

**GREENHORN CREEK
COMMUNITY SERVICES DISTRICT**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
for the year ended June 30, 2012**

ROBERT W. JOHNSON
Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Greenhorn Creek Community
Services District
Quincy, California

We have audited the accompanying financial statements of the enterprise activities and the governmental activities of Greenhorn Creek Community Services District (the "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. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise activities and the governmental activities of Greenhorn Creek Community Services District as of June 30, 2012 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplemental information required by the Government Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Information listed in the Table of Contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robert W. Johnson, An Accountancy Corporation

Citrus Heights, California
August 31, 2012

Greenhorn Creek Community Services District
Management Discussion and Analysis
Fiscal Year Ended June 30, 2012

This annual financial report consists of management's discussion and analysis and the financial statements, including notes to the financial statements. The following discussion and analysis of the Greenhorn Creek Community Services District (the "District") and its financial performance provides an overview of the District's financial activities, prepared by its management for the year ending June 30, 2012. This discussion and analysis should be read in conjunction with the District financial statements and accompanying notes, which follow this section.

Background

The Greenhorn Creek Community Services District ("CSD") is located east of Quincy, California in Plumas County and is a special district operating under the Community Services District Law of the State of California. The CSD was formed in 1971 to provide water to the western portion of the Greenhorn Creek housing development known as Greenhorn 2.

In 1975, the CSD was consolidated with the Estray Creek Community Services District. The consolidation empowered the CSD to provide domestic water for fire protection and to collect, treat, and dispose of sewage.

In 1989, Greenhorn Creek Volunteer Fire Department was formed, and in 1995 the fire department became part of the CSD. The CSD took over the responsibilities of the Greenhorn Ranch Company in 1995 and began providing water to the east side of the development, known as Greenhorn 1, as well as the Greenhorn Guest Ranch.

In 2003, the citizens of Greenhorn Creek voted to become an independent special district with a directly elected five-member Board of Directors. In December of 2007 this was accomplished and the District now functions as an independent special district.

Financial Highlights

- Total net assets were \$603,095 at June 30, 2012 with \$57,123 of the net assets in the Fire Department and \$545,972 in the Water Enterprise Fund. The Fire Department total net assets increased \$15,157. The Water Department decreased net assets by \$5,286.
- Total cash and investments were \$212,931 at June 30, 2012 that included a Debt Service Reserve of \$19,315 and cash in a Construction Account for the Phase II project of \$7,397. The Debt Service Reserve account is used to accumulate the monthly debt service payments from customers and to set aside the required USDA reserve of one full year's annual loan repayment. The Construction Account will be closed and the money transferred to the operating account as that project is completed.
- The District's Phase II project is complete and with that comes the only long-term liability in the form of a USDA loan. At fiscal year ending June 30, 2012 the District had a note payable for the project of \$226,944.

Water Enterprise Fund

Rates and charges

The rates are \$50.00 per month for water operations and \$9.20 per month to help fund the cost of the new water tank. The District now has one hundred and thirty seven (137) residential connections and two (2) commercial connections. The District is installed meters and the training on the new software has been completed. The District will read meters over the next year for historical information and will complete a rate study for the water rates once that historical information is available.

Water Standby Fee

The water department receives revenue from the Water Standby Fee paid by unimproved lot owners. The fee of \$80.00 per lot pays the unimproved lot owners share of the operating expense.

Facility and Connection Fees

The Water Department collects \$4,320.00 per new connection as a Facility Fee. This fee is the new users share of the cost of new infrastructure. A \$400.00 connection fee is charged for all new connections. This fee covers the cost of labor to meet with contractors, inspect the work and input the new account data.

Projects

Phase I, repair of existing infrastructure, replacement of existing controls and installation of water meters, was essentially completed in 2011/2012. This project qualified for ARRA funding of \$374,219. This amount is considered a loan with subsidization in the form of 100% debt forgiveness. The final close out of the project will be during the 2012/2013 fiscal year.

