

WHEELER CREST COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



WHEELER CREST COMMUNITY SERVICES DISTRICT

Financial Statements
For the Year Ended June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
Wheeler Crest Community Services District
Swall Meadows, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Wheeler Crest Community Services District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

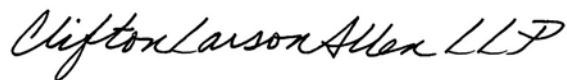
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 basic financial statements in an appropriate operational, economic, or historical context. Wheeler Crest Community Service District has not presented the Management Discussion and Analysis. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2018 on our consideration of the 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 solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Roseville, California
March 14, 2018

WHEELER CREST COMMUNITY SERVICES DISTRICT

Statement of Net Position
June 30, 2016

Assets

Current assets:

Cash and investments	\$	128,997
Accounts receivable		2,478
Total current assets		<u>131,475</u>

Noncurrent assets:

Capital assets:

Building and improvements		325,560
Machinery and equipment		496,286
Less: Accumulated depreciation		<u>(317,725)</u>
Total capital assets		<u>504,121</u>

Total assets		<u>635,596</u>
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Liabilities

Current liabilities:

Accrued interest		2,657
Long-term liabilities due within one year		<u>14,789</u>
Total current liabilities		<u>17,446</u>

Long-term liabilities:

Due in more than one year		<u>78,413</u>
Total long-term liabilities		<u>78,413</u>

Total liabilities		<u>95,859</u>
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Net Position

Net investment in capital assets		410,919
Unrestricted		<u>128,818</u>
Total net position	\$	<u>539,737</u>

WHEELER CREST COMMUNITY SERVICES DISTRICT

Statement of Activities
For the Year Ended June 30, 2016

Operating revenues:	
Charges for services	\$ 10,344
Assessments	<u>31,936</u>
Total operating revenues	<u>42,280</u>
Operating expenses:	
Services and supplies	9,808
Depreciation	<u>57,845</u>
Total operating expenses	<u>67,653</u>
Operating income	<u>(25,373)</u>
Non-operating revenues (expenses):	
Interest and investment earnings	936
Interest expense	(6,171)
Insurance proceeds	<u>30,220</u>
Total non-operating revenues (expenses)	<u>24,985</u>
Change in net position	(388)
Net position, beginning of year	<u>540,125</u>
Net position, end of year	<u><u>\$ 539,737</u></u>

WHEELER CREST COMMUNITY SERVICES DISTRICT

Statement of Cash Flows (Continued)
For the Year Ended June 30, 2016

Cash flows from operating activities:	
Cash receipts from customers	\$ 10,344
Cash receipts from assessments	31,936
Cash paid to suppliers for goods and services	<u>(9,808)</u>
Net cash provided by operating activities	<u>32,472</u>
Cash flows from capital and related financing activities:	
Payments related to the acquisition of capital assets	(37,173)
Proceeds from insurance	30,220
Interest payments related to capital and related financing activities	(6,171)
Principal repayments related to capital purposes	<u>(13,947)</u>
Net cash used by capital and related financing activities	<u>(27,071)</u>
Cash flows from investing activities:	
Interest received	<u>936</u>
Net cash provided by investing activities	<u>936</u>
Net decrease in cash and cash equivalents	6,337
Cash and cash equivalents, beginning of year	<u>122,660</u>
Cash and cash equivalents, end of year	<u><u>\$ 128,997</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ (25,373)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	<u>57,845</u>
Net cash provided by operating activities	<u><u>\$ 32,472</u></u>

WHEELER CREST COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Wheeler Crest Community Services District (the District) is a governmental entity organized in 1984 for the purpose of providing water service to the residents of the community of Wheeler Crest. The District is governed by a board of five directors.

The District is considered an enterprise fund. The costs of the services provided by the District to the community are recovered primarily through charges for services rendered.

The financial statements present information on the financial activities of the District. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. 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 accounting policies are described below.

B. Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to the District is determined by its measurement focus. The District is accounted for on an “*economic resources*” measurement focus, which means that all assets and liabilities (whether current or noncurrent) associated with the activity are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position.

The District is accounted for using the accrual basis of accounting. Accordingly, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

Operating revenues are those revenues that are generated from the primary operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

C. Cash and Investments

The District is a participant in the Mono County Investment Pool (Pool) under the oversight of the Treasurer of Mono County, as required by California Government Code Section 27134. The District's investment is presented at fair value in accordance with GASB No. 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools”. However, the value of the pool shares in the County that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the District's portion in the pool.

For purposes of the statement of cash flows the District considers all highly liquid investments with an original maturity of three months or less when purchased, and its equity in the County's investment pool to be cash and cash equivalents.

WHEELER CREST COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
June 30, 2016

D. Receivables

Receivables consist mainly of charges for service and assessments. The District believes its receivables are fully collectible and, accordingly, no allowance for doubtful accounts is required.

