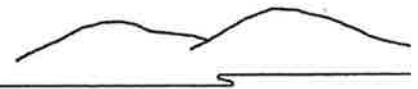


CLEARLAKE OAKS COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

AUDIT REPORT

June 30, 2012



January 4, 2013

Clearlake Oaks County Water District
PO Box 709
Clearlake Oaks, CA 95423

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and the aggregate fund information of Clearlake Oaks County Water District as of and for the year then 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 Clearlake Oaks County Water 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of the Clearlake Oaks County Water District as of June 30, 2012, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2013, on our consideration of the Clearlake Oaks County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of 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.

Management has omitted the management's discussion and analysis information that Accounting principles generally accepted in the United States of America require be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Pehling & Pehling, CPA's
An Accountancy Corporation

CLEARLAKE OAKS COUNTY WATER DISTRICT

**Audit Report
June 30, 2012**

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CLEARLAKE OAKS COUNTY WATER DISTRICT

**Statement of Net Assets
June 30, 2012**

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Water</u>	<u>Sewer</u>	
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash	\$ 265,879	\$ 136,210	\$ 402,089
Pre-paid Expenses	17,669	14,931	32,601
Accounts Receivable	62,532	110,799	173,331
	<hr/>	<hr/>	<hr/>
Total Current Assets	346,081	261,940	608,021
	<hr/>	<hr/>	<hr/>
<u>Fixed Assets:</u>			
CIP	-	-	-
Land	255,717	6,573	262,290
Buildings and Improvements	5,340,958	6,753,457	12,094,416
Equipment	592,771	446,884	1,039,654
Less: Accumulated Depreciation	(3,674,355)	(3,212,136)	(6,886,491)
	<hr/>	<hr/>	<hr/>
Total Fixed Assets	2,515,091	3,994,777	6,509,868
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	2,861,172	4,256,718	7,117,889
	<hr/>	<hr/>	<hr/>
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Notes Payable - Current Portion	60,518	33,418	93,936
Accounts Payable	34,278	25,605	59,883
Accrued Liabilities	27,579	14,449	42,028
	<hr/>	<hr/>	<hr/>
Total Current Liabilities	122,375	73,472	195,846
	<hr/>	<hr/>	<hr/>
<u>Long-Term Liabilities:</u>			
Notes Payable	145,368	133,818	279,186
	<hr/>	<hr/>	<hr/>
Total Long-Term Liabilities	145,368	133,818	279,186
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	267,743	207,290	475,033
	<hr/>	<hr/>	<hr/>
<u>NET ASSETS</u>			
Investment in Capital Assets, net of related debt	2,369,723	3,860,959	6,230,682
Restricted	6,022	6,000	12,022
Unrestricted	217,685	182,468	400,153
	<hr/>	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 2,593,429	\$ 4,049,427	\$ 6,642,856
	<hr/>	<hr/>	<hr/>

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

CLEARLAKE OAKS COUNTY WATER DISTRICT

**Statement of Activities
For the Year Ended
June 30, 2012**

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Water</u>	<u>Sewer</u>	
<u>OPERATING REVENUES</u>			
Charges for Services	\$ 962,617	\$ 848,055	\$ 1,810,672
Total Operating Revenues	<u>962,617</u>	<u>848,055</u>	<u>1,810,672</u>
<u>OPERATING EXPENSES</u>			
Water Treatment	385,731	-	385,731
Water Transmission & Distribution	135,410	-	135,410
Sewer Collection	-	233,282	233,282
Sewer Treatment & Disposal	-	308,340	308,340
Administrative	376,702	368,473	745,174
Depreciation	<u>187,672</u>	<u>174,006</u>	<u>361,678</u>
TOTAL OPERATING EXPENSES	<u>1,085,515</u>	<u>1,084,099</u>	<u>2,169,615</u>
<u>NON-OPERATING REVENUES/EXPENSES</u>			
Property Assessment	51,378	-	51,378
Interest Expense	(4,932)	(4,932)	(9,865)
Taxes and Intergovernmental	97,830	97,830	195,659
Use of Money and Property	<u>561</u>	<u>561</u>	<u>1,122</u>
Total Non-Operating Revenues/Expenses	<u>144,837</u>	<u>93,459</u>	<u>238,295</u>
<u>NET CHANGE IN NET ASSETS</u>	<u>21,938</u>	<u>(142,585)</u>	<u>(120,647)</u>
<u>NET ASSETS, BEGINNING OF YEAR</u>	<u>2,571,491</u>	<u>4,192,013</u>	<u>6,763,504</u>
<u>NET ASSETS, END OF YEAR</u>	<u>\$ 2,593,429</u>	<u>\$ 4,049,427</u>	<u>\$ 6,642,856</u>

