

*ANDERSON VALLEY COMMUNITY
SERVICES DISTRICT*

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2012

**ANDERSON VALLEY COMMUNITY SERVICES DISTRICT
AUDITED FINANCIAL STATEMENTS**

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ANDERSON VALLEY COMMUNITY SERVICES DISTRICT
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Boonville, CA 95415
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Directors: Valerie Hanelt, Chair
 Kathleen McKenna
 Frederick Martin
 Henry Gundling
 Kirk Wilder

CSD General Manager: Joy Andrews
 Fire Chief: Colin H. Wilson
 Airport Committee Chair: Kirk Wilder
 Recreation Committee Chair: Linnea Totten
 Secretary to the Board: Joanie Clark

MANAGEMENT’S DISCUSSION AND ANALYSIS

This narrative overview of the financial activities of the Anderson Valley Community Service District is prepared for the fiscal year ended June 30, 2012

FINANCIAL HIGHLIGHTS:

ASSETS	<u>June 30, 2012</u>	<u>June 30, 2011</u>
CURRENT ASSETS:	\$ 540,222	\$ 556,980
CAPITAL ASSETS-NET:	\$ <u>1,399,800</u>	\$ <u>1,420,629</u>
OTHER ASSETS	\$ <u>6,907</u>	\$ -0-
TOTAL ASSETS:	<u>\$ 1,946,929</u>	<u>\$ 1,977,609</u>
LIABILITIES		
CURRENT LIABILITIES	\$ 44,011	\$ 11,884
NON-CURRENT LIABILITIES:	\$ <u>36,558</u>	\$ <u>109,554</u>
TOTAL LIABILITIES:	<u>\$ 80,569</u>	<u>\$ 121,438</u>
NET ASSETS		
INVESTED IN CAPITAL ASSETS		
NET OF DEBT:	\$ 1,325,898	\$ 1,311,075
RESTRICTED:	\$ 5,424	\$ 1,421
UNRESTRICTED:	\$ <u>535,038</u>	\$ <u>543,675</u>
TOTAL NET ASSETS:	<u>\$ 1,866,368</u>	<u>\$ 1,856,171</u>

- Cash has decreased by \$12,898 over the prior year.
- Current assets have decreased due to the decrease in cash due to purchase of equipment.
- Current liabilities have decreased due to a reduction in accounts payable and accrued expenses.
- Capital Assets have increased primarily due to purchase of new fire apparatus.
- Revenues are down by \$121,000 due largely to a decrease in contributions and charges for services.
- Expenditures remained largely unchanged.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most financially significant expenses.

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

These two statements report the District's net assets and changes in them. You can think of the District's net assets, the difference between assets and liabilities as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating.

The District's services are reported in both a governmental fund and proprietary fund. The governmental fund focuses on how money flows into and out of the fund, and the balances left at year-end that are available for spending. AVCS D governmental funds include the Fire Department, Community Services, and the Recreation Committee/Teen Center. Governmental funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statement provides a detailed short-term view of the District's operations and the services it provides. The governmental fund statement of revenues, expenditures, and changes in fund balance is reconciled to the statement of activities in the financial statements.

The proprietary fund (Airport) presents its financial statements using the economic resources measurement focus and accrual method of accounting. The Airport is reported separately in the government-wide statement of net assets, and in a proprietary fund statement of revenues, expenses and changes in net assets. The Airport is also required to present a statement of cash flows.

NOTES TO FINANCIAL STATEMENTS

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the District's fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve as a useful indicator of a government's financial position. In the case of AVCSD, assets exceed liabilities by \$1,866,368—an increase of \$10,197—compared with the prior year. The largest portion of AVCSD's net assets reflects its investment in capital assets. AVCSD uses these assets to provide services to citizens and, therefore, they are not available for future spending.