Phase II, installation of a new water storage tank, pressure reducing valve and a well pump was completed in the 2011-2012 fiscal year. A loan was secured from the United States Department of Agriculture (USDA) to fund the project. At fiscal year ending June 30, 2012 the District had a balance of \$296,944. The loan has an interest rate of 4.25% and payments are due annually in December.

Health Department

The District continues to have excellent water quality. The water is clean and safe to drink. The water is treated with a small amount of Chlorine as a disinfectant. The water is disinfected as a precautionary measure. The water is tested monthly for bacteria by a laboratory and chlorine samples are taken daily.

**Summary of Financial Position and Changes in Net Assets – Water Enterprise Fund
For years ending 6-30-12 and 6-30-11**

	2012	2011
Assets		
Investment in Capital Assets net	\$ 942,504	\$ 796,275
Cash and Investments	\$ 179,563	\$ 138,064
Other current Assets	\$ 24,301	\$ 33,622
Total Assets	<u>\$ 1,146,368</u>	<u>\$ 967,961</u>
 Liabilities and Net Assets		
Other Current Liabilities	\$ 382,170	\$ 224,778
Long-term debt	\$ 218,226	\$ 191,925
Total Liabilities	<u>\$ 600,396</u>	<u>\$ 416,703</u>
 Net Assets		
Investment in Capital Assets, net	\$ 715,560	\$ 599,907
Restricted	\$ 64,534	\$ 62,348
Unrestricted	\$ (234,122)	\$ (110,997)
Total Net Assets	<u>\$ 545,972</u>	<u>\$ 551,258</u>
	\$ 1,146,368	\$ 967,961
 Revenue, Expenses and Changes in Net Assets		
Operating Revenue	\$ 125,469	\$ 119,352
Operating Expenses	\$ (118,085)	\$ (110,193)
Operating Income	\$ 7,384	\$ 9,159
Non-operating Income	\$ 532	\$ 9,225
Non-operating Expense	\$ (13,202)	\$ (3,077)
Change in Net Assets	\$ (5,286)	\$ 15,307
Net Assets, Beginning	\$ 551,258	\$ 535,951
Net Assets, Ending	<u>\$ 545,972</u>	<u>\$ 551,258</u>

Greenhorn Creek Volunteer Fire Department

The Fire Department is funded through a combination of property tax and assessments and is currently the only Governmental Fund of the District. A charge of \$50.00 per year for improved lots and \$35.00 per year for unimproved lots funds a portion of the Fire Departments Operating costs. The CSD has provided funding in the past by dedicating the CSD share of property taxes to the Fire Department. This is reviewed annually and a decision is made during the budget process. In 2011-2012 the majority of property tax revenue was used in the Fire Department that resulted in an increase in Fund Balance for the Fire Department.

Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Fire Department For years ending 6-30-12 and 6-30-11

	2012	2011
Assets		
Investment in Capital Assets net	\$ 21,424	\$ 22,802
Cash and Investments	\$ 33,368	\$ 20,339
Other current Assets	\$ 2,470	\$ 440
Total Assets	\$ 57,262	\$ 43,581
Liabilities and Net Assets		
Other Current Liabilities	\$ 139	\$ 239
Total Liabilities	\$ 139	\$ 239
Net Assets		
Investment in Capital Assets, net	\$ 21,424	\$ 22,802
Unassigned Fund Balance	\$ 35,699	\$ 20,542
Total Net Assets	\$ 57,123	\$ 43,344
	\$ 57,262	\$ 43,583
Revenue, Expenses and Changes in Net Assets		
Operating Revenue	\$ 25,794	\$ 16,638
Operating Expenses	\$ (10,637)	\$ (16,638)
Operating Income	\$ 15,157	\$ -
Change in Net Assets	\$ 15,157	\$ -
Beginning Fund Balance/net assets	\$ 20,542	\$ 20,542
Ending Fund Balance/net assets	\$ 35,699	\$ 20,542

