

Browns Valley Irrigation District

Audited Financial Statements

2011

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BROWNS VALLEY IRRIGATION DISTRICT
Audited Financial Statements
December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Browns Valley Irrigation District
Browns Valley, California

We have audited the accompanying financial statements of the Browns Valley Irrigation District as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Browns Valley Irrigation District. Our responsibility is to express an opinion on these financial statements based on our audit. The financial reports for the year ended December 31, 2010 are presented for comparative purposes only and are not covered by this audit report. We audited the December 31, 2010 financial statements and issued an unqualified audit report thereon, dated September 6, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *State Controller's Minimum Audit Requirements for California Special Districts* and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Browns Valley Irrigation District as of December 31, 2011, and the results of operations for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting principles prescribed by the State Controller's Office and State regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 20, 2012 addressing our consideration of Browns Valley Irrigation District's internal control over financial reporting. Also reported are our findings on the District's

Browns Valley Irrigation District
Independent Auditor's Report

compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.

The Management Discussion and Analysis on pages 4 to 6 and the required supplementary information are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

D.R. Watts Accountancy Corporation

D.R. Watts Accountancy Corporation
July 20, 2012

Management's Discussion and Analysis
December 31, 2011

This discussion and analysis is intended to be a summarized analysis and interpretation of the Browns Valley Irrigation District's financial activities for the year ended December 31, 2011, based on currently known facts, decisions or conditions.

Financial Highlights

- ❖ The assets of the District exceeded its liabilities at the close of the year ended December 31, 2011 by \$10,223,673. Of this amount, \$936,870 is in *Unrestricted Net Assets*.
- ❖ The District's total net assets decreased by \$160,192 from the previous year.
- ❖ The District's operating expenses totaled \$1,669,319 for the current year- a decrease of \$287,224 over last year.
- ❖ The District's current year's total revenue decreased compared to the prior year by \$516,428 to a total of \$ 1,738,570 for the year ended December 31, 2011. Total revenue for the prior year was \$2,254,998. *Out of District Water Sales* decreased by \$621,965 in 2011 compared to the prior year
- ❖ The cash and investment balance available at the end of the current year was \$1,778,258, a decrease of \$246,534 from the prior period.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of the following components: 1) Independent Auditor's Report, 2) Management's Discussion and Analysis, 3) Statement of Net Assets, 4) Statement of Activities, 5) Statement of Cash Flows, and 6) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements. Items 3, 4, 5 and the supplemental statement of operating expenses are in comparative format, showing both the current year and the prior year.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11-20 of this report.

Supplemental Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information: 1) Schedule of Operating Expenses and 2) Statement of Revenue and Expenditures – Budget and Actual. These reports can be found on pages 21 and 22.

Budgetary Highlights

- ❖ Total revenues of the District were less than the budgeted revenues by \$84,250, mainly due to lower than expected *Out of District Sales* revenue and *In District Sales* revenue.
- ❖ Management and General Expense exceeded the budgeted expenses by \$27,328, due mainly to *Legal and Accounting Fees* exceeding the budgeted amount by \$36,940 and *Dues and Membership* exceeding the budgeted amount by \$22,818.
- ❖ Operations Expenses were lower than the budgeted expenses by \$24,966. The Operational Payroll was under budget by \$13,254 and the Utilities - Electric Pumps expense was under budget by \$39,318.

Capital Assets

The District owns real property at its office and yard location on Browns Valley School Road. The District also owns the Collins Lake recreation area, including the dam and powerhouse. Also owned is a fish screen and a pumping facility on the Yuba River, miscellaneous booster pumps, a hydro powered lift pump, and an open ditch and pipeline delivery system. In addition, the District owns a considerable amount of vehicles and district maintenance equipment. These fixed assets, along with additions, deletions, and accumulated depreciation, are detailed in the Notes to the Financial Statements, Note 3.

Additions to the fixed assets during the year included various improvements to the distribution system. The District sold fully depreciated equipment during the year for \$3,500 that had an original cost of \$24,980.