The Statement of Activities presents program revenues and expenses and general revenues in detail. A summary of the District's Statement of Activities is presented below:

REVENUES	<u>JUNE 30, 2011</u>	<u>JUNE 30, 2012</u>
PROGRAM REVENUES		
ASSESSMENTS	\$ 140,471	\$ 143,012
CHARGES FOR SERVICES	\$ 20,721	\$ 39,787
GRANTS & CONTRIBUTIONS	\$ 59,293	\$ 149,908
GENERAL REVENUES		
CAPITAL GRANTS	-----	\$ 20,000
PROPERTY TAXES	\$ 213,746	\$ 207,747
INVESTMENT EARNINGS	\$ 1,218	\$ 1,247
MISCELLANEOUS	\$ -0-	-----
TOTAL REVENUES	\$ 437,990	\$ 559,160
EXPENSES	<u>\$ 428,386</u>	<u>\$ 430,673</u>
INCREASE IN NET ASSETS	\$ 9,604	\$ 128,487

ANNUAL BUDGET

Overall, the budget versus the actuals was fairly close. The Boonville Airport was over budget on hay cutting due to the unpredictability of that seasonal crop, however, they also received more hay sales revenue than anticipated due to the fact they were able to cut and sell the hay this year. The Teen Center did not receive as much grant revenue as anticipated.

CAPITAL ASSETS AND LONG-TERM DEBT

The District carries one long-term debt for a fire engine and firehouse loan, which is paid twice a year, until its term ends in 2014. The Fire Department holds a designated reserve account that may be used to pay down that liability early. The District purchased new fire apparatus during the year for its Yorkville station.

SIGNIFICANT FACTS AFFECTING THE DISTRICT

1. Many volunteer fire departments pay a per-call stipend to volunteer firefighters who are issued a 1099 at the end of the year. A question arose whether or not the stipend should be paid as wages with payroll taxes withheld. During the research between the IRS and the Fair Labor Standards Act, the volunteer firefighters did not go on strike teams with Cal Fire. The IRS has determined that the per-call stipend must be treated as wages and have payroll taxes withheld. Therefore The District will now pay these stipends as wages with taxes withheld and can now go on strike teams again in the coming fire season.
2. The Fire Chief's employment contract ends June 30, 2014. Because he has accrued a significant amount of unused vacation time, he expects to leave up to two months early. A replacement cost in addition to the paid vacation time is expected.

Joy Andrews
District Manager/CFO
Anderson Valley Community Services District

January 8, 2013

Wendy S. Boise, CPA



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The Board of Directors
Anderson Valley Community Services District

Independent Auditor's Report

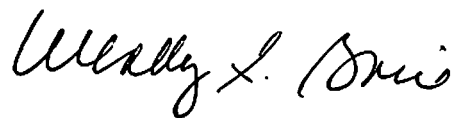
I have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Anderson Valley Community Services District (the District), a California governmental special district, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

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 opinion.

In my opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities, the business-type activities each major fund, and the aggregate remaining fund information of the Anderson Valley Community Services District as of June 30, 2012 and the change in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis beginning on page 3 and budgetary comparison information on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required

supplementary information in accordance with auditing standards generally accepted in the United States of America, which may consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide assurance.

A handwritten signature in cursive script, reading "Wesley L. Davis".

January 8, 2013
Fort Bragg, California

Anderson Valley Community Services District
Statement of Net Assets
June 30, 2012

