

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2010**

**With Comparative Totals at June 30, 2009**

DRAFT

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# Donald R. Reynolds

Certified Public Accountant

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Trinity County Waterworks District No. 1  
Hayfork, California

I have audited the accompanying financial statements of Trinity County Waterworks District No. 1, a component unit of the County of Trinity, California, as of and for the year ended June 30, 2010 and 2009 as listed in the table of contents. These financial statements are the responsibility of the Trinity County Waterworks District No. 1's management. My responsibility is to express an opinion on the financial statements based on my audit.

Except as discussed in the following paragraph, the audit was conducted in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinion.

The capital asset balances exclusive of infrastructure, of the governmental funds of the District have not been audited, and I was not engaged to audit the capital asset balances as part of my audit of the District's basic financial statements. Capital asset balances are included in the governmental activities column in the Statement of Net Assets and represent 97 percent of the assets of the District's governmental activities column.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the capital assets been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the district as of June 30, 2010, 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.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 14, 2010 on my consideration of the Trinity County Waterworks District No. 1's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Donald R. Reynolds, CPA  
October 1, 2010

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**Trinity County Waterworks District #1**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

|   | <u>Governmental</u><br><u>Activities</u> | <u>Business</u><br><u>Activities</u> | <u>Total</u>         |
|---|--|--------------------------------------|----------------------|
| <b>ASSETS</b>                                     |  |                                      |                      |
| <b><u>Current Assets:</u></b>                     |  |                                      |                      |
| Cash and Investments                              | \$ 23,305                                | \$ 8,741                             | \$ 32,046            |
| Accounts Receivable                               | 11,250                                   | 23,186                               | 34,436               |
| Due from Other Funds                              | -  | 27,501                               | 27,501               |
| Restricted Cash and Investments                   | -  | 386,702                              | 386,702              |
| Total Current Assets                              | <u>34,555</u>                            | <u>446,130</u>                       | <u>480,685</u>       |
| <b><u>Noncurrent Assets:</u></b>                  |  |                                      |                      |
| Capital Assets                                    |  |                                      |                      |
| Water & Sewer Systems                             | -  | 14,745,768                           | 14,745,768           |
| Irrigation System                                 | -  | 767,342                              | 767,342              |
| General Plant & Equipment                         | -  | 398,746                              | 398,746              |
| Accumulated Depreciation                          | -  | (4,652,760)                          | (4,652,760)          |
| Construction in Progress                          | -  | 62,786                               | 62,786               |
| Other Assets                                      | -  | 26,209                               | 26,209               |
| Total Noncurrent Assets                           | <u>-</u>                                 | <u>11,348,091</u>                    | <u>11,348,091</u>    |
| Total Assets                                      | <u>\$ 34,555</u>                         | <u>\$ 11,794,221</u>                 | <u>\$ 11,828,776</u> |
| <b><u>LIABILITIES</u></b>                         |  |                                      |                      |
| <b><u>Current Liabilities:</u></b>                |  |                                      |                      |
| Accounts Payable                                  | \$ -                                     | \$ 12,140                            | \$ 12,140            |
| Payroll Withholdings and Accrued Liabilities      | -  | 9,806                                | 9,806                |
| Current Portion of Long-term Debt                 | -  | 21,847                               | 21,847               |
| Total Current Liabilities                         | <u>-</u>                                 | <u>43,793</u>                        | <u>43,793</u>        |
| <b><u>Noncurrent Liabilities:</u></b>             |  |                                      |                      |
| Long-term Portion of Compensated Basenses         | -  | 9,518                                | 9,518                |
| Customer Deposits                                 | -  | 13,827                               | 13,827               |
| Other   | -  | 1,006                                | 1,006                |
| Long-term Debt                                    | -  | 924,182                              | 924,182              |
| Total Noncurrent Liabilities                      | <u>-</u>                                 | <u>948,533</u>                       | <u>948,533</u>       |
| Total Liabilities                                 | <u>-</u>                                 | <u>992,326</u>                       | <u>992,326</u>       |
| <b><u>Net Assets</u></b>                          |  |                                      |                      |
| Investment in Capital Assets, net of related debt | -  | -                                    | -                    |
| Restricted for:                                   | -  | -                                    | -                    |
| Debt Service                                      | -  | -                                    | -                    |
| Levee Maintenance                                 | -  | -                                    | -                    |
| Unrestricted                                      | <u>34,555</u>                            | <u>10,801,895</u>                    | <u>10,836,450</u>    |
| Total Net Assets                                  | <u>34,555</u>                            | <u>10,801,895</u>                    | <u>10,836,450</u>    |
| Total Liabilities and Net Assets                  | <u>\$ 34,555</u>                         | <u>\$ 11,794,221</u>                 | <u>\$ 11,828,776</u> |

The accompanying notes are an integral part of these financial statements.

