

VOLCANO COMMUNITY SERVICES DISTRICT

**ANNUAL FINANCIAL STATEMENTS**

For the Years Ended June 30, 2010 and 2009

VOLCANO COMMUNITY SERVICES DISTRICT

For the Years Ended June 30, 2010 and 2009

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Volcano Community Services District  
Volcano, California

I have audited the accompanying financial statements of the Volcano Community Services District as of June 30, 2010 and 2009, 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 general purpose 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 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 assets, liabilities and net assets of the Volcano Community Services District, as of June 30, 2010 and 2009, and its revenues and expenditures and changes in net assets for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Volcano Community Services District has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. This report is intended solely for the information and use of the Board of Directors and the Controller's Office of the State of California.

Cathy Castillo  
Certified Public Accountant

November 30, 2010  
Sutter Creek, California

**VOLCANO COMMUNITY SERVICES DISTRICT**  
**STATEMENTS OF NET ASSETS**  
Proprietary Fund  
**As of June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Current assets:		
Unrestricted cash-		
Petty cash	\$ 629	\$ 731
Cash in checking	14,400	15,901
Certificates of deposits	71,836	70,827
Total Unrestricted cash	<u>86,865</u>	<u>87,459</u>
Accounts receivable-operations	8,487	8,314
Due to general fund	-	1,796
Prepaid insurance	<u>2,012</u>	<u>643</u>
Total Current assets	<u>97,364</u>	<u>98,212</u>
Noncurrent assets:		
Restricted cash-		
Cash in hall fund	5,829	7,263
Certificate of deposit-hall fund	<u>19,334</u>	<u>19,130</u>
Total Restricted cash	<u>25,163</u>	<u>26,393</u>
Capital assets:		
Armory hall	23,508	23,508
Equipment	327,166	327,166
Land	51,800	51,800
Water treatment system	<u>274,138</u>	<u>274,138</u>
	676,612	676,612
Less accumulated depreciation	<u>(239,023)</u>	<u>(226,197)</u>
Total Capital assets	<u>437,589</u>	<u>450,415</u>
Other assets:		
Water rights	16,560	16,560
Less accumulated amortization	<u>(16,189)</u>	<u>(16,147)</u>
Total Other assets	<u>371</u>	<u>413</u>
Due from state government	<u>1,143</u>	<u>-</u>
Total Noncurrent assets	<u>464,266</u>	<u>477,221</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 561,630</u></b>	<b><u>\$ 575,433</u></b>

**VOLCANO COMMUNITY SERVICES DISTRICT**  
**STATEMENTS OF NET ASSETS-Continued**  
Proprietary Fund  
**As of June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 850	\$ 1,788
Due from Hall Fund	<u>-</u>	<u>1,796</u>
Total Current liabilities	<u>850</u>	<u>3,584</u>
<b>NET ASSETS</b>		
Invested in capital assets	437,960	450,828
Restricted hall fund	21,862	21,777
Unrestricted	<u>100,958</u>	<u>99,244</u>
Total Net assets	<u>560,780</u>	<u>571,849</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 561,630</u></u>	<u><u>\$ 575,433</u></u>

**VOLCANO COMMUNITY SERVICES DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**Proprietary Fund**  
**For the Years Ending June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 45,489	\$ 47,115
Property tax assessments	15,909	14,595
	61,398	61,710
<b>OPERATING EXPENSES</b>		
Amortization	41	119
Audit fee	1,951	1,952
Billing secretary	3,960	3,870
Depreciation	12,826	14,722
Fees	50	50
Health permits	760	1,660
Insurance	3,902	3,874
Legal and professional services	572	3,036
Maintenance and repairs	35,147	32,018
Secretarial services	5,270	5,135
Utilities-water system	1,240	2,426
	65,719	68,862
<b>Operating Income</b>	<b>(4,321)</b>	<b>(7,152)</b>