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

CLEARLAKE OAKS COUNTY WATER DISTRICT

Statement of Cash Flow

For the Year-Ended

June 30, 2012

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Cash Received from Charges for Service	\$ 955,306	\$ 846,705	\$ 1,802,011
Deduct: Cash paid for Operating Expenses	(892,486)	(937,738)	(1,830,224)
NET CASH FLOWS FROM OPERATING ACTIVITIES	62,820	(91,033)	(28,213)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Tax Assessment	51,378	-	51,378
Interest Expense	(4,932)	(4,932)	(9,865)
Payment on Principle on Notes Payable	(28,350)	-	(28,350)
Loan acquisition	167,236	167,236	334,472
Purchase of Capital Assets	(260,918)	(207,235)	(468,153)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(75,586)	(44,931)	(120,518)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Property Tax Receipts	97,830	97,830	195,659
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	97,830	97,830	195,659
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Interest Receipts	561	561	1,122
NET CASH FLOWS FROM INVESTING ACTIVITIES	561	561	1,122
NET INCREASE (DECREASE) IN CASH	85,625	(37,573)	48,052
<u>CASH, BEGINNING OF YEAR</u>	161,029	193,738	354,767
<u>CASH, END OF YEAR</u>	\$ 246,654	\$ 156,165	\$ 402,819
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>			
Operating Income (Loss)	\$ (122,898)	\$ (236,044)	\$ (358,942)
Adjustments to reconcile operating income to net cash provided by operating activities			
Add back depreciation	187,672	174,006	361,678
(Increase) Decrease in Accounts Receivable	4,876	(16,068)	(11,192)
(Increase) Decrease in Prepaid	(8,031)	(5,293)	(13,324)
Increase (Decrease) in Accounts Payable	4,751	368	5,119
Increase (Decrease) in Accrued Liabilities	(3,550)	(8,002)	(11,552)
Net Cash Provided by Operating Activities	\$ 62,820	\$ (91,033)	\$ (28,213)

The accompanying notes to the financial statements are an integral part of this statement.

CLEARLAKE OAKS COUNTY WATER DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Clearlake Oaks County Water District (the District) have been prepared in conformity with generally accepted accounting principles (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 the Reporting Entity

The District was established in 1960, under the California State Government Code. The District currently provides water and sewer services throughout the un-incorporated area of the Clearlake Oaks Community in Lake County.

The District is a governed entity administered by a Board of Directors (Board) that acts as the authoritative and legislative body of the entity. The Board is comprised of five board members who are elected by voters living within the District's boundaries. Elections are held within the Board to appoint the President. The President's responsibilities are to preside at all meetings of the Board; be the chief officer of the District; perform all duties commonly incident to the position of presiding officer of a board, commission, or business organization; and exercise supervision over the business of the District, its officers, and its employees.

The accompanying general-purpose financial statements comply with the provisions of GASB Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

B. Basis of Accounting/Measurement Focus

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, expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

C. Government-Wide Financial Statements

The District Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the District accompanied by a total column. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets as well as

CLEARLAKE OAKS COUNTY WATER DISTRICT

Notes to Financial Statements

June 30, 2012

infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as operating revenues for the District are reported as charges for services.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities demonstrating the degree to which the direct expenses of a given project are offset by project revenues. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function or segment. Operating revenues include (1) charges paid by the recipients of services offered by the program and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxes are presented instead as non-operating revenues.

Enterprise Funds – The enterprise funds are used to account for all the financial resources of the District. The enterprise net assets is available to the District for any purpose, provided it is expended or transferred according to the general laws of California and the bylaws of the District. The District maintains separate funds for Water, and Sewer.