Debt Administration

Long-term debt: There was no new debt incurred during the current year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Browns Valley Irrigation District, Walter Cotter, General Manager at P.O. Box 6, Browns Valley, CA 95918.

BROWNS VALLEY IRRIGATION DISTRICT
 Statements of Net Assets
 December 31, 2011 AND 2010

ASSETS

	2011	2010
Current Assets:		
Cash and Investments (Note 2)	\$ 1,778,258	\$ 2,024,792
Accounts Receivable	27,985	53,306
Accord Conjunctive Funds Receivable (Note 4)	----	182,616
Taxes & Interest Receivable	3,094	4,255
Deposits in transit	----	13,972
Inventory	84,960	82,628
Prepaid Insurance	31,668	36,476
Total Current Assets	1,925,965	2,398,045
Property and Equipment-Net of Accumulated Depreciation (Note 3)	8,740,863	8,796,604
Total Assets	\$ 10,666,828	\$ 11,194,649

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts Payable & Accrued Payroll	\$ 33,674	\$ 141,905
Accord Conjunctive Liability (Note 4)	51,980	262,765
Compensated Absences	248,532	245,627
Deferred Compensation (Note 7)	8,969	60,487
Current Portion of Long-term Debt	100,000	-----
Total Current Liabilities	443,155	710,784
Long-Term Debt (Note 5)	-----	100,000
Total Liabilities	443,155	810,784

See accompanying notes to financial statements.

BROWNS VALLEY IRRIGATION DISTRICT
 Statements of Net Assets (Continued)
 December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Net Assets:		
Contributed Capital (Note 8)	540,440	540,440
Invested in Capital Assets, Net of Related Debt (Note 8)	8,740,863	8,796,604
Restricted for Debt Service (Note 8)	5,500	5,000
Unrestricted (Note 8)	<u>936,870</u>	<u>1,041,321</u>
Total Net Assets	<u>10,223,673</u>	<u>10,383,865</u>
Total Liabilities and Net Assets	<u>\$ 10,666,828</u>	<u>\$ 11,194,649</u>

See accompanying notes to financial statements.

BROWNS VALLY IRRIGATION DISTRICT
Statement of Activities and Changes in Net Assets
For the years ended December 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Water Sales:		
Other Water Agencies	\$ 7,525	\$ 629,490
Accord Conjunctive Use	59,519	184,142
Landowners	638,225	598,485
Hydro-electric Sales	652,264	496,373
Standby Charges	5,200	2,200
Pipeline Income	<u>43,622</u>	<u>40,296</u>
Total Operating Revenues	1,406,355	1,950,986
Operating Expenses	<u>1,669,319</u>	<u>1,956,543</u>
Operating Income (Loss) before Depreciation	(262,964)	(5,557)
Depreciation	<u>(223,943)</u>	<u>(226,846)</u>
Total Operating Income (Loss)	(486,907)	(232,403)
Non-Operating Revenue and Expense:		
Interest Income	25,580	35,477
Taxes and Assessments	191,819	193,470
Rental Income	9,225	6,400
Miscellaneous Income	2,966	15,698
Spring Valley Project	42,927	----
Recreation	56,198	51,442
Sale of Assets	3,500	1,525
Interest Expense	<u>(5,500)</u>	<u>(13,849)</u>
Net Non-Operating Revenue and Expenses	<u>326,715</u>	<u>290,163</u>
Net Income before Capital Contributions	(160,192)	57,760
Net Assets, Beginning of Year	<u>10,383,865</u>	<u>10,326,105</u>
Net Assets, End of Year	<u>\$ 10,223,673</u>	<u>\$ 10,383,865</u>

See accompanying notes to financial statements.