**VOLCANO COMMUNITY SERVICES DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS-**  
*Proprietary Fund-continued*  
**For the Years Ending June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>NON-OPERATING REVENUES</b>		
Donations	1,565	651
Hall rental fees	300	525
Interest income	1,226	2,744
Reimbursements	8	-
	<u>3,099</u>	<u>3,920</u>
<b>NON-OPERATING EXPENSES</b>		
Cleaning supplies	770	723
Hall manager	480	480
Janitorial	1,963	1,351
Maintenance and repair	616	885
Office supplies and expenses	742	1,748
Telephone	1,105	1,103
Utilities	4,171	4,118
	<u>9,847</u>	<u>10,408</u>
<b>Non-operating income(loss)</b>	(6,748)	(6,488)
<b>Change in net assets</b>	(11,069)	(13,640)
Total net assets -beginning of year	571,849	585,489
<b>Total net assets -end of year</b>	<u>\$ 560,780</u>	<u>\$ 571,849</u>

**VOLCANO COMMUNITY SERVICES DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
Proprietary Fund  
**For the Years Ending June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS USED FOR OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (11,069)	\$ (13,640)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	12,826	14,722
Amortization	41	119
(Increase) decrease in:		
Accounts receivable	(173)	(2,690)
Prepaid expense	(1,369)	78
Due from state government	(1,143)	-
Increase (decrease) in:		
Accounts payable	(937)	222
<u>Net cash used for operating activities</u>	<u>(1,824)</u>	<u>(1,189)</u>
<b>CASH FLOWS USED FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	-	(2,900)
<u>Net cash used for investing activities</u>	<u>-</u>	<u>(2,900)</u>
 <b>NET INCREASE(DECREASE) IN CASH</b>	 <b>(1,824)</b>	 <b>(4,089)</b>
 <b>CASH BEGINNING OF YEAR</b>	 <b>113,852</b>	 <b>117,941</b>
 <b>CASH END OF YEAR</b>	 <b><u>\$ 112,028</u></b>	 <b><u>\$ 113,852</u></b>



**VOLCANO COMMUNITY SERVICES DISTRICT**

STATEMENT OF REVENUES AND EXPENSES-Budget vs Actual  
Proprietary Fund  
Year Ended June 30, 2010

	Original and Final Budget Amount	Actual	Variance (unfavorable)
<b>OPERATING REVENUES</b>			
Charges for services	\$ 50,000	\$ 45,490	\$ (4,510)
Property tax assessments	10,000	15,909	5,909
Total operating revenue	60,000	61,399	1,399
<b>OPERATING EXPENSES</b>			
Amortization	642	41	601
Audit fee	2,000	1,952	48
Billing secretary	3,960	3,960	-
Depreciation	14,000	12,826	1,174
Fees	-	50	(50)
Health permits	600	760	(160)
Insurance	3,800	3,902	(102)
Maintenance and repairs	30,000	35,147	(5,147)
Professional services	2,500	572	1,928
Secretarial services	5,220	5,270	(50)
Utilities-water system	1,000	1,240	(240)
Total operating expenses	63,722	65,720	(1,998)
Operating Income	\$ (3,722)	\$ (4,321)	\$ (599)
<b>NON-OPERATING REVENUES</b>			
Donations	1,000	1,565	565
Hall rental fees	750	300	(450)
Interest income	2,000	1,226	
Reimbursements	-	8	8
Total non-operating revenue	3,750	3,099	(651)
<b>NON-OPERATING EXPENSES</b>			
Cleaning supplies	840	770	70
Hall manager	480	480	-
Janitorial/ACRA	1,650	1,963	(313)
Maintenance and repair	650	616	34
Office supplies and expenses	1,115	742	373
Other contingencies	1,500	-	1,500
Telephone	1,056	1,105	(49)
Utilities	4,664	4,171	493
Total non-operating expenses	11,955	9,847	2,108
Non-operating income(loss)	(8,205)	(6,748)	1,457
Change in net assets	\$ (11,927)	\$ (11,069)	\$ 858

**VOLCANO COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

**NOTE 1-      ORGANIZATION AND PURPOSE**

***Nature of Activities:***

The Volcano Community Services District (herein after known as the District), provides water services to the town of Volcano, located in Amador County, California. The District was established June 1, 1966, and currently provides water to 67 parcels. The District provides service to itself on 3 of these parcels.