Economic Factors, Budgeting and Future considerations

While property tax is just a part of the overall revenue for the District there is concern in the current economic downturn regarding property values. The Community Services District Board has adopted a budget for 2012-2013 that uses property taxes in the Fire Department. It is the desire of the Board to accumulate equipment reserves for the Fire Department. The uncertain State and Federal budgets are also closely followed as they relate to future grant and loan funding. The District has been fortunate to obtain both a USDA loan and ARRA funding for needed projects. The ARRA funding included money for installation of water meters, which is a positive step for the Water Enterprise fund. This gives the District the ability to charge customers for their own water usage and to promote water conservation. As stated earlier, meter reads will be done for historical information until it is determined that there is enough information to complete a rate study.

Like many Districts, the effects of the economy and foreclosures have been evident. Collection efforts on past due accounts continue to be reviewed. The Board passed a collections policy in 2010-2011 that included guidelines and steps to be taken in collections. The installation of water meters has given the District an enforcement measure.

The District continues to have the responsibility for the roads through a management contract with the Road Associations. The District will be filing an application with LAFCo to provide these services directly with the goal for the future to disband the Road Associations. Discussions are continuing regarding forming an Assessment District in order to have the funding mechanism to take on the duties of the Roads. Staff and the District's attorney are working on this and other options. Legal fees and formation costs are a consideration but the District believes that the consolidation of the Roads with the CSD will provide the best benefit to the community for the future.

The 2012-2013 budget does not reflect a Cost of Living Index increase for employees. Since the District does not have full time employees there are no liabilities for benefits.

The District will maintain a watchful eye over expenditures and remain committed to sound fiscal management practices to deliver the highest quality service.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the financial activity and condition of the Greenhorn Creek Community Services District to all having such an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Greenhorn Creek Community Services District

P O Box 346

Quincy, CA 95971

Ph: (530) 283-9670

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
 June 30, 2012

	Governmental Fund			Enterprise Fund	
	Fire			Water	
ASSETS	General Fund	Adjustments	Statement of Net Assets		Total
Current assets:					
Cash and investments (Note 3)	\$ 33,368	\$ -	\$ 33,368	\$ 152,850	\$ 186,218
Accounts receivable	2,470	-	2,470	23,232	25,702
Prepaid expense	-	-	-	1,069	1,069
Total current assets	<u>35,838</u>	<u>-</u>	<u>35,838</u>	<u>177,151</u>	<u>212,989</u>
Capital assets, at cost (Notes 5 and 10):	-	369,399	369,399	667,396	1,036,795
Less accumulated depreciation	<u>-</u>	<u>347,975</u>	<u>347,975</u>	<u>90,750</u>	<u>438,725</u>
	-	21,424	21,424	576,646	598,070
Work in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>365,858</u>	<u>365,858</u>
	<u>-</u>	<u>21,424</u>	<u>21,424</u>	<u>942,504</u>	<u>963,928</u>
Restricted cash (Note 4)	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,713</u>	<u>26,713</u>
	<u>\$ 35,838</u>	<u>\$ 21,424</u>	<u>\$ 57,262</u>	<u>\$1,146,368</u>	<u>\$1,203,630</u>

See notes to financial statements

LIABILITIES	Governmental Fund Fire		Statement of Net Assets	Enterprise Fund Water	Total
	General Fund	Adjustments			
Current liabilities:					
Current portion - LT debt (Note 7)	\$ -	\$ -	\$ -	\$ 8,718	\$ 8,718
Accounts payable	139	-	139	1,771	1,910
Accrued payroll liabilities	-	-	-	-	-
Deferred loan revenue (Note 10)	-	-	-	360,573	360,573
Payable - Road Associations (Note 6)	-	-	-	11,108	11,108
Total current liabilities	<u>139</u>	<u>-</u>	<u>139</u>	<u>382,170</u>	<u>382,309</u>
Long-term debt, net (Note 7)	-	-	-	<u>218,226</u>	<u>218,226</u>
Fund balance/net assets					
Fund balances (Note 8):					
Restricted	-	-	-		
Unassigned	<u>35,699</u>	<u>(35,699)</u>	<u>-</u>		
Total fund balances	<u>35,699</u>	<u>(35,699)</u>	<u>-</u>		
Total liabilities and fund balances	\$ <u>35,838</u>				
Net assets (Note 8):					
Investment in capital assets, net		21,424	21,424	715,560	736,984
Restricted		-	-	64,534	64,534
Unrestricted - deficiency		<u>35,699</u>	<u>35,699</u>	<u>(234,122)</u>	<u>(198,423)</u>
Total net assets		<u>57,123</u>	<u>57,123</u>	<u>545,972</u>	<u>603,095</u>
		\$ <u>21,424</u>	\$ <u>57,262</u>	\$ <u>1,146,368</u>	\$ <u>1,203,630</u>