BROWNS VALLEY IRRIGATION DISTRICT
 Statements of Cash Flows
 For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Operating Income (Loss)	\$ (486,907)	\$(232,403)
Non-Cash Items included in Operating Income:		
Depreciation	223,943	226,846
Changes in Current Assets and Liabilities:		
(Increase) Decrease in Receivables	209,098	201,138
(Increase) Decrease in Prepaid Insurance	4,808	5,801
(Increase) Decrease in Inventory	(2,332)	(355)
(Increase) Decrease in Deposits in transit	13,972	(13,972)
Increase (Decrease) in Accounts and Payroll Payable	(108,231)	59,510
Increase (Decrease) in Accord Groundwater Liability	(210,785)	(177,301)
Increase (Decrease) in Compensated Absences	2,905	25,543
increase (Decrease) in Deferred Compensation	(51,518)	----
Increase (Decrease) in Deferred Revenue	----	<u>(9,901)</u>
Net Cash Provided by (Used-in) Operating Activities	<u>(405,047)</u>	<u>84,906</u>
 Cash Flows from Investing Activities:		
Interest Income	<u>25,580</u>	<u>35,477</u>
 Cash Flows from Non-Capital Financing Activities:		
Taxes and Assessments	191,819	193,470
Rental Income	9,225	6,400
Miscellaneous Income	2,966	15,698
Spring Valley Project	42,927	----
Recreation	<u>56,198</u>	<u>51,442</u>
Net Cash Flows Provided by Non-Capital Financing Activities	<u>303,135</u>	<u>267,010</u>
 Cash Flows from Capital Financing Activities:		
Payment on Long-Term Debt	----	(261,214)
Purchases of Fixed Assets	(168,202)	(271,038)
Interest Expense	(5,500)	(13,849)
Proceeds from the Sale of Assets	<u>3,500</u>	<u>1,525</u>
Net Cash Provided by (Used-In) Capital Financing Activities	<u>(170,202)</u>	<u>(544,576)</u>
 Increase (Decrease) in Cash and Cash Equivalents	(246,534)	(157,183)
 Cash and Cash Equivalents at Beginning of Year	<u>2,024,792</u>	<u>2,181,975</u>
 Cash and Cash Equivalents at End of Year	<u>\$ 1,778,258</u>	<u>\$ 2,024,792</u>

See accompanying notes to financial statements.

BROWNS VALLEY IRRIGATION DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Browns Valley Irrigation District (the District), all of which conform to generally accepted accounting principles as applicable to government units:

Reporting Entity: The District was established in 1888 to provide irrigation services in Yuba County, California. The District serves water to pasture and orchard lands as well as family orchards and gardens over an area of 55,000 acres, with 200 miles of open ditch and 70 miles of pipeline.

The financial reporting entity (the District) includes all funds of the District. As a Special District, Browns Valley Irrigation District is self-governed by an elected board of directors.

The State of California, The County of Yuba, the Public Employees Retirement System (PERS), and various school and other districts provide services within the District. Each of these agencies is dependent on an independently elected board other than the Board of Directors of the District. As a result, financial information for these agencies is not included within the scope of these financial statements.

Government-Wide Statements: The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information of the District's activities as a whole. The District only engages in enterprise activities, which are normally supported by sales revenue and supplemented by county tax revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers within the District or other districts/users who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus and Basis of Accounting: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All events and transactions that occurred during the fiscal period being reported that affect the economic condition of the entity are recorded in that fiscal period. Revenues are reported when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

BROWNS VALLEY IRRIGATION DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other government entities or imposed by law through enabling legislature. When both restricted and unrestricted resources are available for use, it is the District's policy use restricted resources first, then unrestricted resources as they are needed.

The District has elected to follow Governmental Accounting Standards Board (GASB) pronouncements, and not Financial Accounting Standards Board (FASB) pronouncements after 1989, as presented by GASB Statement Number 20.

Property Taxes Receivable: The General Obligation Bond (see Note 5) authorizes the District to assess the parcels within the District and use the tax revenue to both service the Bond debt and to cover the operations and maintenance of the project. The County of Yuba assesses and collects the property taxes for the District.

Property taxes attach as an enforceable lien on property as of March 1 and taxes are levied on July 1. The taxes become due on November 1 and February 1, and become delinquent on December 10 and April 10. District property tax revenue is recognized when levied to the extent that it results in current receivables.

Budgets and Budgetary Accounting: The District's Governing Board must adopt a final budget no later than April 30 of the current fiscal year. The budget is revised by the District during the year to give recognition to unanticipated income or expenditures.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all temporary cash investments with a maturity of three months or less to be cash equivalents.