**Trinity County Waterworks District #1**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2010**

|                                | <u>EXPENSES</u>   | <u>CHARGES FOR SERVICES</u> | <u>OPERATING GRANTS AND CONTRIBUTIONS</u> | <u>CAPITAL GRANTS AND CONTRIBUTIONS</u> | <u>NET (EXPENSE)/REVENUE</u> |
|--------------------------------|-------------------|-----------------------------|---|---|------------------------------|
| <b>FUNCTIONS/PROGRAMS</b>      |                   |                             |   |   |                              |
| Cultural, Parks and Recreation |                   |                             |   |   |                              |
| General Fund                   | \$ 3,730          | \$ -                        | \$ -                                      | \$ -                                    | \$ (3,730)                   |
| Business-Type Activities       |                   |                             |   |   |                              |
| Water                          | 780,729           | 296,676                     | -   | -                                       | (484,053)                    |
| Sewer                          | -                 | 137,449                     | -   | -                                       | 137,449                      |
| Total Business-Type Activities | <u>780,729</u>    | <u>434,125</u>              | <u>-</u>                                  | <u>-</u>                                | <u>(346,604)</u>             |
| Total                          | <u>\$ 784,459</u> | <u>\$ 434,125</u>           | <u>\$ -</u>                               | <u>\$ -</u>                             | <u>\$ (350,334)</u>          |

|                                      | <u>Governmental Activities</u> | <u>Business Activities</u> | <u>Total</u>         |
|--------------------------------------|--------------------------------|----------------------------|----------------------|
| <b>CHANGES IN NET ASSETS:</b>        |                                |                            |                      |
| Net (Expense)/Revenue                | \$ (3,730)                     | \$ (346,604)               | \$ (350,334)         |
| General Revenues:                    |                                |                            |                      |
| Taxes                                |                                |                            |                      |
| Sales and Use Taxes                  | -                              | -                          | -                    |
| Property Taxes                       | -                              | -                          | -                    |
| Other Taxes                          | -                              | -                          | -                    |
| Grants and contributions             | -                              | -                          | -                    |
| Intergovernmental                    | -                              | -                          | -                    |
| Investment Income                    | -                              | 3,704                      | 3,704                |
| Assessments                          | -                              | 74,812                     | 74,812               |
| Other                                | 38,285                         | 30,321                     | 68,606               |
| Transfers - Internal Activity        | -                              | -                          | -                    |
| Total General Revenues and Transfers | <u>38,285</u>                  | <u>108,837</u>             | <u>147,122</u>       |
| Change in Net Assets                 | 34,555                         | (237,767)                  | (203,212)            |
| Net Assets - Beginning               | -                              | 10,306,021                 | 10,306,021           |
| Prior period adjustments             | -                              | 10,801,895                 | 10,801,895           |
| Net Assets - Beginning (Restated)    | -                              | 21,107,916                 | 21,107,916           |
| Net Assets - Ending                  | <u>\$ 34,555</u>               | <u>\$ 20,870,149</u>       | <u>\$ 20,904,704</u> |

The accompanying notes are an integral part of these financial statements.

**Trinity County Waterworks District #1  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010**

|  | <b>Governmental<br/>Activities<br/><u>General Fund</u></b> |
|--|--|
| <b>ASSETS</b>  |  |
| <b><u>Current Assets:</u></b>  |  |
| Cash   | \$ 23,305  |
| Accounts Receivable  | 11,250   |
| Total Assets   | <u>\$ 34,555</u>   |
| <br>   |  |
| <b><u>LIABILITIES</u></b>  |  |
| Other Accrued Liabilities  | -  |
| Total Liabilities  | <u>-</u>   |
| <br>   |  |
| <b><u>FUND BALANCES</u></b>  |  |
| Unreserved, Reported In:   | -  |
| Capital Projects   | -  |
| Total Fund Balances  | 34,555   |
| Total Liabilities and Net Assets   | <u>\$ 34,555</u>   |
| <br>   |  |
| Amounts reported for governmental activities in the Statement<br>of Net Assets are different because:  |  |
| Capital assets unused in governmental activities are not financial resources<br>and therefore are not reported in the funds, net of accumulated<br>depreciation. | \$ -   |
| Other long-term assets are not available to pay for current-period<br>expenditures and therefore are deferred in the funds:                                      |  |
| Long-term liabilities are not due and payable in the current period and<br>therefore are not reported in the funds:  |  |
| Net assets of governmental activities  | <u>\$ 34,555</u>   |

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The accompanying notes are an integral part of these financial statements.