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
for the year ended June 30, 2012

<u>Functions/Programs</u>	<u>Program Revenues</u>		
Primary government:	<u>Expenses</u>	<u>Charges for Services</u>	<u>Grants and Contributions</u>
Governmental activities:			
Fire	\$ <u>12,015</u>	\$ <u>14,974</u>	\$ <u>-</u>
Total governmental activities	<u>12,015</u>	<u>14,974</u>	<u>-</u>
Business-type activities:			
Water	<u>131,287</u>	<u>125,469</u>	<u>-</u>
Total business-type activities	<u>131,287</u>	<u>125,469</u>	<u>-</u>
Total primary government	\$ <u>143,302</u>	\$ <u>140,443</u>	\$ <u>-</u>

General revenues:
Property taxes
Other
Capital contributions

Total general revenues

Changes in net assets

Net assets – beginning

Net assets – ending

See notes to financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ 2,959		\$ 2,959
<u>2,959</u>		<u>2,959</u>
-	\$(5,818)	(5,818)
-	(5,818)	(5,818)
<u>2,959</u>	<u>(5,818)</u>	<u>(2,859)</u>
10,420	360	10,780
400	172	572
-	-	-
<u>10,820</u>	<u>532</u>	<u>11,352</u>
13,779	(5,286)	8,493
<u>43,344</u>	<u>551,258</u>	<u>594,602</u>
<u>\$ 57,123</u>	<u>\$ 545,972</u>	<u>\$ 603,095</u>

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
ENTERPRISE FUND
for the year ended June 30, 2012

Operating revenues:		
Water sales		\$ 84,955
Standby assessments		16,607
Debt service fees		15,290
Facility fees		4,320
Other		<u>4,297</u>
Total operating revenues		125,469
Operating expenses:		
Pumping	\$ 14,944	
Transmission and distribution	30,355	
Treatment	13,901	
Customer accounts	7,235	
Administration and general	41,314	
Depreciation	<u>10,336</u>	
Total operating expenses		<u>118,085</u>
Operating income		7,384
Non-operating revenues (expenses):		
Interest expense	(13,202)	
Interest income	172	
Property taxes	<u>360</u>	
Income (loss)		<u>(12,670)</u>
before contributions		(5,286)
Capital contributions		<u>-</u>
Changes in net assets		(5,286)
Total assets:		
Beginning		<u>551,258</u>
Ending		\$ <u>545,972</u>

See notes to financial statements

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS – ENTERPRISE FUND
for the year ended June 30, 2012

Cash flows from operating activities:		
Receipts from customers		\$ 130,486
Payments to suppliers		(51,238)
Payment to employees		<u>(44,224)</u>
Net cash provided by operating activities		35,024
Cash flows from noncapital financing activities:		
Receipts from property taxes and other nonoperating income	\$ 360	
Non-operating expenses	<u> </u>	360
Cash flows from capital and related financing activities:		
Construction costs paid	(156,565)	
Long-term debt – advances	43,603	
Deferred revenue	145,135	
Principal paid on capital debt	(13,028)	
Interest paid on capital debt	<u>(13,202)</u>	5,943
Cash flows from investing activities:		
Interest income		<u>172</u>
Net increase in cash and cash equivalents		41,499
Cash at beginning of year		<u>138,064</u>
Cash at end of year		<u>\$ 179,563</u>