Exchange and Non-Exchange Transactions of Revenues – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non-exchange transactions, in which the District receives value without directly giving value in return, include taxes and donations. Revenues are recognized when susceptible to accrual, when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year-end. The assessor of the County determines the assessed valuations of such property and the tax collector of the County collects the taxes. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

Expenses - On an accrual basis of accounting, expenses are recognized at the time they are incurred.

CLEARLAKE OAKS COUNTY WATER DISTRICT
Notes to Financial Statements
 June 30, 2012

E. Funds on Deposit, County and Bank

The District maintains its cash in a pool managed by the County Treasury. The County Treasury, in turn, invests its cash with the State of California in the local agency investment fund as well as other banking institutions. The District does not own any specific identifiable investments in the pool. The risk of loss is minimal.

As of June 30, 2012, the primary government had the following investments:

	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Agency</u>
Cash in County Treasury	45,255	Unrated	NA
Cash in Local Bank	33,028	FDIC ins.	NA
Cash in LAIF	323,506	Unrated	NA
Cash on Hand	<u>300</u>	Unrated	NA
Total Cash	\$402,089		

Interest rate risk. - The District does not currently have a policy regarding interest rate risk.

Credit risk. - The District does not have a formal policy regarding credit risk

Custodial credit risk. -The District's investment in the State and County Treasurer's investment pools represents a proportionate interest in the pool's portfolio; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk. Cash in local bank is covered by federal depository insurance.

Concentration of credit risk. - The District does not have a policy for concentration of credit risk.

F. Accounts Receivable

Accounts receivable are recorded at their gross value, where appropriate are reduced by the portion that is considered uncollectable. Accounts receivable consists primarily of service fees that have been billed but not paid as of year-end. Management believes its receivables to be fully collectable due to the ability to place a lien against property for unpaid receivables and, accordingly no allowance for doubtful accounts is necessary.

G. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods are recorded as prepaid items.

H. Fixed Assets

Capital assets, which include property, plant, and equipment, infrastructure assets and intangible are reported in the applicable governmental -type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year. Property, plant and equipment purchased or acquired is carried at

CLEARLAKE OAKS COUNTY WATER DISTRICT

Notes to Financial Statements

June 30, 2012

historical cost or estimated historical cost. Donated or contributed capital assets are recorded at their estimated fair value on the date received. The current capitalization threshold is \$2,500 for an individual item.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

I. Accounts Payable

On an accrual basis, expenses are recognized in the fiscal year in which the goods or services are received. Payables are liabilities of the District based upon current year charges for goods or services received but not paid in the current year.

J. Accrued Expenses

The District allows its employees to accumulate up to 200 hours of sick leave and no limit on the number of vacation hours. Any accumulated sick/vacation leave is paid-out to employees at their most recent rate of pay upon termination. The District records a liability for compensated absences based upon total accumulated vacation and sick leave hours.

K. Long-Term Debt

All long-term liabilities to be repaid from the governmental resources are reported as liabilities in the government-wide statements.

Clearlake Oaks County Water District has an obligation to Berkadia in the amount of \$38,650 for water system upgrade bonds. The loan is set to be paid off in December of 2013. Current amount of \$ 27,100 is due in December 2012.

Clearlake Oaks County Water District has an obligation to Kansas State Bank bearing interest at 4.40%. The loan is payable in monthly installments of \$6,519.87, including interest, and is collateralized by Vacon Truck. Principal and interest payments for the years following June 30, 2012, are as follows:

	<u>Principal</u>	<u>Interest</u>
2013	65,036	13,203
2014	67,956	10,283
2015	71,007	7,232
2016	74,195	4,044
2017	51,443	854
	329,637	35,616

CLEARLAKE OAKS COUNTY WATER DISTRICT

Notes to Financial Statements

June 30, 2012

L. Property Tax Revenue

The County, through the Auditor-Controller's Office and the Treasury-Tax Collector, is responsible for collecting and distributing property taxes according to the alternative method of distributing known as the Teeter Plan. Under the Teeter Plan, the current year's secured property tax levy is distributed to participating agencies with the County without consideration of whether the tax has been collected.