**Trinity County Waterworks District #1**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2010**

|  | <b><u>General</u></b><br><b><u>Fund</u></b> | <b><u>Total</u></b><br><b><u>Governmental</u></b><br><b><u>Funds</u></b> |
|--|---|--|
| <b>REVENUES</b>  |   |  |
| Golf Course Charges  | \$ -  | \$ -   |
| Other  | <u>38,285</u>                               | <u>38,285</u>  |
| Total Revenues   | <u>38,285</u>                               | <u>38,285</u>  |
| <b>EXPENDITURES</b>  |   |  |
| <b><u>Current:</u></b>   |   |  |
| Other  | <u>3,730</u>                                | <u>3,730</u>   |
| Total Expenditures   | <u>3,730</u>                                | <u>3,730</u>   |
| Excess (Deficiency)<br>of Revenues Over<br>(Under) Expenditures  | <u>34,555</u>                               | <u>34,555</u>  |
| <b>OTHER FINANCING SOURCES (USES)</b>  |   |  |
| Transfers in (out)   | <u>-</u>                                    | <u>-</u>   |
| Total Other Financing Sources (Uses)   | <u>-</u>                                    | <u>-</u>   |
| Excess (Deficiency) of<br>Revenues and Other<br>Financing Sources Over<br>(Under) Expenditures and<br>Other Financing Uses | 34,555                                      | 34,555   |
| <b>FUND BALANCE - BEGINNING OF YEAR</b>  | <u>-</u>                                    | <u>-</u>   |
| <b>FUND BALANCE - END OF YEAR</b>  | <u>\$ 34,555</u>                            | <u>\$ 34,555</u>   |

The accompanying notes are an integral part of these financial statements.

(Continued)

**Trinity County Waterworks District #1**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2010**

Reconciliation of the change in fund balances - Total Governmental Funds  
to the change in net assets of governmental activities

Net change in fund balances - Total Governmental Funds \$ 34,555  
Amounts reported for governmental activities in the Statement of  
Activities are different because:

Governmental funds report capital outlays as expenditures while  
governmental activities report depreciation expense to allocate those  
expenditures over the estimated useful life of the assets:

Revenues in the Statement of Activities that do not provide current  
financial resources are not reported as revenues in the funds:

Repayment of debt principal is an expenditure in the governmental  
funds, but the repayment reduces long-term liabilities in the  
Statement of Net Assets:

Some expenses reported in the Statement of Activities do not require  
the use of current financial resources and therefore are not reported  
as expenditures on governmental funds:

|   |       |               |
|---|-------|---------------|
|   | _____ |               |
| Change in Net Assets of Governmental Activities | \$    | <u>34,555</u> |

The accompanying notes are an integral part of these financial statements.

**Trinity County Waterworks District #1**  
**STATEMENT OF NET ASSETS**  
**BUSINESS TYPE ACTIVITIES**  
**JUNE 30, 2010**

**ASSETS**

**Current Assets:**

|                                 |                |
|---------------------------------|----------------|
| Cash and Investments            | \$ 8,741       |
| Accounts Receivable             | 23,186         |
| Inventory                       | 27,501         |
| Restricted Cash and Investments | 386,702        |
| Total Current Assets            | <u>446,130</u> |

**Noncurrent Assets:**

|                           |                      |
|---------------------------|----------------------|
| Capital Assets :          |                      |
| Water & Sewer Systems     | 14,745,768           |
| Irrigation System         | 767,342              |
| General Plant & Equipment | 398,746              |
| Accumulated Depreciation  | (4,652,760)          |
| Construction in Progress  | 62,786               |
| Other Assets              | 26,209               |
| Total Noncurrent Assets   | <u>11,348,091</u>    |
| Total Assets              | <u>\$ 11,794,221</u> |

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**LIABILITIES**

**Current Liabilities:**

|  |               |
|--|---------------|
| Accounts Payable                           | \$ 12,140     |
| Payroll Withholdings & Accrued Liabilities | 9,806         |
| Current Portion of Long-term Debt          | 21,847        |
| Total Current Liabilities                  | <u>43,793</u> |

**Noncurrent Liabilities:**

|   |                |
|---|----------------|
| Long-term portion of Compensated Absenses | 9,518          |
| Customer Deposits                         | 13,827         |
| Other                                     | 1,006          |
| Long-term Debt                            | 924,182        |
| Total Noncurrent Liabilities              | <u>948,533</u> |
| Total Liabilities                         | <u>992,326</u> |

**Net Assets**

|   |                      |
|---|----------------------|
| Investment in Capital Assets, net of related debt | -                    |
| Restricted for:                                   |                      |
| Debt Service                                      | -                    |
| Unrestricted                                      | 10,801,895           |
| Total Net Assets                                  | <u>10,801,895</u>    |
| Total Liabilities and Net Assets                  | <u>\$ 11,794,221</u> |

The accompanying notes are an integral part of these financial statements.