See notes to financial statements

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS -- ENTERPRISE FUND, continued
for the year ended June 30, 2012

Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income		\$ 7,384
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	\$ 10,336	
Changes in operating assets and liabilities:		
Receivables	9,325	
Prepays	(4)	
Accounts payable	8,503	
Accrued liabilities	(520)	
		<u>27,640</u>
Net cash provided by operating activities		<u>\$ 35,024</u>

See notes to financial statements

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FIRE DEPARTMENT
for the year ended June 30, 2012

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Program expenditures/expenses:			
Public protection	\$ 6,847	\$ -	\$ 6,847
Support services	3,790	-	3,790
Capital outlay	-	-	-
Depreciation	<u>-</u>	<u>1,378</u>	<u>1,378</u>
Total program expenditures/ expenses	<u>10,637</u>	<u>1,378</u>	<u>12,015</u>
Program revenues:			
Charges for services	-	-	-
Assessments	<u>14,974</u>	<u>-</u>	<u>14,974</u>
	<u>14,974</u>	<u>-</u>	<u>14,974</u>
General revenues:			
Property taxes	10,420	-	10,420
Other	<u>400</u>	<u>-</u>	<u>400</u>
	<u>10,820</u>	<u>-</u>	<u>10,820</u>
Excess revenues (expenditures)/ changes in net assets	15,157	(1,378)	13,779
Beginning fund balances/ net assets	<u>20,542</u>	<u>22,802</u>	<u>43,344</u>
Ending fund balances/ net assets	<u>\$ 35,699</u>	<u>\$ 21,424</u>	<u>\$ 57,123</u>

See notes to financial statements

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
FIRE DEPARTMENT
for the year ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
Revenues:			
Property taxes	\$ 11,000	\$ 10,420	\$(580)
Assessments	14,300	14,974	674
Other	<u>-</u>	<u>400</u>	<u>400</u>
	<u>25,300</u>	<u>25,794</u>	<u>494</u>
Expenditures:			
Administration	-	-	-
Fuel	-	258	(258)
WC	4,200	2,283	1,917
Insurance	4,500	2,858	1,642
Dues and subscriptions	25	50	(25)
Office expenses	-	-	-
Repairs and maintenance	3,000	256	2,744
Small tools	-	-	-
Travel	-	310	(310)
Telephone	350	310	40
Utilities	4,150	3,790	360
Payroll expenses	-	-	-
Supplies	1,500	391	1,109
Training	-	110	(110)
Miscellaneous	<u>-</u>	<u>21</u>	<u>(21)</u>
	<u>17,725</u>	<u>10,637</u>	<u>7,088</u>
Excess of revenues (expenditures)	<u>\$ 7,575</u>	<u>\$ 15,157</u>	<u>\$ 7,582</u>

See notes to financial statements

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. Organization:

Greenhorn Creek Community Services District (the "District") was formed in 1971 and provides water and fire protection services to residents of the District. The District's financial and administrative functions are governed by a five member Board of Directors elected by the voting population within the District. The District's mission is to provide safe, affordable and reliable drinking water and responsive fire service.

2. Summary of Significant Accounting Policies:

The accounting policies of the Greenhorn Creek Community Services District conform to generally accepted accounting principles applicable to enterprise funds. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The two funds in these financial statements are grouped as follows:

Enterprise Funds

The Enterprise Fund is used to account for water operations that are financed and operated in a manner similar to private business enterprises. The intent of the District is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

Governmental Fund

The governmental fund is used to account for all financial resources of the fire department. This fund is also used to establish accounting control and accountability for fixed assets of the aforementioned activity.

Fixed Assets

Fixed assets are stated at cost or estimated historical cost.

Depreciation of those assets is computed by the use of the straight-line method over the estimated useful lives.