Accounts Receivable: The District uses the direct write-off method for bad debts. The method does not materially differ from the allowance method.

Capital Assets: Capital assets purchased by the District are recorded at historical cost or estimated historical cost when the original cost is not available. Donated capital assets are recorded at market value on the date donated. Repair and maintenance items that do not significantly extend the useful life of an asset are expensed when incurred.

BROWNS VALLEY IRRIGATION DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (continued): Capital improvements to the distribution system can be under construction for multiple years. Improvements or additions to the distribution system that are partially completed at the end of the fiscal year are capitalized in Construction in Progress. When the project is completed, the total costs, minus any unused inventory, are removed from Construction in Progress, capitalized in the Distribution System account and depreciated over the life of the asset.

Depreciation of capital assets is computed and recorded on the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Distribution System	30 – 100 years
Buildings	10 – 40 years
Equipment	7 – 15 years
Vehicles	7 – 10 years

Inventory: Inventory is valued at cost using the First in/First out (FIFO) method.

General Liability Insurance: The District is a member of Association of California Water Agencies (ACWA) under a Joint Powers Insurance Authority (JPIA). The authority provides general liability insurance under a self-insured program.

Workers Compensation Insurance: The District is covered as a member of ACWA-JPIA for workers compensation insurance. The authority provides a funding pool for self-insurance for workers compensation insurance for ACWA members.

Vacation and Sick Pay: Vacation pay is vested to the employees as it accrues and is payable upon retirement or termination. Sick leave does not vest to the employees until employed for ten years and is payable only when sick leave is taken. There is no maximum on sick leave. One half of any unused accumulated sick leave can be converted to additional service credit after retirement in PERS. The District pays 50% of accrued, but unpaid sick leave upon termination or retirement.

BROWNS VALLEY IRRIGATION DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 2: CASH AND INVESTMENTS

At December 31, cash and investments consisted of the following:

	<u>2011</u>	<u>2010</u>
Petty Cash	\$ 200	\$ 200
General Checking	109,432	189,027
County Treasurer Savings	957,548	1,083,410
Mutual Funds – U.S. Securities	537,422	447,645
Deferred Compensation	8,969	60,487
Investment in Certificates of Deposit	<u>164,687</u>	<u>244,023</u>
Unrestricted Cash and investments	<u>\$1,778,258</u>	<u>\$ 2,024,792</u>

Funds of the District deposited in the general checking and savings are insured by federal depository insurance up to \$250,000, and collateralized for the remainder of the total deposits. The funds held by the Yuba County Treasurer consist of a pooled fund of diversified investments in accordance with investment policies complying with the California Government Code. Pooled funds are not required to be categorized by risk. There was no restricted cash as of December 31, 2011.

Collateral for Deposits

Under the provisions for the California Government Code, California banks and savings and loan associations are required to secure a District's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of a District's deposits. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of a District's total deposits.

BROWNS VALLEY IRRIGATION DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 2: CASH AND INVESTMENTS (Continued)

Authorized Investments

In accordance with California Government Code Section 53601, the District may invest in the following types of investments:

- Bonds issued by the State of California and/or any local agency within the State of California.
- Securities of the U.S. Government, or its agencies
- Certificates of Deposit (or Time Deposits) placed with commercial banks or savings and loan companies.
- Negotiable Certificates of Deposit
- Bankers Acceptance
- Commercial Acceptances
- Local Agency Investment Fund (State Pool) Demand Deposits
- Repurchase Agreements

NOTE 3: PROPERTY AND EQUIPMENT

A summary of changes in capital assets for the year ended December 31, 2011 follows:

	<u>12/31/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2011</u>
Distribution system	\$ 10,945,193	\$ ----	\$ -----	\$ 10,945,193
Building/equipment	1,627,696		(24,980)	1,602,716
Recreation property	11,508	-----	-----	11,508
Fish screens	204,819	-----	-----	204,819
Construction in progress	<u>861,184</u>	<u>170,314</u>	<u>(2,112)</u>	<u>1,029,386</u>
Total	13,650,400	170,314	(27,092)	13,793,622
Less accumulated depreciation	<u>(4,853,796)</u>	<u>(223,943)</u>	<u>24,980</u>	<u>(5,052,759)</u>
Net capital assets	<u>\$ 8,796,604</u>	<u>\$ (53,629)</u>	<u>\$ (2,112)</u>	<u>\$ 8,740,863</u>

BROWNS VALLEY IRRIGATION DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 4: ACCORD CONJUNCTIVE FUNDS RECEIVABLE/LIABILITY

The District entered into an agreement known as the Yuba Accord Conjunctive Use Agreement to implement the District's groundwater substitution water transfer program. The agreement also provides for groundwater pumping by Member Units of the District when required to implement the Sacramento Valley Water Management Agreement. Under the agreement, the District receives funds from the Yuba County Water Agency to distribute to landowners in the District who participate in the pumping program. The District also participates in the pumping program and receives income for the number of acre-feet of water it pumps and a fee based on the total water pumped for administering the program.

NOTE 5: LONG-TERM DEBT

2002 General Obligation Refunding Bonds

These bonds, in the amount of \$100,000 were issued for the purpose of refunding and redeeming certain outstanding general obligation bonds of the District, originally \$1,050,000, issued in 1988, with \$430,000 remaining. The bonds were issued by the County of Yuba, in the state of California. The bonds are dated July 1, 2002, mature on August 1, 2012 and bear an interest rate of 5.5%. Twenty semi-annual interest payments of \$2,750 each are required.

The following is a summary of changes in long-term debt during the year ended December 31, 2011:

	<u>Balance</u> <u>12/31/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2011</u>	<u>Due Within</u> <u>One Year</u>
2002 General Obligation Bonds	\$ 100,000	\$ -----	\$ -----	\$ 100,000	\$ 100,000
Total Debt	<u>\$ 100,000</u>	<u>\$ -----</u>	<u>\$ ----</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>

BROWNS VALLEY IRRIGATION DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 6: PENSION PLAN

Plan Description

The District contributes to the California Public Employees' Retirement System (PERS), and agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the state of California. All full-time employees of the District are eligible to participate in PERS. PERS is a defined benefit plan based on the member's age at retirement, service, and final compensation. Benefits vest after five years of service. The minimum retirement age is 50 years. PERS also provides disability, death, and health benefits. The benefit provisions and all other requirements are established by state statutes. California Government, Part 3, sections 20000-21600 governs PERS. PERS issues a separate comprehensive annual financial report. Copies of the PERS annual financial report may be obtained from the PERS Executive Office, 400 P Street, San Francisco, CA 95814.

Funding Policy

The rate of employee contribution is established by statute at 9% of employee compensation. The District is required to contribute the remaining amounts necessary to fund the benefits for its members, using the accrual basis adopted by the PERS board of Administration. The rate for the District was determined to be 15.441% for the year ended December 31, 2011.

Annual Pension Costs

Employer contributions are calculated in conformance with the provisions of GASB Statements No. 27 as a percentage of covered payrolls. Therefore, the contributions transmitted to the System are equal to the Annual Required Contribution (ARC), and there is no Net Pension Obligation (NPO) required. For the fiscal year ended December 31, 2011, the District's annual pension cost of \$ 98,996 was equal to the required and actual contributions of the District. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (A) an actuarially assumed investment return of 7.75% per annum, (B) salary increases based on a scale that assumes salary increases vary by length of service, (C) an assumed inflation rate of 3.00% in future years and (D) a 3.25% across the board increase and merit increases that vary by length of service.