**Trinity County Waterworks District #1**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**BUSINESS TYPE ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2010**

**OPERATING REVENUES**

|                                      |                |
|--------------------------------------|----------------|
| Water Sales                          | \$ 251,780     |
| Sewer Service Charges                | 111,203        |
| Connection, Extension and Other Fees | 71,444         |
| Other                                | 4,981          |
|                                      | <u>439,408</u> |

**OPERATING EXPENSES**

|   |                  |
|---|------------------|
| Depreciation and Amortization                   | 357,040          |
| Electric Power                                  | 29,952           |
| Insurance                                       | 19,846           |
| Lab fees  | 26,521           |
| Office Supplies, Utilities and Maintenance      | 11,275           |
| Other   | 1,802            |
| Professional Services                           | 23,214           |
| Salaries and wages and Payroll Taxes            | 222,661          |
| State Fees                                      | 23,615           |
| System Repairs and Maintenance                  | 28,960           |
| Telemetry and Lab Testing                       | 4,805            |
| Travel, Meetings, Memberships and Subscriptions | 11,026           |
| Total Operating Expenses                        | <u>760,717</u>   |
| Operating Income (Loss)                         | <u>(321,309)</u> |

**NONOPERATING REVENUES**

|                             |                |
|-----------------------------|----------------|
| Interest                    | 3,704          |
| Grant Revenue               | 731,930        |
| Special assessments         | 74,812         |
| Taxes                       | 5,232          |
| Other                       | 30,321         |
| Total Nonoperating Revenues | <u>845,999</u> |

**NONOPERATING EXPENSES**

|                             |                |
|-----------------------------|----------------|
| Interest                    | 28,816         |
| Other                       | -              |
| Total Nonoperating Expenses | <u>28,816</u>  |
| Nonoperating Income         | <u>817,183</u> |

**INCOME BEFORE CONTRIBUTIONS**

|                     |                |
|---------------------|----------------|
| Contributed capital | -              |
|                     | <u>495,874</u> |

**CHANGE IN NET ASSETS**

495,874

**UNRESTRICTED NET ASSETS AT JULY 1,**

10,306,021

**UNRESTRICTED NET ASSETS AT JUNE 30,**

\$ 10,801,895

The accompanying notes are an integral part of these financial statements

**GERBER-LAS FLORES COMMUNITY SERVICE DISTRICT**  
**STATEMENT OF CASH FLOWS -**  
**BUSINESS TYPE ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2010**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

|  |               |
|--|---------------|
| Operating Income (Loss)  | \$ (321,309)  |
| Adjustments to Reconcile Operating Income to<br>Cash Provided by Operating Activities: |               |
| Depreciation   | 357,040       |
| (Increase) Decrease in Accounts Receivable   | 2,603         |
| Increase(decrease) in Payroll Withholdings and Accrued Liabilities                     | 531           |
| Increase(decrease in Customer Deposits   | 1,501         |
| Increase (Decrease) in Accounts Payable  | <u>(242)</u>  |
| Net Cash Provided by Operating Activities  | <u>40,124</u> |

**CASH FLOWS FROM (TO) NONCAPITAL  
FINANCING ACTIVITIES:**

|  |                |
|--|----------------|
| Other Nonoperating Revenues                                    | 842,295        |
| Operating Transfers-in   | -              |
| Operating Transfers-out  | <u>-</u>       |
| Net Cash Provided (Used) by Noncapital<br>Financing Activities | <u>842,295</u> |

**CASH FLOWS FROM (TO) CAPITAL AND RELATED  
FINANCING ACTIVITIES:**

|  |                  |
|--|------------------|
| Acquisition of Capital Assets                                    | (866,677)        |
| Payments of Long-term Debt                                       | (20,564)         |
| Interest Paid on Long-term Debt                                  | <u>(28,816)</u>  |
| Net Cash Provided by Capital and<br>Related Financing Activities | <u>(916,057)</u> |

**CASH FLOWS FROM INVESTMENT ACTIVITIES:**

|                   |              |
|-------------------|--------------|
| Interest Received | <u>3,704</u> |
|-------------------|--------------|

**INCREASE (DECREASE) IN CASH AND CASH  
EQUIVALENTS** (29,934)

**CASH AND CASH EQUIVALENTS - Beginning** 425,377

**CASH AND CASH EQUIVALENTS - Ending** \$ 395,443

The accompanying notes are an integral part of these financial statements.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010 and 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

The financial statements of Trinity County Waterworks District No. 1 have been prepared in conformity with Accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**A. Description of Reporting Entity**

The Trinity County Waterworks District No. 1 (District) provides water service to customers in Hayfork, California. The District is currently constructing a sewer collection and treatment facility to serve the residents of Hayfork, California.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

Based upon the application of these criteria, there are no potential component units to be included in the District's reporting entity.