Governing activities include administration and maintenance of the water treatment facilities, City Park, renovation and maintenance of the Armory Hall, and a non-partisan cemetery within the district. A five member Board of Directors, who serve for a five-year term, governs the district.

**NOTE 2-      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Fund Financial Statements:***

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, and reserves, fund equity, revenues and expenditures. The various funds are reported by generic classification within the financial statements.

The following fund is used by the District:

The Proprietary Fund is the primary operating fund of the District and focuses on the determination of operating income, changes in net assets, financial position and cash flows. This fund measures economic resources using the full accrual basis of accounting.

The District is a special purpose government whose primary business activity is to provide water services, and whereby its pricing policies are designed to recover its costs, including capital costs.

***Basis of Accounting:***

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

The proprietary fund financial statement is presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned. Expenditures are recognized under the accrual basis of accounting when the related liability is incurred or economic asset used.

**VOLCANO COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued**

***Budgetary Control:***

The District establishes the fiscal year as the twelve-month period beginning July 1. The Budget is formally adopted by the Board of Directors by July of each year. This budget is prepared on the cash basis of accounting, which does not vary significantly from the accrual basis of accounting used in the financial statements. The Board monitors monthly expenses using the budget as a control device.

***Assessments and Fees:***

The District's general operations are funded primarily by billings on the 67 parcels that comprise the District. Rates for water services are billed monthly according to a three-tier rate schedule based on number of gallons used. The Board approved a rate increase October 2008.

The District also receives property tax assessments from the County of Amador based on the number of parcels in the District. Property tax assessments are received primarily in January and May.

The District also has a hall, which is available for rent. Annual rental income varies from year to year.

***Capital Assets:***

Fixed assets, which include equipment and buildings, are reported in the proprietary fund financial statements. All fixed assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Depreciation expense for June 30, 2010 and 2009 was \$12,826 and \$14,722 respectively.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	15-40 years
Machinery & equipment	5 years

***Prepaid Items:***

Prepaid balances are for payments made by the District in the current year to provide services occurring in the subsequent fiscal year. The prepaid item has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures. The prepaid item for the District represents insurance expenditures allocable between fiscal years.

**VOLCANO COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued**

*Estimates and Assumptions:*

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

**NOTE 3- CASH**

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts and certificates of deposits of the District. Cash accounts at June 30, 2010 are as follows:

	<u>Maturity Date</u>	<u>Rate %</u>	<u>Value</u>
<b>General Operations</b>			
General checking	-	0.05%	\$ 14,400
Petty cash	-	-	629
Bank of Stockton CD	06/23/2011	0.60%	5,565
El Dorado Savings CD	08/20/2010	0.90%	23,220
El Dorado Savings CD	07/16/2010	0.50%	16,714
Bank of Stockton CD	07/01/2011	1.35%	26,337
<b>Total General Fund</b>			<u>86,865</u>
<b>Restricted Hall Fund</b>			
Hall fund checking	-	-	5,829
El Dorado Savings CD	08/20/2010	0.90%	19,334
<b>Total Restricted Hall Fund</b>			<u>25,163</u>
<b>Total District Cash</b>			<u><u>\$ 112,028</u></u>

The entire bank balances were covered by the Federal Depository Insurance Corporation (FDIC). At no time during the year did deposits exceed the federally insured amount of \$250,000.

**VOLCANO COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

**NOTE 4- ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2010 and 2009 consist entirely of customer water utility billings due. No allowance for uncollectible accounts has been established because the District expects all accounts to be collected. An aging of accounts receivable has been prepared based on percentage of total accounts receivables.

<b>Accounts Receivable:</b>		
Current	\$ 4,018	47%
1-30 days	1,281	15%
31-60 days	-	0%
61-90 days	-	0%
Over 90 days	3,188	38%
<b>Total</b>	<b>\$ 8,487</b>	<b>100%</b>

**NOTE 5- FIXED ASSETS**

Fixed assets at June 30, 2010 consisted of the following:

	Beg. Balance 07/01/2009	additions	deletions	End. Balance 06/30/2010
Armory hall	\$ 23,508	\$ -	\$ -	\$ 23,508
Equipment	327,166	-	-	327,166
Land	51,800	-	-	51,800
Water treatment and buildings	274,138	-	-	274,138
	<b>\$ 676,612</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 676,612</b>

**NOTE 6- PREPAID EXPENSE**

As of June 30, 2010 and 2009, the prepaid expense consisted of general liability and machinery insurance. The policy periods cover the fiscal year from October to September for the general liability policy and May to May for the machinery policy and accordingly the premiums are expensed over the period covered.

