acting as the pledging bank's agent, in the District's name.

Category 3 - The deposits are uncollateralized.

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. The District did not hold any investments at December 31, 2012.

**DURHAM IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

NOTE 3 – CAPITAL ASSETS

Changes in capital assets for 2012, is summarized as follows:

	<u>Balance 2011</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2012</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	97,727	5,423	0	103,150
Mains	555,395	0	0	555,395
Equipment	<u>59,287</u>	<u>8,900</u>	<u>(20,596)</u>	<u>47,591</u>
Total depreciable assets	802,278	14,323	(20,596)	796,005
Less accumulated depreciation	<u>(338,832)</u>	<u>(20,397)</u>	<u>20,596</u>	<u>(338,633)</u>
Total depreciable assets, net	<u>463,446</u>	<u>(6,074)</u>	<u>0</u>	<u>457,372</u>
Total capital assets, net	<u>\$ 483,777</u>			<u>\$ 477,703</u>

Depreciation expense for the year ended December 31, 2012 was \$20,397.

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.

**DURHAM IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

NOTE 4 – RISK MANAGEMENT – INSURANCE (CONTINUED)

The following policies are in effect for Durham Irrigation District as of December 31, 2012:

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, 2012 there were no reported claims filed against Durham Irrigation District.

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, which is administered by USAA Financial Advisors, Inc. Employer contributions, which are based on 7.65% of the employee's regular salary, amounted to \$793 for the year ended December 31, 2012.

DURHAM IRRIGATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 6 – BUDGETARY COMPARISON INFORMATION

The District has not adopted a budget for the year ended December 31, 2012 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 – RESTRICTED RESOURCES

The District has not formally adopted a policy regarding when to apply restricted or unrestricted resources as all of the District's resources are unrestricted.

NOTE 9 – SUBSEQUENT EVENTS

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.

The District contracted with Agri-Electric to perform major improvements to Well Site #5 as of April 2013. The estimated cost of the improvements to the District is \$39,882.