**B. Implementation of Governmental Accounting Standards Board Statements**

*GASB Statement No. 40*

At June 30, 2009, the District adopted the provisions of Governmental Accounting

Continued on the following page

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010 and 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

**B. Implementation of Governmental Accounting Standards Board Statements (Continued)**

Standards Board (GASB) Statement 40, Deposits and Investment Risk Disclosures an amendment of GASB Statement No. 3. The Statement modifies the custodial credit risk disclosures required by Statement No. 3, Deposits with Financial institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements and addresses deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Accordingly, the cash and investments disclosure has been revised to conform to the provisions of GASB Statement No. 40.

**C. Basis of Presentation and Accounting**

The accompanying basic financial statements of the District are prepared on the accrual basis method of accounting in accordance with generally accepted accounting principles as applicable to governmental units. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

All activities of the District are accounted for within a single enterprise fund. Enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earning, result from non exchange transactions or ancillary activities.

Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. In accordance with GASB No. 33, *Accounting and*

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 and 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

**C. Basis of Presentation and Accounting (Continued)**

Reporting for Non-exchange Transactions, revenue from property taxes is available.

Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied and the resources are available.

When both restricted and unrestricted resources are available for use, it is the District's Policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the District considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**E. Allowance for Doubtful Accounts**

The District's receivables consist mostly of special assessments due from tax payers and utility billing due from customers. The District considers accounts receivable to be fully collectible at year-end; accordingly, no allowance for doubtful accounts is required.

**F. Capital Assets**

Property and equipment is recorded at cost. Donated property and equipment is stated at the fair value at the date of donation and recorded as contributed capital. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows:

|                             |             |
|-----------------------------|-------------|
| Structures and Improvements | 10-45 Years |
| Vehicles and Equipment      | 3-10 Years  |

**G. Inventory**

The District uses the "consumption" method of accounting for inventory. Under the "consumption" method, inventory acquisitions are recorded in the inventory account initially, and charged as expenditures when used.

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 and 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

**H. General Liability Insurance**

The District is a member of the Special District Risk Management Authority (S.D.R.M.A.) under a Joint Powers Agreement. The Authority provides general liability and property, and errors and omissions insurance under a self-insurance program funding pool.

**I. Compensated Absences**

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District and are accrued when incurred.

Accumulated Employee sick leave benefits are not recognized as liabilities of the District since payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period that sick leave is taken.

**J. Property Tax Revenue**

The District assesses tax through the Trinity county Tax rolls. Property taxes attach an enforceable lien on January 1. Taxes are levied on July 1 and payable in two installments, December 10 and April 10. All general property taxes entities per the legislation implementing Proposition 13. The method of allocation used by the County is subject to review by the State of California. The District's property tax revenues are recognized when levied in accordance with the alternative method (Teeter Plan) of recording property taxes.

**K. Capitalization of Interest**

Interest is capitalized on costs associated with the acquisition and construction of assets. The amount of interest capitalized is the total of all associated interest costs, less interest earned on the temporary investment of the proceeds of any tax-exempt borrowings.

**L. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 and 2009**

**NOTE 2 CASH AND INVESTMENTS**

The District maintains various cash and investment accounts with banks, the Trinity County Treasurer, and a safekeeping agent.

At June 30, 2010, total District cash and investments at fair value were as follows:

|                                       | Per Books         | Per Bank          |
|---------------------------------------|-------------------|-------------------|
| <i>Cash:</i>                          |                   |                   |
| Cash on hand                          | \$ 8,741          | \$ 51,273         |
| Restricted cash                       | 35,587            | 35,587            |
| Cash with safekeeping agent - savings | 5,941             | 5,941             |
| Deposits                              | <u>13,904</u>     | <u>13,904</u>     |
| Total cash                            | <u>81,689</u>     | <u>105,105</u>    |
| <br><i>Investments:</i>               |                   |                   |
| County Pooled Treasury                | 31,154            | 31,154            |
| With safekeeping agent                | 18,222            | 18,222            |
| Local Agency Investment Fund          | <u>298,501</u>    | <u>298,501</u>    |
| Total investment                      | <u>343,688</u>    | <u>343,688</u>    |
| Total cash and investments            | <u>\$ 425,377</u> | <u>\$ 448,973</u> |

**INVESTMENTS**

The District's investment policy does not define criteria for selecting acceptable financial institutions, brokers/dealers, or allowable investment types as defined by Government Code 53635.