	Governmental Activities	Business-type Activities (Airport)	Total
Assets			
Cash and equivalents	\$ 417,915	\$ 80,887	\$ 498,802
Receivables			
Property taxes	26,401		26,401
CA Prop 1-A	15,019		15,019
Capital assets			
Land	225,000	22,226	247,226
Building & improvements	518,611	771,382	1,289,993
Vehicles	429,920		429,920
Equipment	440,450		440,450
Total capital assets	1,613,981	793,608	2,407,589
Less: accumulated depreciation	(590,506)	(417,283)	(1,007,789)
Total capital assets, net	1,023,475	376,325	1,399,800
Other assets			
Construction in progress	5,483		5,483
Restricted cash	1,424		1,424
Total other assets	6,907		6,907
Total assets	\$ 1,489,717	\$ 457,212	\$ 1,946,929
 Liabilities			
Current liabilities			
Accounts payable	\$ -		\$ -
Accrued vacation	5,646		5,646
Accrued interest	1,021		1,021
Current portion long-term debt	37,344		37,344
Total current liabilities	44,011		44,011
Noncurrent liabilities			
Capital lease payable	73,902		73,902
Less: current portion long-term debt	(37,344)		(37,344)
Total noncurrent liabilities, net	36,558		36,558
Total liabilities	80,569		80,569
 Net Assets			
Invested in capital assets, net of related debt	949,573	376,325	1,325,898
Restricted, Note 1	5,424		5,424
Unrestricted	454,151	80,887	535,038
Total net assets	1,409,148	457,212	1,866,360
Total liabilities and net assets	\$ 1,489,717	\$ 457,212	\$ 1,946,929

**Anderson Valley Community Services District
Statement of Activities
For the Fiscal Year Ended June 30, 2012**

	Program Revenues				
Functions/Programs	Expenses	Special Assessments	Charges for Services	Grants and Contributions	Net (Expense) Revenue
Primary government:					
Governmental activities					
Fire Department	\$ 290,254	\$ 143,012	\$ 9,974	\$ 40,225	\$ (97,043)
Community Services	63,691		4,756	95	(58,840)
Recreation/Teen Center	12,193		1,795	8,973	(1,425)
Interest on long-term debt	4,033				(4,033)
Total governmental activities	370,171	143,012	16,525	49,293	(161,341)
Business-type activities					
Airport	58,215		4,196	10,000	(44,019)
Total primary government	\$ 428,386	\$ 143,012	\$ 20,721	\$ 59,293	\$ (205,360)
			Governmental Activities	Business-type Activities	Total
Changes in net assets			(161,341)	(44,019)	(205,360)
General revenues:					
Property taxes			213,746		213,746
Investment earnings			1,095	123	1,218
Total general revenues			214,841	123	214,964
Change in nets assets			53,500	(43,896)	9,604
Net assets, beginning of year			1,355,648	501,108	1,856,756
Net assets, end of year			\$ 1,409,148	\$ 457,212	\$ 1,866,360

**Anderson Valley Community Services District
Balance Sheet
Governmental Funds
June 30, 2012**

	Fire Department	Community Services	Recreation/ Teen Center	Total Governmental Funds
Assets				
Cash	\$ 334,550	\$ 47,137	\$ 36,228	\$ 417,915
Taxes receivable	21,024	5,377		26,401
Restricted cash		1,424		1,424
Total assets	\$ 355,574	\$ 53,938	\$ 36,228	\$ 445,740
Liabilities				
Accrued interest	1,021			1,021
Accrued vacation	5,646			5,646
Total liabilities	6,667	-	-	6,667
Fund balances				
Restricted, Note 1				
Community rewards and trust fund		1,424		1,424
Outdoor education grant			4,000	
Assigned, Note 1				
Apparatus and structures	149,698			149,698
Debt service	19,232			19,232
Election reserve		11,806		11,806
Equipment/technology		4,714		4,714
Personnel training/bonuses		6,294		6,294
Recreation projects/facilities			20,155	20,155
Unassigned	179,977	29,700	12,073	221,750
Total fund balances	348,907	53,938	36,228	439,073
Total liabilities and fund balances	\$ 355,574	\$ 53,938	\$ 36,228	\$ 445,740