Maintenance, repairs and renewals of a minor nature are charged to expense as incurred. Major repairs or renewals and betterments which extend the useful life are capitalized. Upon sale or retirement, cost and accumulated depreciation are eliminated from the accounts and any gain or loss on disposal is included in the statement of income and changes in retained earnings.

Basis of Accounting

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All government funds are accounted for using the current financial resources measurement focus. Under this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) as changes in net current assets.

Governmental funds are maintained on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period they become measurable and available. The District considers revenues as available if they are collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues considered susceptible to accrual include property taxes, interest and certain other intergovernmental revenues. Expenditures are recognized in the accounting period in which the liability is incurred.

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

Basis of Accounting, continued

Proprietary funds are maintained on the accrual basis of accounting wherein revenues are recognized in the period earned and expenses are recognized in the period incurred. Under this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) as changes in net total assets.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead; other expenses are nonoperating.

Statement of Cash Flows

All highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents.

Investments

Investments consist of deposits with Bank of America. Such investment is within the State statutes and the District's investment policy.

Budget and Budgetary Accounting

The Board of Directors annually adopts an operating budget. The operating budgets are prepared on the accrual basis.

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies, continued:

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and 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 may differ from those estimates.

Property Taxes

The District receives property taxes from Plumas County. Property taxes receivable are recorded in the fiscal year for which the tax is levied based on the assessed value as of September 1 of the preceding fiscal year. They become a lien on the first day of the year they are levied. Secured property tax is levied on September 1 and due in two installments, on November 1 and March 1. They become delinquent on December 10 and April 10, respectively. Unsecured property taxes are due on July 1, and become delinquent on August 31. The District elected to receive the property taxes from the County under the Teeter Bill Program. Under this Program, the District receives 100% of the levied property taxes in periodic payments, with the County assuming responsibility for delinquencies.

3. Cash and Investments:

At year-end the carrying amount of the District's deposits in the bank was \$212,931 and the bank balance was \$220,968. The bank balance was covered by Federal depository insurance and collateral held in the pledging bank's trust department as mandated by state law.

	Balance, June 30, <u>2012</u>
Cash in checking (2)	\$ 117,178
Cash in savings	14,458
Certificate of deposit	<u>81,295</u>
	<u>\$ 212,931</u>

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

3. Cash and Investments, continued:

Allocated:

Operations	\$ 186,218
Restricted	<u>26,713</u>
	<u>\$ 212,931</u>

4. Restricted Cash:

Debt service fee reserve	\$ 19,316
Construction account	<u>7,397</u>
	<u>\$ 26,713</u>

5. Capital Assets:

Changes in enterprise capital assets for the year ended June 30, 2012 are as follows:

<u>Water</u>	<u>Balance</u> <u>6/30/2011</u>	<u>Additions/</u> <u>Transfers</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/2012</u>
Land	\$ 164,000	\$ -	\$ -	\$ 164,000
Source of supply	1,404	-	-	1,404
Transmission and distribution	<u>113,711</u>	<u>388,281</u>	<u>-</u>	<u>501,992</u>
	<u>\$ 279,115</u>	<u>\$ 388,281</u>	<u>\$ -</u>	<u>\$ 667,396</u>

**GREENHORN CREEK COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued**

5. Capital Assets, continued:

<u>Work in Progress</u>	<u>Balance 6/30/2011</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance 6/30/2012</u>
Phase II-water tank	\$ 361,761	\$ 26,520	\$ 388,281	\$ -
Phase I-water meters	<u>235,813</u>	<u>130,045</u>	<u>-</u>	<u>365,858</u>
	<u>\$ 597,574</u>	<u>\$ 156,565</u>	<u>\$ 388,281</u>	<u>\$ 365,858</u>

Changes in governmental capital assets for the year ended June 30, 2012 are as follows:

<u>Fire</u>	<u>Balance 6/30/2011</u>	<u>Additions/ Transfers</u>	<u>Disposals</u>	<u>Balance 6/30/2012</u>
Land	\$ 9,000	\$ -	\$ -	\$ 9,000
Buildings	50,000	-	-	50,000
Equipment	<u>310,399</u>	<u>-</u>	<u>-</u>	<u>310,399</u>
	<u>\$ 369,399</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 369,399</u>

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

6. Road Maintenance Agreement:

In December, 2008 the District signed a contract with Greenhorn Unit 1 Road Association ("Unit 1") and Greenhorn Unit 2 Road Association ("Unit 2") to provide road maintenance and snowplowing for these two respective units.