At June 30, 2010, the District had the following investments:

|   | Interest<br><u>Rates</u> | <u>Maturities</u> | <u>Par</u>        | <u>Cost</u>       | Fair<br><u>Value</u> | WAM<br><u>(Years)</u> |
|---|--------------------------|-------------------|-------------------|-------------------|----------------------|-----------------------|
| <b>Investments</b>                          |                          |                   |                   |                   |                      |                       |
| Cash in County Pooled Treasury              | Variable                 | On Demand         | \$ 19,416         | \$ 19,416         | \$ 19,416            | -                     |
| Mutual Fund                                 | Variable                 | On Demand         | 18,222            | 18,222            | 18,222               | -                     |
| Local agency Investment Fund                | 1.67%-2.85%              | On Demand         | <u>298,501</u>    | <u>298,501</u>    | <u>298,501</u>       | -                     |
| <b>Total Investments in investment pool</b> |                          |                   | <u>\$ 343,688</u> | <u>\$ 343,688</u> | <u>\$ 343,688</u>    | -                     |

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 2 CASH AND INVESTMENTS (Continued)**

Interest Rate Risk

The District’s investment policy does not define a method for limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District’s investment policy does not define a method for limiting credit risk. State law and the County’s Investment Policy limit investments in commercial paper to the rating of A1 by Standards & Poor’s or P-1 by Moody’s Investors Service. State Law Limits Investors Service. The District has no investments in commercial paper or corporate bonds.

Concentration of Credit Risk

At June 30, 2010, in accordance with State law, the District did not have 5% or more of its net investment in commercial paper, corporate bonds or medium term notes of a single organization, nor did it have 10% or more of its net investment in any one money market mutual fund. Investments in obligations of the U.S. government, U.S. government agencies, or government-sponsored enterprises are exempt from these limitations.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the District’s investment pool’s fair value at June 30, 2010.

|                                     | <u>SAP</u> | <u>Moody’s</u> | <u>% of Portfolio</u> |
|-------------------------------------|------------|----------------|-----------------------|
| Cash in county Pooled Treasury      | Unrated    | Unrated        | 6.52%                 |
| State Farm Mutual Fund              | Unrated    | Unrated        | 5.43%                 |
| Local Agency Investment Fund (LAIF) | Unrated    | Unrated        | 88.05%                |
| Total                               |            |                | <u>100.00%</u>        |

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the District’s investment pool and specific investments had no securities exposed to custodial credit risk.

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 2 CASH AND INVESTMENTS (Continued)**

Local Agency Investment Fund

The District maintains an investment in the State of California Local Agency Investment Fund (LAIF), managed by the State Treasurer. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California State Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The Local Investment Advisor Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute.

At June 30, 2010, the District's investment position in the State of California Local Agency Investment Fund (LAIF) was \$262,014, which approximates fair value and is the same as value of the pool shares. The total amount invested by all public agencies in LAIF on that day was \$65,643,489,036. Of that amount, 97.6% was invested in non-derivative financial products and 2.4% in structured notes and asset-backed securities.

At June 30, 2010 the difference between the cost and fair value of cash and investments was not material (fair value was 97.6% of carrying value). Therefore, an adjustment to fair value was not required. Fair value is based on information provided by the State for the Local Agency Investment Fund. Investments are liquid.

Trinity County Treasury Pool

The Trinity County Treasurer's Pool is not SEC-registered, but is invested in accordance with California State Government Code, and the Trinity County Treasurer's Investment Policy. California State Government Code requires the formation of an Investment Oversight Committee, which is charged with overseeing activity in the pool for compliance to policy and code requirements. To this end, the Oversight Committee reviews the monthly investment report prior to presentation to the Board of Supervisors and causes an audit of investments to occur annually.

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 3 CAPITAL ASSETS**

\_\_\_\_\_ A summary of the changes in capital assets is as follows:

|   | <u>Balance</u><br><u>July 1, 2009</u> | <u>Additions</u>    | <u>Retirements</u> | <u>Transfers &amp;</u><br><u>Adjustments</u> | <u>Balance</u><br><u>June 30, 2010</u> |
|---|---------------------------------------|---------------------|--------------------|--|--|
| Capital assets, not being depreciated:      |                                       |                     |                    |  |  |
| Land  | \$ 4,000                              | \$ -                | \$ -               | \$ -   | \$ 4,000                               |
| Total capital assets, not being depreciated | <u>4,000</u>                          | <u>-</u>            | <u>-</u>           | <u>-</u>                                     | <u>4,000</u>                           |
| Capital assets, being depreciated:          |                                       |                     |                    |  |  |
| Vehicles and Equipment                      | 387,919                               | -                   | -                  | -  | 387,919                                |
| Structures and Improvements                 | <u>14,653,259</u>                     | <u>-</u>            | <u>-</u>           | <u>-</u>                                     | <u>14,653,259</u>                      |
| Total capital assets, being depreciated     | <u>15,029,889</u>                     | <u>-</u>            | <u>-</u>           | <u>-</u>                                     | <u>15,041,178</u>                      |
| Less accumulated depreciation for:          |                                       |                     |                    |  |  |
| Vehicles and Equipment                      | (307,681)                             | (24,702)            | -                  | -  | (332,383)                              |
| Structures and Improvements                 | <u>(3,644,174)</u>                    | <u>(319,162)</u>    | <u>-</u>           | <u>-</u>                                     | <u>(3,963,336)</u>                     |
| Total accumulated depreciation              | <u>(3,951,855)</u>                    | <u>(343,864)</u>    | <u>-</u>           | <u>-</u>                                     | <u>(4,295,719)</u>                     |
| Total capital assets, net                   | <u>\$ 11,093,323</u>                  | <u>\$ (343,864)</u> | <u>\$ -</u>        | <u>\$ -</u>                                  | <u>\$ 10,749,459</u>                   |