**VOLCANO COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

**NOTE 7-      BOARD OF DIRECTORS**

<u>Member</u>		
Nancy Bailey	President	2012
Meg Gottstein	Vice President	2010
Gary Korematsu	Director	2010
Terry Grillo	Director	2012
Jane Norcross	Director	2010

**NOTE 8-      DUE FROM STATE GOVERNMENT**

The California legislature passed and the Governor signed ABX4 14 and ABX4 15 as part of the 2009-2010 budget package. These two bills effectively mandated that 8% of property tax collections for the District be 'loaned' to the state. The state must repay that loan within a three-year period with interest of 6%. The state's deadline to repay the loan is June 30, 2013. The County auditor-controllers were tasked with transferring the loan amount in two equal shares at the same time as regular property tax allocations were to occur. This was done for the District during January 2010. The amount transferred for the District amounted to \$1,143.

**NOTE 9-      CORRECTION OF PRIOR YEAR AUDIT FIGURES**

For fiscal year ending June 30, 2009 there was an interfund transfer due to the fact that water service revenue was incorrectly deposited into the Restricted Hall Fund instead of the General Fund. An interfund transfer was set up to correct this mistake and record the water service revenue. However, it came to our attention that in fact, water service revenue had already been recorded and therefore was overstated by \$1,795, as well as Cash in checking being overstated by \$1,795. We have therefore, made a correction to the prior year audit figures to adjust for this immaterial error.

**NOTE 10-     COMMITMENTS AND CONTINGENCIES**

Amador County purchased the Rosedale filtration system five years ago for the District's use. Ownership of the filtration system remained with the County. However, now the County is asking the District to reimburse them for the cost of this system, valued at approximately \$25,000. Currently, the District is working with the County to resolve this matter. The outcome of this issue cannot be determined as of the report date.

**NOTE 11-     RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; and natural disasters. The District purchases commercial insurance to cover the risk of loss. The general liability and the officer's liability coverage are limited to \$1,000,000 each.

Ours

**CATHY CASTILLO**

**CERTIFIED PUBLIC ACCOUNTANT**

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**Accountants on Staff:**

Toni Heppe, CPA  
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Member of the American Institute of Certified Public  
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December 1, 2010

Volcano Community Service District  
PO Box 72  
Volcano, CA 95689

To the Members of the Board of Directors:

It is our sincere pleasure to present the audit report for the fiscal years ending June 30, 2010 and 2009. Overall, the financial records were found to be in good order and we would like to thank the district for their support and assistance during our audit.

As is customary during the course of an audit, there are matters that come to our attention about which we would like to communicate for the benefit of the Board and the district. These observations and suggestions are brought to your attention in the hope of improving operational and administrative efficiencies.

***Accounts Receivable Aging-*** For the fiscal year ending June 30, 2009 accounts receivable aging over 90 days was at 21% of total accounts receivable. For this fiscal year ending June 30, 2010, the same aging over 90 days has risen to 38% of total accounts receivable. We understand that in the current economy, these types of situations happen, but we would like to encourage the board to take corrective action in a more timely manner to collect on these excessively delinquent accounts. Accounts which are deemed uncollectible should be written off pending board approval.

***Documentation on disbursements-*** It is the organization's policy to attach a copy of a bill or invoice to the check stub. This is an essential financial control procedure. We noticed during the course of our audit, that both check numbers #5071 and #5299 written to Alliance Insurance Services, Inc. for \$1,376.00 and \$1,384.00 respectively had no attached supporting documentation. Also, for the Hall Fund, I could find no documentation for check number #1039 for \$144.00 or for the donation deposit on April 6, 2010 for \$500.00. This does represent a departure from the organization's internal control procedure for bill payments, and therefore this exception is brought to your attention.