The contract stipulates that the District will administer all aspects of road maintenance and related administration for the two Road Associations.

Financial activities for 11-12 consist of:

	<u>Unit 1</u>	<u>Unit 2</u>
Road contracts	\$(<u>32,019</u>)	\$(<u>49,918</u>)
Disbursements:		
Repairs and maintenance:		
Bldgs and roads	14,460	17,682
Snow removal	210	240
Equipment	4,505	4,653
Insurance	1,490	3,620
Professional fees	3,875	4,214
Payroll expenses	4,139	4,069
Other	<u>1,160</u>	<u>2,204</u>
	<u>29,839</u>	<u>36,682</u>
Subtotal	(2,180)	(13,236)
Add, carry over, prior year	<u>(2,742)</u>	<u>7,050</u>
Balance receivable (payable)	\$(<u>4,922</u>)	\$(<u>6,186</u>)
Total payable		\$(<u>11,108</u>)

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

7. Long-Term Debt:

The following is a summary of the long-term debt activities for the year ended June 30, 2012:

	<u>Balance</u> <u>6/30/2011</u>	<u>New Debt</u> <u>Issued</u>	<u>Debt</u> <u>Retired</u>	<u>Balance</u> <u>6/30/2012</u>	<u>Current</u> <u>Portion</u>
USDA loan	\$ <u>196,369</u>	\$ <u>43,603</u>	\$ <u>13,028</u>	\$ <u>226,944</u>	\$ <u>8,718</u>

USDA Loan

In 2009, the District entered into a loan for \$250,000 with the United States Department of Agriculture (USDA). The purpose of this loan is to install a new water tank.

As of June 30, 2012, the District has drawn \$250,000 of loan funds. The project complete at June 30, 2012. The annual loan payment of \$13,105 has a term of 40 years which bears interest at 4.25% per annum. Payment of this loan began in December 2010.

The future annual maturities of all long-term borrowing as of June 30, 2012 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 8,718	\$ 4,387	\$ 13,105
2014	3,830	9,275	13,105
2015	3,993	9,112	13,105
2016	4,163	8,942	13,105
2017	4,340	8,765	13,105
2018-2023	24,628	40,897	65,525
2024-2028	30,325	35,200	65,525
2029-2033	37,341	28,184	65,525
2034-2038	45,979	19,546	65,525
2039-2043	56,617	8,908	65,525
2044	<u>7,010</u>	<u>298</u>	<u>7,308</u>
	<u>\$ 226,944</u>	<u>\$ 173,514</u>	<u>\$ 400,458</u>

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

8. Net Assets/Fund Balance:

Net assets at June 30, 2012 is analyzed as follows:

	<u>Governmental Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
Invested in capital assets, net of related debt	\$ <u>21,424</u>	\$ <u>715,560</u>	\$ <u>736,984</u>
Restricted:			
Debt service fee reserve	-	19,316	19,316
Short lived asset reserve	<u>-</u>	<u>45,218</u>	<u>45,218</u>
	<u>-</u>	<u>64,534</u>	<u>64,534</u>
Unrestricted:			
Undesignated - deficiency	<u>35,699</u>	(234,122)	(198,423)
Total net assets	\$ <u>57,123</u>	\$ <u>545,972</u>	\$ <u>603,095</u>
General fund (Fire):			
Total fund balances consists of:			
Restricted:	\$ -		
Unassigned:	<u>35,699</u>		
	<u>\$ 35,699</u>		

9. Risk of Loss:

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; and injuries to employees. During the 2012 fiscal year, the District purchased certain commercial insurance coverages to provide for these risks.