BROWNS VALLEY IRRIGATION DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 6: PENSION PLAN (Continued)

Five-Year trend Information for PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/07	61,236	100%	-0-
6/30/08	70,229	100%	-0-
6/30/09	80,399	100%	-0-
6/30/10	90,702	100%	-0-
6/30/11	98,996	100%	-0-

Required Supplementary Information

Funded Status of Plan Pool

<u>Valuation Date</u>	<u>Normal Accrued Liability (Per \$1,000)</u>	<u>Actuarial Value of Assets (Per \$1,000)</u>	<u>Unfunded Liability/ (Excess Assets) (Per \$1,000)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL As a % of Payroll (Per \$1,000)</u>
6/30/05	2,891,460	2,588,713	302,747	89.5%	755,046	40.1%
6/30/06	2,754,396	2,636,941	117,455	95.7%	699,897	16.8%
6/30/07	2,611,747	2,391,435	220,312	91.6%	584,508	37.7%
6/30/08	2,780,281	2,547,324	232,957	91.6%	654,832	35.6%
6/30/09	3,104,798	2,758,511	346,287	88.9%	742,981	46.6%

NOTE 7: DEFERRED COMPENSATION

The District sponsors an IRS Code Section 457 Plan (“Plan”) for all eligible employees. The Plan is administered by CalPERS. The District matches employee contributions by 10%.

In addition, the District maintains a cash account and a corresponding liability account related to a non-qualified deferred compensation agreement with a previous District manager. This account is payable at the discretion of the former manager. The deferred compensation liability was recorded as an expense at the time the account was funded.

BROWNS VALLEY IRRIGATION DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 8: NET ASSETS (FUND BALANCES)

Fund Equity- 2011

Fund equity was segregated as follows for the year ended December 31, 2011:

<u>Description</u> <u>Segregated Amounts</u>	<u>Contributed</u> <u>Capital</u>	<u>Invested</u> <u>in Capital</u> <u>Assets</u>	<u>Restricted</u> <u>For</u> <u>Debt Service</u>	<u>Unrestricted</u>	<u>Total</u>
Connection Fees	234,676				234,676
Grant for Mahle Ditch	305,764				305,764
Refunding Bonds			5,500		5,500
Investment in Fixed Assets		8,740,863			8,740,863
Remaining Unreserved Balance				<u>936,870</u>	<u>936,870</u>
Total Fund Equity	<u>540,440</u>	<u>8,740,863</u>	<u>5,500</u>	<u>936,870</u>	<u>10,223,673</u>

Fund Equity – 2010

Fund equity was segregated as follows for the year ended December 31, 2010:

<u>Description</u> <u>Segregated Amounts</u>	<u>Contributed</u> <u>Capital</u>	<u>Invested</u> <u>in Capital</u> <u>Assets</u>	<u>Restricted</u> <u>For</u> <u>Debt Service</u>	<u>Unrestricted</u>	<u>Total</u>
Connection Fees	234,676				234,676
Grant for Mahle Ditch	305,764				305,764
Refunding Bonds			5,500		5,500
Investment in Fixed Assets		8,796,604			8,796,604
Remaining Unreserved Balance				<u>1,041,321</u>	<u>1,041,321</u>
Total Fund Equity	<u>540,440</u>	<u>8,796,604</u>	<u>5,500</u>	<u>1,041,321</u>	<u>10,383,865</u>

As of December 31, 2011, the District had not adopted GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

BROWNS VALLEY IRRIGATION DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 9: RISK MANAGEMENT

Effective October 1, 1979, the District adopted a self-funded group liability property program administered by the Joint Power Insurance Authority (JPIA). The District also purchased workers compensation and unemployment coverage from JPIA. The District is insured by the pool for the first \$500,000 on each general liability, \$50,000 for each property claim and \$100,000 for fidelity coverage against the District. Amounts in excess of this are covered by other insurance carriers purchased by the pool up to a maximum amount of \$50,000,000 for liability, and \$50,000,000 for property. Workers Compensation coverage is provided up to \$2,000,000 by the pool and from \$2,000,000 to statutory limits by outside carriers. The District management has determined that there is no need for a reserve at year end for any potential liability of the District.