Anderson Valley Community Services District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	<u>Fire Department</u>	<u>Community Services</u>	<u>Recreation/ Teen Center</u>	<u>Total Governmental Funds</u>
Revenues				
Fire service assessment	\$ 143,012			\$ 143,012
General property tax	155,008	\$ 58,738		213,746
Donations	40,225	95	\$ 100	40,420
Grants			4,825	4,825
Charges for services	9,974	4,755	1,795	16,524
Fundraising, net			3,116	3,116
Interest	815	149	131	1,095
Other		1		1
Total revenues	<u>349,034</u>	<u>63,738</u>	<u>9,967</u>	<u>422,739</u>
Expenditures				
Salaries and wages	61,392	32,391	4,605	98,388
Payroll taxes and benefits	10,411	8,907	364	19,682
Insurance-workers' comp	17,000			17,000
Insurance-other	12,612			12,612
Clothing & personal	22,781			22,781
Communications	11,698			11,698
Repairs & maintenance	39,128		5	39,133
Supplies	5,668		142	5,810
Office	3,544	3,558		7,102
Administration fees	2,768	3,130		5,898
Education/training	1,784	342		2,126
Legal & professional	3,021	8,628		11,649
Fuel	16,172			16,172
Utilities	8,724	2,985		11,709
Direct program			5,859	5,859
Other operating	10,324		150	10,474
Other administrative		3,123	136	3,259
Interest	4,033			4,033
Principal paid on long-term debt	35,652			35,652
Capital outlays	96,751			96,751
Total expenditures	<u>363,463</u>	<u>63,064</u>	<u>11,261</u>	<u>437,788</u>
Net change in fund balances	(14,429)	674	(1,294)	(15,049)
Fund balances, beginning	<u>363,336</u>	<u>53,264</u>	<u>37,522</u>	<u>454,122</u>
Fund balances, ending	<u>\$ 348,907</u>	<u>\$ 53,938</u>	<u>\$ 36,228</u>	<u>\$ 439,073</u>

**Anderson Valley Community Services District
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances of Governmental Funds to the
 Financial Statement of Activities
 For the Fiscal Year Ended June 30, 2012**

Net change in fund balances - total governmental funds	\$ (15,049)
Capital outlays are reported as expenditures for the governmental funds but reported as fixed assets which are depreciated over their useful lives for the purpose of the statement of activities.	93,430
The associated depreciation of fixed assets is not recognized for the governmental funds report but is included as an expense for the statement of activities	(60,533)
Re-payment of principal on long-term debt consumes current financial resources and is, therefore, included in the expenditures of governmental funds reports. These repayments are reflected in the statement of activities, but reduce the amount of debt outstanding on the statement of net assets	<u>35,652</u>
Change in net assets of governmental activities	<u><u>\$ 53,500</u></u>

**Anderson Valley Community Services District
Statement of Revenues, Expenses and
Changes in Fund Net Assets - Proprietary Fund
For the Fiscal Year Ended June 30, 2012**

	<u>Airport</u>
Operating revenues	
State CAAP grant	\$ 10,000
Fees for service	2,381
Sales & concessions	1,815
Total operating revenues	14,196
 Operating expenses	
Fund administration	1,500
Insurance	2,750
Maintenance	4,516
Utilities	432
Other operating	773
Depreciation	48,242
Total operating expenses	58,213
Operating income (loss)	(44,017)
 Non-operating income (expense)	
Interest income	123
Change in net assets	(43,894)
 Net assets, beginning of year	501,106
 Net assets, end of year	\$ 457,212

**Anderson Valley Community Services District
Statement of Cash Flows - Proprietary Fund
For the Fiscal Year Ended June 30, 2012**

	<u>Airport</u>
Cash Flows from Operating Activities	
Receipts from state granting agency	\$ 10,000
Receipts for goods and services	4,196
Payments to general fund for administration	(1,500)
Payments for other goods and services	<u>(8,451)</u>
Cash provided by operations	4,245
Cash Flows from Investing Activities	
Interest received	<u>123</u>
Increase in cash and cash equivalents	4,368
Cash and equivalents, beginning	<u>76,519</u>
Cash and equivalents, ending	<u><u>\$ 80,887</u></u>
Reconciliation of Operating Loss to Cash Provided by Operations	
Operating loss	\$ (44,017)
Adjustments to reconcile operating loss to cash provided by operating activities:	
Depreciation	48,242
Decrease in accounts receivable	<u>20</u>
Net cash provided by operating activities	<u><u>\$ 4,245</u></u>