**NOTE 4 LONG-TERM DEBT**

\_\_\_\_\_ A summary of long-term debt liabilities transactions for the year ended June 30, 2010 is as follows:

|  | <u>Balance</u><br><u>July 1, 2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u><br><u>June 30, 2010</u> | <u>Amounts</u><br><u>Due Within</u><br><u>One Year</u> |
|--|---------------------------------------|------------------|------------------|--|--|
| Notes payable                                      | \$ 301,397                            | \$ -             | \$ 9,019         | \$ 292,378                             | \$ 9,256   |
| Special Assessment Debt with Government Obligation | 626,566                               | -                | 10,500           | 616,066                                | 11,500   |
| Compensated absences                               | 19,037                                | -                | -                | 19,037                                 | 9,519  |
| Loan Payable - USDA 2004                           | <u>19,593</u>                         | <u>-</u>         | <u>1,045</u>     | <u>18,548</u>                          | <u>1,091</u>   |
| Total Long-Term Liabilities                        | <u>\$ 966,593</u>                     | <u>\$ -</u>      | <u>\$ 20,564</u> | <u>\$ 946,029</u>                      | <u>\$ 31,366</u>                                       |

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 4 LONG-TERM DEBT (CONTINUED)**

As of June 30, 2010, annual debt service requirements to maturity are as follows:

| Fiscal Year<br>June 30 | Special Assessment |                   | Notes Payable     |                   | Loan Payable     |                 |
|------------------------|--------------------|-------------------|-------------------|-------------------|------------------|-----------------|
|                        | Principal          | Interest          | Principal         | Interest          | Principal        | Interest        |
| 2010                   | \$ 11,000          | \$ 28,454         | \$ 9,019          | \$ 9,874          | \$ 1,045         | \$ 856          |
| 2011                   | 11,500             | 27,970            | 9,256             | 9,648             | 1,091            | 811             |
| 2012                   | 12,000             | 27,466            | 10,182            | 9,396             | 1,138            | 764             |
| 2013                   | 12,500             | 26,917            | 11,200            | 9,166             | 1,188            | 714             |
| 2014                   | 13,000             | 26,378            | 12,320            | 8,982             | 1,240            | 662             |
| 2015                   | 26,500             | 30,582            | 11,200            | 8,689             | 1,294            | 608             |
| 2016-2020              | 77,500             | 130,395           | 56,440            | 38,092            | 7,374            | 2,137           |
| 2021-2025              | 96,500             | 110,072           | 63,796            | 31,074            | 5,223            | 462             |
| 2026-2030              | 120,500            | 84,669            | 72,198            | 21,690            | -                | -               |
| 2031-2035              | 150,500            | 56,386            | 45,786            | 2,407             | -                | -               |
| 2036-2038              | 108,066            | 10,734            | -                 | -                 | -                | -               |
|                        | <u>\$ 626,566</u>  | <u>\$ 560,023</u> | <u>\$ 301,397</u> | <u>\$ 149,018</u> | <u>\$ 19,593</u> | <u>\$ 7,014</u> |

Long-term liabilities at June 30, 2010, consisted of the following:

|  | Date of Issue | Date of Maturity | Interest Rate | Annual Principal Installments | Original Issue Amount | Outstanding June 30, 2010 |
|--|---------------|------------------|---------------|-------------------------------|-----------------------|---------------------------|
| Note payable - Davis Grunsky                     | 1980          | 2003             | 2.50%         | \$7,975 - \$16,329            | \$ 482,000            | \$ 301,397                |
| Special Assessment Debt                          |               |                  |               |                               |                       |                           |
| Waterworks District #1 sewer system construction | 1997-2000     | 2039             | 4.5%          | \$9,000-\$41,066              | 1,103,750             | 626,566                   |
| Loan payable - USDA/RDC                          | 2004          | 2024             | 4.375%        | \$903 - \$ 1,793              | 25,000                | 19,593                    |
| Total Business - Type Activities                 |               |                  |               |                               | <u>\$ 1,610,750</u>   | <u>\$ 947,556</u>         |

Note Payable

The Davis-Grunsky loan, of which the original amount was \$482,000, is payable in annual principal installments due January 1 of each year. The current interest rate is 2.5% and is payable July 1 and January 1 of each year. An accumulated deferred interest is also payable at \$2,164 per year, due January 1 of each year.