M. Net Assets

The District's net assets represent the difference between its assets and liabilities in the statement of net assets. Net assets are reported as restricted when there are legal limitations imposed on their use by their source. Portions of the unreserved net assets or fund balance may be designated to indicate tentative plans for financial resources utilization in a future period, such as for general contingencies, purchase of capital assets, or debt service. Such plans or intent are subject to change and may never be legally authorized or result in expenditures.

N. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; damage to, and theft or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2012, the District contracted with private insurance agencies for liability, property, crime damage, and employee and director insurances.

NOTE 3: DEFINED BENEFIT PENSION PLAN

The District entered into the Public Employees Retirement System (PERS). Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by an agency of the State of California. Employees are members of the Public Employees' Retirement System.

Plan Description: The District contributes to the PERS, an agent multiple- employer public employee defined benefit plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and district ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

CLEARLAKE OAKS COUNTY WATER DISTRICT
Notes to Financial Statements
June 30, 2012

Funding Policy: Participants are required to contribute 7% of their annual covered salary, which is paid by the District for employees hired before May 17, 2012. Future employees are required to contribute the 7% themselves. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate; the current rate is 6.589% for safety employees of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost: For June 30, 2012, the District's annual pension cost of \$75,376 for PERS was equal to the District's required and actual contributions.

NOTE 3: USE OF RESTRICTED/UNRESTRICTED NET ASSETS

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply restricted net assets first.

NOTE 4: COMPARATIVE DATA AND RECLASSIFICATIONS

Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

NOTE 5 JOINT POWERS INSURANCE AUTHORITY

The District participates in a joint venture under a joint agreement (JPA) with the Association of California Water Agencies (ACWA). The relationship between the District and the JPA is such that is not a component unit of the District and the JPA is not a component unit of the District for financial reporting purposes.

The JPA'S purpose is to jointly fund and develop programs to provide comprehensive and economical funding of property, workers compensation and employers liability coverage's for bodily injury by accident or by disease, including resulting from death, arising out of and in the course of an employee's employment with the District. This program is provided through collective self-insurance; the purchase of insurance benefit's; or a combination thereof. Copies of ACWA annual financial reports may be obtained from their executive office at 25620 Birdcage Street, Suite 200, Citrus Heights, CA.

NOTE 6: CONTIGENCIES

As of June 30, 2012, the District did not have any pending litigation or potential nondisclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 7 : DATE OF MANAGEMENT'S REVIEW

Subsequent events have been evaluated through January 4, 2013, which is the date the financial statements were available to be issued.

CLEARLAKE OAKS COUNTY WATER DISTRICT

Supplemental Information

June 30, 2012



January 4, 2013

Board of Directors
Clearlake Oaks County Water District
PO Box 709
Clearlake Oaks, CA 95423

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

We have audited the financial statements of Clearlake Oaks County Water District as of and for the year ended June 30, 2012, and have issued our report thereon dated January 4, 2013. 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

Management of Clearlake Oaks County Water District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Clearlake Oaks County Water District'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 Clearlake Oaks County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a combination of deficiencies, in internal controls such 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 the internal controls over financial reporting was for the limited purpose described in the first paragraph of this section and was designed to identify all deficiencies in internal control over financial

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

(continued)

reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify and deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies in internal control over financial reporting. 12-01. 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.

Clearlake Oaks County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings are questioned costs. We did not audit Clearlake Oaks County Water District's response and, accordingly, we express no opinion on it.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Pehling & Pehling CPAs
An Accountancy Corporation
January 4, 2013

CLEARLAKE OAKS COUNTY WATER DISTRICT

**Schedule of Findings and Recommendations
June 30, 2012**

PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS:

Same as Current Year.

CURRENT YEARS AUDIT FINDINGS AND RECOMMENDATIONS:

Reportable Conditions – Material Weaknesses

Reportable Conditions – Significant Deficiency

Finding 12-01:

We noted that management failed to review and approve the financials at Clearlake Oaks County Water District. Failure to review the financials may lead to the failure of management to detect fraud or misstatements.

Recommendation:

Additional training of managerial staff to review and sign off on financials statements would eliminate the deficiency. We recommend that management review and initial the financial to prove oversight on at least a monthly basis.

Management's Response to the Findings:

Management is aware of the deficiency and will make sure that oversight is applied to the financials on at least a monthly basis.

Non-Compliance with Laws and Regulations