Anderson Valley Community Services District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	<u>Fire Department</u>	<u>Community Services</u>	<u>Recreation/ Teen Center</u>	<u>Total Governmental Funds</u>	<u>Final Budget</u>	<u>Variance Positive (Negative)</u>
Revenues						
Fire service assessment	\$ 143,012			\$ 143,012	\$ 143,000	\$ 12
General property tax	155,008	\$ 58,738		213,746	216,729	(2,983)
Donations	40,225	95	\$ 100	40,420	79,130	(38,710)
Grants			4,825	4,825	2,800	2,025
Charges for services	9,974	4,755	1,795	16,524	15,258	1,266
Fundraising, net			3,116	3,116	4,100	(984)
Interest	815	149	131	1,095	505	590
Other		1		1	1	-
Total revenues	<u>349,034</u>	<u>63,738</u>	<u>9,967</u>	<u>422,739</u>	<u>461,523</u>	<u>(38,784)</u>
Expenditures						
Salaries and wages	61,392	32,391	4,605	98,388	94,928	(3,460)
Payroll taxes and benefits	10,411	8,907	364	19,682	19,638	(44)
Insurance-workers' comp	17,000			17,000	17,000	-
Insurance-other	12,612			12,612	13,000	388
Clothing & personal	22,781			22,781	18,000	(4,781)
Communications	11,698			11,698	10,000	(1,698)
Repairs & maintenance	39,128		5	39,133	25,500	(13,633)
Supplies	5,668		142	5,810	5,000	(810)
Office	3,544	3,558		7,102	7,030	(72)
Administration fees	2,768	3,130		5,898	6,250	352
Education/training	1,784	342		2,126	3,800	1,674

Legal & professional	3,021	8,628		11,649	13,750	2,101
Fuel	16,172			16,172	16,000	(172)
Utilities	8,724	2,985		11,709	11,300	(409)
Direct program			5,859	5,859	4,388	(1,471)
Other operating	10,324		150	10,474	12,110	1,636
Other administrative		3,123	136	3,259	7,102	3,843
Interest	4,033			4,033	8,524	4,491
Principal paid on long-term debt	35,652			35,652	31,854	(3,798)
Capital outlays	96,751			96,751	206,400	109,649
Total expenditures	<u>363,463</u>	<u>63,064</u>	<u>11,261</u>	<u>437,788</u>	<u>531,574</u>	<u>93,786</u>
Net change in fund balance:	<u>\$ (14,429)</u>	<u>\$ 674</u>	<u>\$ (1,294)</u>	<u>\$ (15,049)</u>	<u>\$ (70,051)</u>	<u>\$ 55,002</u>

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Anderson Valley Community Services District (the District) is a reporting entity that consists of the District as the primary government. Status as a primary government is determined by such criteria as financial interdependency, legal separation, and type of governing authority.

The District was formed by the Mendocino County Board of Supervisors on April 21, 1970. Services provided by the district include fire protection, recreation, street lighting, and the operation of the Boonville airport. The District covers the Highway 128 corridor between the towns of Yorkville and Navarro in northwestern California.

Government-wide financial statements

The government-wide financial statements (statement of net assets and statement of activities) report information on all of the non-fiduciary activities of the primary government. The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Revenues not clearly identifiable with a particular function or segment are reported as general revenues.

Measurement focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the District are prepared in conformity with accounting principles generally accepted in the United States of America, as defined by the Governmental Accounting Standards Board (GASB), the independent and authoritative accounting and financial reporting standard setting body for state and local governments.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as restricted net assets until all stipulations imposed by the grantor have been met.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Expenditures are generally recorded when a liability is incurred and expected to be paid from current resources.

Proprietary Fund

Enterprise funds (proprietary fund type) financial statements are accounted using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The proprietary fund consists of the Boonville Airport as the only reporting entity. The enterprise fund method of accounting is used by the District to account for the operations of the airport. This method enables the District to determine the extent to which user charges are covering the costs of providing the service. In addition, if the charges do not cover the costs, the District can determine the amount by which the enterprise would need to be subsidized from other resources.