GREENHORN CREEK COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued

10. Construction Projects:

Phase I

The purpose of the project is to replace the pressure reducing valves, install air vacuum releases, replace control systems, replace well-house piping, and install water meters. The total cost of the project was estimated at \$400,000.

In September 2009, a funding agreement between the District and California Department of Public Health and the American Recovery and Reinvestment Act of 2009 was signed for a loan with subsidization in the form of 100% in forgiveness in principal in the amount of \$374,219.

In October 2010, the contractor defaulted on the Project. The District hired a new general contractor to complete the project. The District recovered \$75,285 from the Surety company. At June 30, 2012 project work in progress amounted to \$365,858.

Phase II

In January 2009, the District entered into an agreement with the USDA for a loan of \$250,000 for installation of a new water tank. Total cost of the project was expected to be \$362,250.

The new water tank project was completed in 2012 for a final cost of \$388,281. The June 30, 2012 loan balance was \$226,944.

Status of Projects

	<u>Contract</u>	<u>Costs</u>	<u>Grant</u>
	<u>Cost</u>	<u>Expended</u>	<u>Advances</u>
		<u>6-30-12</u>	<u>Received</u>
			<u>6-30-12</u>
Phase I	<u>\$374,219</u>	<u>\$365,858</u>	<u>\$360,573</u>

11. Subsequent Events:

Management has evaluated subsequent events through August 31, 2012, the date these June 30, 2012 financial statements were available to be issued.

SUPPLEMENTAL DATA

**GREENHORN CREEK COMMUNITY SERVICES DISTRICT
PRINCIPAL OFFICIALS**

Board of Directors:

Marlyn Jordan

President/Chair

David Schmid

Vice President

Candy Miller

Secretary

Operations:

Roy Carter

General Manager

Susan Scarlett

Financial Officer

David Schmid

Fire Chief

GREENHORN CREEK
COMMUNITY SERVICES DISTRICT

REPORT ON ACCOUNTING CONTROLS
AND PROCEDURES

June 30, 2012

ROBERT W. JOHNSON
Certified Public Accountant

ROBERT

W.

JOHNSON

An Accountancy Corporation

Certified Public Accountant

6234 BIRDCAGE STREET • CITRUS HEIGHTS, CA 95610-5949 • (916) 723-2555

August 31, 2012

To the Board of Directors
Greenhorn Creek Community Services District
Quincy, California

We have audited the financial statements of Greenhorn Creek Community Services District as of and for the year ended June 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In planning and performing our audit of the financial statements of Greenhorn Creek Community Services District as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Greenhorn Creek Community Services District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures but not for the purpose of expressing our opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we have enclosed other recommendations for your consideration.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We have no significant deficiencies to report.

This communication is intended solely for the information and use of management and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Robert W. Johnson, An Accountancy Corporation

Robert W. Johnson, An Accountancy Corporation

1. Financial Condition – Water Utility:

	<u>2011</u>	<u>2012</u>
Net income (loss)	\$ 15,307	\$(5,286)
Add, depreciation expense	<u>3,864</u>	<u>10,336</u>
Cash available to purchase property and pay debt service	\$ <u>19,171</u>	\$ <u>5,050</u>

- Cash available (above) decreased \$14,121.
- the District will have to carefully monitor cash balance/transactions in 2012-13.

2. Prior Year Recommendations:

(a) Donation of Equipment (Fire):

Recommendation – design form and make entries to record equipment received.

Follow up – done.

(b) Accounts Receivable:

Recommendation – We understand that once the District's customers are metered, delinquent water accounts will be more likely to be shut off from service. In the meantime, however, management should be more aggressive in collection efforts by implementing the new collection policies and procedures.

Follow up – utility accounts receivable decreased 25% to \$19,895. "Past due over 90 days" decreased 28% to \$13,841. Good job!