Special Assessment Debt and Sewer System Construction

On August 13, 1997, the voters in the District approved a measure to borrow \$1,200,000

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 4 LONG-TERM DEBT (CONTINUED)**

Special Assessment Debt and Sewer System Construction (Continued)

from the Rural Utilities Service (RUS) for the construction of a sewer collection and treatment system for the residents of the District. This loan is to be repaid out of annual property tax assessments. In August 2000, the District was granted a Community Block Service Grant for \$500,000 to pay off the assessments on behalf of qualified low-income households.

Loan Payable

On June 28, 2004, the District borrowed \$25,000 from the USDA/RDC in a Board approved action. Annual principal installments are due September 2 of each year. The interest rate is 4.375%.

**NOTE 5 DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the District (without being restricted to the provisions of benefits under the plan), subject only to the District's general creditors.

Participants' rights under the plan are equal to those of general creditors of the district in an amount equal to the fair market value of the deferred account for each participant.

At June 30, 2010, total assets in the plan amounted to \$16,063. It is the opinion of the District, that the District has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 6 PENSION PLAN**

**A. Plan Description**

The District contributes to the California Public Employees' Retirement System (PERS), an 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. Benefits provided by the plan are based on three factors; (1) service credit, (2) a percentage factor determined by age at retirement, and (3) final compensation. Normal retirement age is 55. Five years of credited service are required for retirement benefits. Employees who retire at 55 receive two-percent of their final compensation (based on highest three years salary). Unused sick leave can be converted to additional service credit after retirement.

Benefits are payable monthly for life. Cost-of-living adjustments begin the second calendar year of retirement with maximum annual adjustments of two percent. Upon death of the retiree, eligible survivors will receive one half or more continuance of the benefit. These benefit provisions and all other requirements are established by State statute and District policy.

**B. Funding Policy**

The rate of employee contribution is established by statute at 7% 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 12.938% for the fiscal year ended June 30, 2010. Contract negotiations with employees has resulted in the District paying the employees portion of the contribution as well as increasing the employee rate to 8%.

**C. Annual Pension Cost**

Employer contributions are calculated in conformance with the provisions of GASB Statement No. 27 as a percentage of covered payroll. 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 June 30, 2010, the District's annual pension cost of \$14,544 was equal to the required and actual contributions of the District. The required

Continued on the following page.

**TRINITY COUNTY WATERWORKS DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 6 PENSION PLAN (Continued)**

**C. Annual Pension Cost (Continued)**

contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age actuarial cost method, Significant actuarial assumptions normally used in the valuation would include (a) a rate of return on the investment of present and future assets compounded annually, (b) projected across-the-board real salary increases, (c) projected merit raises for employees, (d) a projected rate of inflation resulting in rate increases compounded annually, and (e) no post-retirement benefit increases.

Additional funding information is available on the PERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov).

**NOTE 7 SPECIAL ASSESSMENT DEBT AND SEWER SYSTEM CONSTRUCTION**

On August 13, 1997, the voters in the District approved a measure to borrow \$1,200,000 from the Rural Utilities Service (RUS) for the construction of a sewer collection and treatment system for the residents of the District. This loan is to be repaid out of annual property tax assessments. In August 2000, the District was granted a Community Block Service Grant for \$500,000 to pay off the assessments on behalf of qualified low-income households. In addition to the note listed above, the RUS has committed to a \$4,150,400 grant to the District and the State Water Control Board has granted \$3,000,000 to the District for the construction of the project.

As of the balance sheet date, the District has repaid \$234,878 in pre-paid assessments from parcel owners and amounts received from CDBG for low-income property owners.

The Schedule on the following page reflects the current requirements to liquidate the outstanding Bonds.

The District expended \$10,013,462 on the construction project. At the completion of the project that amount was capitalized in the newly formed Sewer Enterprise Fund as contributed capital, and will be depreciated over its aggregate useful lives.

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

Board of Directors  
Trinity County Water Works District #1  
Hayfork, CA

We have audited the basic financial statements of the Trinity County Water Works District #1 as of and for the year ended June 30, 2009, and have issued our report thereon dated October 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Trinity County Water Works District #1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Trinity County Water Works District #1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Donald R. Reynolds,  
Certified Public Accountant  
October 1, 2010

DRAFT