Fiduciary Funds

The District acts as fiscal agent for two different sources. The Hendy Woods fund consists of donations received during the current fiscal year, which were to be used for keeping the Hendy woods State Park open to the public. Although the park closures are no longer imminent, these funds will be remitted to the state for park use. The amount collected and currently held is \$23,398.

The other agency type funds are being held on behalf of a group attempting to create a walking trail that would span through the district to the coast. The group has received a planning grant that is being administered by the Mendocino Council of Governments. During the current fiscal year, the District collected \$6,211 and expended \$780 on behalf of the project.

Budgetary Information

Annual budgets are prepared and adopted on a non-GAAP basis for all governmental funds. All annual appropriations lapse at the fiscal year end. The budgets are used for operating management and internal accounting control, and may be revised during the year for unanticipated revenues or expenditures.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be highly liquid demand deposits and short-term investments with original maturities of three months or less. The District holds no other type of investment.

Receivables and Revenues

The District, by special election, is authorized to impose a special assessment for fire protection and prevention. The assessment is based on the type and use of the property and is levied annually and collected by the county. The county collects a fee for administration of this service.

General property tax revenue represents the portion of ad valorem taxes received as determined by the County's allocation factor. The County collects the taxes and distributes them to the taxing jurisdictions based on assessed value subject to adjustments for voter-approved debt. Property taxes are levied on July 1, are due on November 1 and February 1, and become delinquent on December 10 and April 10.

Taxes and assessments are recognized upon receipt by the District or accrued as explained in the government-wide financial statements presentation.

CA Prop 1A receivable represents property taxes, which were "borrowed" by the state during the fiscal year ended June 30, 2010 and are required to be returned by June 30, 2013.

Capital Assets

Capital assets are stated at historical cost or, if donated, at their fair market value at the date of donation, and depreciated over their estimated useful lives. Capital assets are defined by the District as assets with an estimated useful life greater than one year and an initial cost of \$4,000 or more. Major improvements that significantly improve or extend the life of an asset are recorded in the related capital assets account. Minor improvements are charged against earnings in the period incurred.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Asset class	Years
Buildings	15-30
Land improvements	10-15
Fire engines	7-20
Other vehicles	7-10
Equipment	5-15

Long-term Debt

Long-term debt is reported as a liability in the government-wide financial statements. In the governmental fund statements, principal and interest payments are reported as expenditures.

Restricted Net Assets and Fund Balances

Restricted net assets and fund balances represent amounts received whose use is constrained by imposition of external creditors, grantors, contributors, or laws and regulations. At June 30, 2012, the

District held \$5,424 in funds which meet this criteria. Assigned fund balances represent tentative plans by the District to use the amounts shown for the indicated purpose and are subject to change or modification.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences

One employee, the fire chief, accrues vacation and sick leave. Vacation pay vests, while sick leave does not. The chief's contract indicates that he accrues 18 days per year with a maximum accrual of 30 days. At June 30, 2012, the chief had accrued approximately 23 days. The recorded value of this accrual at June 30, 2012 was \$5,646.

NOTE 2 – CUSTODIAL CREDIT RISK

Custodial credit Risk for deposits is the risk that in the event of a failure in a depository financial institution, a government will not be able to recover its deposits or recover collateral securities that are in the possession of an outside party. Custodial credit risk for deposits in the Savings Bank of Mendocino County is negligible because FDIC covers all deposits. In accordance with GASB Statement 40 disclosure requirements, cash invested in external investment pools and in open-ended mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

	<u>Balance</u> <u>July 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30</u>
Land	\$ 247,226			\$ 247,246
Buildings and improvements	1,289,993			1,289,993
Vehicles and equipment	<u>782,424</u>	<u>\$ 87,926</u>		<u>870,350</u>
Total capital assets	2,319,643	87,946		2,407,589
Less accumulated depreciation	<u>(899,014)</u>			<u>(1,007,789)</u>
Capital assets, net	<u>\$1,420,629</u>			<u>\$ 1,399,800</u>