BROWNS VALLEY IRRIGATION DISTRICT
Schedules of Operating Expenses
For the years ended December 31, 2011 AND 2010

	2011	2010
Management and General:		
Management and Administrative Payroll	\$ 220,567	\$ 242,200
Payroll Burden	136,171	149,987
Consulting	15,851	26,010
Directors Fees	30,000	30,000
Dues and Memberships	55,418	50,444
Insurance	16,540	17,980
Legal and Accounting	66,940	110,851
Miscellaneous Employee Expense	8,948	14,066
Office Maintenance	15,130	14,020
Office Supplies	17,601	24,833
Rental expense	----	3,401
Yuba County Tax	125	----
Total Management and General	583,291	683,792
Operations:		
Operations payroll	457,746	475,922
Payroll Burden	282,816	293,412
Water Sales Costs	4,428	31,730
Spring Valley Project	4,029	17,380
Purchased Water	18,335	18,335
Conserved Water EIR	----	11,637
Delta Expense	8,850	----
Hydro Expense	20,742	78,482
Fuel and Oil	53,771	51,271
Repairs and Maintenance	105,473	139,743
Small Tools	303	2,215
Survey Expense	----	10,329
Utilities	128,912	141,602
Radio Expense	623	693
Total Operations:	1,086,028	1,272,751
Total Operating Expenses (Excluding Depreciation)	\$ 1,669,319	\$1,956,543

BROWNS VALLEY IRRIGATION DISTRICT
Statement of Revenue and Expenditures-Budget & Actual
2011

	<u>Budget</u>	<u>Actual</u>	Over (Under) <u>Budget</u>
REVENUE:			
Water Sales-In District	\$ 673,200	\$ 638,225	\$ (34,975)
Water Sales-out of District	48,900	7,525	(41,375)
Accord Conjunction Use	9,200	59,519	50,319
Hydro-Electric Sales	638,600	652,264	13,664
Standby Charges	4,200	5,200	1,000
Pipeline Income	38,000	43,622	5,622
Interest Income	35,100	25,580	(9,520)
Taxes and Assessments	196,400	191,819	(4,581)
Rental Income	9,600	9,225	(375)
Miscellaneous Income	39,900	2,966	(36,934)
Recreation	52,200	56,198	3,998
Spring Valley Project	34,520	42,927	8,407
Grant Income	37,500	----	(37,500)
Sale of Assets	5,500	3,500	(2,000)
Total Revenue	<u>1,822,820</u>	<u>1,738,570</u>	<u>(84,250)</u>
EXPENSES:			
Management & General:			
Management and Administrative Payroll	\$ 227,100	\$ 220,567	\$ (6,533)
Payroll Burden	122,600	136,171	13,571
Consulting	18,400	15,851	(2,549)
Directors Fees	34,200	30,000	(4,200)
Dues and Membership	32,600	55,418	22,818
Insurance	30,200	16,540	(13,660)
Legal and Accounting	30,000	66,940	36,940
Miscellaneous Employee Expense	9,500	8,948	(552)
Office Maintenance	19,400	15,130	(4,270)
Office Utilities	15,000	12,330	(2,670)
Office Supplies	14,200	17,601	3,401
East Side Survey	500	----	(500)
Spring Valley Project	----	4,029	4,029
Water Sales Out of District	31,800	4,428	(27,372)
Conserved Water EIR	0	8,850	8,850
Yuba County Tax	100	125	25
Interest Expense	<u>5,500</u>	<u>5,500</u>	<u>----</u>
	591,100	618,428	27,328
Operations:			
Operational Payroll	471,000	457,746	(13,254)
Payroll Burden	254,200	282,816	28,616
Maintenance-Equipment	9,400	13,411	4,011
Maintenance-Pumps	1,700	5,440	3,740
Maintenance-Trucks	8,700	12,751	4,051
Distribution Maintenance	71,000	73,871	2,871
Hydro Expense	30,600	20,742	(9,858)
Utilities - Electric Pumps	155,900	116,582	(39,318)
Fuel and Oil	57,200	53,771	(3,429)
Small Tools	1,500	303	(1,197)
Radio Expense	800	623	(177)
Water Purchases	18,300	18,335	35
Depreciation	<u>225,000</u>	<u>223,943</u>	<u>(1,057)</u>
	1,305,300	1,280,334	(24,966)
Total Expense	<u>1,896,400</u>	<u>1,898,762</u>	<u>2,362</u>
Excess of Revenue Over (Under) Expense	<u>\$ (73,580)</u>	<u>\$ (160,192)</u>	<u>\$ (86,612)</u>