NOTE 4 – LONG-TERM DEBT

Long-term debt at June 30, 2012 consists of a capital lease, secured by the firehouse and a 2005 fire truck. The net proceeds of \$345,241 were used to acquire the fire truck (total cost \$193,173) and refinance the loan on the building. Semi-annual payments of \$20,189, which include principal and interest, are due in September and March of each year. The effective annual interest rate is 4.69%

The following is a summary of future minimum payments on this contract:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 37,344	\$ 3,033	\$ 40,377
2014	<u>36,558</u>	<u>1,261</u>	<u>37,819</u>
	<u>\$ 73,902</u>	<u>\$ 4,294</u>	<u>\$ 78,196</u>

NOTE 5 – EMPLOYEE RETIREMENT PLAN

The only participant in the District's retirement plan is the Fire Chief. By contract, the annual contribution by the District to the plan is \$5,000. The plan was established under Internal Revenue code section 408(k) and is considered a simplified employee pension, or SEP-IRA and is identified as a defined contribution plan. The eligible employee administers the plan because the contributions vest immediately upon deposit. All of the contributions are made by the District. Contributions for the fiscal year ending June 30, 2012 totaled \$5,000.

Wendy S. Boise, CPA



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The Board of Directors and Management
Anderson Valley Community Services District
Boonville, California

In planning and performing my audit of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Anderson Valley Community Services District (the District) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, I considered The District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not express an opinion on the effectiveness of the District's internal controls. Accordingly, I do not express such an opinion.

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

During my audit there were no conditions which I consider to be either a material weakness or reportable condition as defined by the American Institute of Certified Public Accountants.

There were, however, some areas that I feel warrant management's attention.

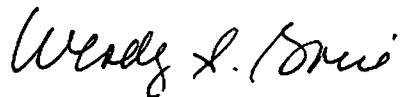
- 1) Paid invoices have the check stub attached, but they should also be "canceled" by being marked as paid to avoid the possibility that the invoice could be paid twice if the stub were removed from the bill.
- 2) To avoid constant obsolescence and potential confusion, policies should include general references, where available, for standard operating items. For example, when discussing travel reimbursement use language referring to the 'federal standard mileage rate' or federal per diem amounts rather than actual dollar limitations.
- 3) Be sure that journal entries are dated in the period they affect. Some prior audit adjustments were dated in the current fiscal year that actually applied to the year ending June 30, 2011.
- 4) All time sheets, including those from the Teen Center, should be approved by a manager.
- 5) Personnel files should be kept in a locked cabinet to avoid improper access.
- 6) When acting as fiscal agent, those funds should be recorded as liabilities and not as revenues. Ideally, there would be a separate account in which to hold them, but that is, understandably, impractical in many cases. In addition, when recording the inflows and outflows for these funds, they should be grouped together in the financial statements, if you intend to categorize them, away from the other operating activities.
- 7) The passwords and safe combination should really be kept somewhere less accessible to anyone who walks into the office and the location of them should be limited to a very few. Anytime there is a change in personnel who has that knowledge, the location should be changed.

I have discussed some of these matters with Joy and she has already begun implementation. Please feel free to contact me if you would like to discuss any of these items further.

In any public organization, but especially in one as small as the Anderson Valley Community Services District it is impossible to fully implement a perfect system of internal controls that include complete segregation of duties. Your District, to its credit, has implemented certain procedures, which mitigate this inherent issue. It is imperative that the Board remain actively involved in the oversight of District operations.

I would like to thank Joy Andrews for her competent and prompt assistance with all my queries. She has done a very nice job keeping all the disparate information together and seems to have a good understanding of the organization's activities.

This report is intended solely for the information and use of the Board of Directors and management of the Anderson Valley Community Services District. This restriction is not intended to limit distribution of this report, which is a matter of public record.

A handwritten signature in cursive script that reads "Wendy S. Brown".

January 8, 2013
Fort Bragg, CA