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Browns Valley Irrigation District

We have audited the financial statements of the Browns Valley Irrigation District, as of and for the year ended December 31, 2011, and have issued our report thereon dated July 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In our report on the financial statements, our opinion on the Browns Valley Irrigation District was unqualified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Browns Valley Irrigation District's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Browns Valley Irrigation District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material, in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain other matters that we reported to the management of Browns Valley Irrigation District in a separate letter dated July 20, 2012.

This report is intended solely for the information and use of the Board of Directors, management, others within the Browns Valley Irrigation District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

July 20, 2012

D.R. Watts Accountancy Corporation

MANAGEMENT LETTER

Board of Directors
and General Manager of the
Browns Valley Irrigation District

In planning and performing our audit of the financial statements of the Browns Valley Irrigation District for the year ended December 31, 2011, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on their internal control structure.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments and recommendations are summarized as follows:

PRIOR YEAR RECOMMENDATIONS

Internal Controls

- ❖ To compensate for the limited bookkeeping staff, it was recommended that instead of the staff receiving and opening the bank statements, along with cancelled checks, that a board member who does not have signatory rights on the bank accounts, receive the bank statements and cancelled checks. That board member could then give a photocopy of the bank statement to the bookkeeping staff to perform the bank reconciliation. The original bank statements and cancelled checks received directly from the banks can then be given directly to the auditor at the appropriate time. Walter Cotter, General Manager, suggested bank statements be directly mailed to the auditor instead of to a Board member.

As of the date of the 2011 audit report, this change had not been implemented.

- ❖ The monthly bank reconciliations are not currently being reviewed by the Finance Committee. It is the role of the members of the Finance Committee to be the first line of defense in preventing and detecting any fraud or misuse of the District's financial assets. The bank reconciliation generated by QuickBooks should be printed and presented to the Finance Committee along with the bank statement and cancelled checks on a monthly basis for review.

As of the date of the 2011 audit report, this change had been implemented.

PRIOR YEAR RECOMMENDATIONS (Continued)

Payroll Records

- ❖ During our audit, it came to our attention that employee time sheets were very often not signed by employees or their supervisor. Before payroll checks are processed for any payroll period, all timesheets should be signed by both employee and supervisor.

As of the date of the 2011 audit report, this change had been implemented.

GASB 45 Compliance

- ❖ The District has not implemented Government Accounting Standards Board Statement 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions”. We recommend the District have an actuary qualified to assess pension and health funds prepare their postemployment benefit valuations as soon as possible to comply with the above pronouncement.

As of the date of the 2011 audit report, this change had not been implemented. The District Manager does not consider this liability to be material to the overall financial financial statements, and the cost of an actuarial valuation would not be justified.

Other Recommendations

- ❖ Both Tri-County Bank and Umpqua Bank checking accounts have bank statement cut-off dates on the fifth or sixth day of the month. This needlessly complicates the bank reconciliations at month and year end. To simplify bookkeeping and audit procedures, it is recommended that the District request that bank statements be issued on the last day of each month.

As of the date of the 2011 audit report, Umpqua Bank had been changed to issue statements at the end of each month, but Tri-County was not changed.

CURRENT YEAR RECOMMENDATIONS

Deferred Compensation

- ❖ The District has maintained an account at Charles Schwab to fund a non-qualified deferred compensation agreement for a former District Manager. Because this account is payable at the discretion of the former employee, and the District has no ownership interest in the account, it is recommended that the former employee withdraw the remaining funds and open an account under his name and social security number.

GASB 54 Implementation

- ❖ As of the date of the 2011 audit report, the District had not adopted GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions. The Board will address compliance with GASB 54 prior to the close of the 2012 year.

This letter is intended solely for the information and use of the Board of Directors, management, others within the Browns Valley Irrigation District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

July 20, 2012

D.R. Watts Accountancy Corporation