E. Capital Assets

Capital assets, recorded at historical cost or estimated historical cost, if actual historical cost is not available. Contributed fixed assets are valued at their estimated fair market value. Capital assets include land, buildings and building improvements and equipment. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation is recorded on the straight-line basis over 3 to 50 years.

F. Impairment of Capital Assets

The District reviews its capital assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. As of June 30, 2016, a well that was destroyed by fire was impaired. The net asset balance of the well was \$0 as of June 30, 2016 and the asset has been removed from capital assets.

G. Accounts Payable

Accounts payable consists of general administration costs incurred and construction services performed during the fiscal year, but paid after the fiscal year.

H. Property Taxes and Assessments

Property taxes and assessments in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices related to assessments and property taxes.

Mono County levies, bills, and collects property taxes and assessments for the District. Property taxes are levied on July 1 (unsecured roll) and October 1 (secured roll) on assessed values established on the lien date of the previous January 1 for all taxable property located with the County. Property taxes and assessments are due in one installment (unsecured toll) by July 1 and is delinquent after August 31st or two installments (secured roll) due November 1 and February 1 and are delinquent after December 10 and April 10, respectively. Property taxes and assessments are recorded as revenue, in the fiscal year they are levied.

I. Net Position

In the financial statements, net position may be classified in the following categories:

Net Investment in capital assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balance of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors,

WHEELER CREST COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
June 30, 2016

contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents net position of the District, not restricted for any project or other purpose.

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

J. 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.

NOTE 2: CASH AND INVESTMENTS

Cash and investments at June 30, 2016, consisted of the following:

Cash in Financial Institutions	\$	2,187
Investment in County of Mono Investment Pool		126,810
	\$	<u>128,997</u>

Cash held in financial institutions is fully covered by the Federal Depository Insurance Corporation. At year end, the District’s cash in held in financial institutions was not subject to custodial credit risk.

The District holds unrestricted cash and investments with the Treasurer of the County of Mono in a cash and investment pool. On a quarterly basis the Auditor-Controller allocates interest to participants based upon their average daily balances. The Treasurer’s investments and policies are overseen by the Mono County Treasury Oversight Committee. Required disclosure information regarding the categorization of investments and risk can be found in the County of Mono’s basic financial statements.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

As of June 30, 2016, cash and investments consisted of the following:

	<u>Measurement Input</u>	<u>Credit quality ratings</u>	<u>Fair Value June 30, 2016</u>
Investment in County of Mono Investment Pool	Level 2	Not Rated	\$ 126,810
			<u>\$ 126,810</u>

WHEELER CREST COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
June 30, 2016

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2016, the weighted average maturity of the pool's investments was 1.62 years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. The County's investment policy allows the pool to invest in security lending transactions, repurchase agreements, and reserve repurchase agreements. During the year ended June 30, 2016, the pool did not participate in such investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2016, the District was not exposed to concentration of credit risk

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the County's investment policy do not contain legal policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of government investment pools.

WHEELER CREST COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
June 30, 2016

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital assets being depreciated				
Building and improvements	\$ 325,560	\$ --	\$ --	\$ 325,560
Machinery and equipment	509,113	37,173	(50,000)	496,286
Total capital assets being depreciated	<u>834,673</u>	<u>37,173</u>	<u>(50,000)</u>	<u>821,846</u>
Less accumulated depreciation				
Building and improvements	(40,058)	(21,704)	--	(61,762)
Machinery and equipment	(269,822)	(36,141)	50,000	(255,963)
Total accumulated depreciation	<u>(309,880)</u>	<u>(57,845)</u>	<u>50,000</u>	<u>(317,725)</u>
Total capital assets	<u>\$ 524,793</u>	<u>\$ (20,672)</u>	<u>\$ --</u>	<u>\$ 504,121</u>

NOTE 4: LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the District during the year ended June 30, 2016:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due Within</u> <u>One Year</u>
Finance agreement	<u>\$ 107,149</u>	<u>\$ --</u>	<u>\$ (13,947)</u>	<u>\$ 93,202</u>	<u>\$ 14,789</u>

Finance agreement is as follows:

The District entered into a finance agreement to provide funding for the construction of a new well. The agreement bears interest at 5.95% and requires two semi-annual payments of \$10,059 which include principal and interest.

\$ 93,202

WHEELER CREST COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
June 30, 2016

Future minimum principal payments of long-term debt as of June 30, 2016 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 14,789	\$ 5,329
2018	15,682	4,435
2019	16,630	3,489
2020	17,634	2,484
2021	18,698	1,420
2022	9,769	291
	<u>\$ 93,202</u>	<u>\$ 17,448</u>

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS



INDEPENDENT AUDITORS' 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

To the Board of Directors of
Wheeler Crest Community Services District
Swall Meadows, California

We have audited, in accordance with the 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, the financial statements of the Wheeler Crest Community Services District (the District) as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Wheeler Crest Community Services District's basic financial statements and have issued our report thereon dated March 14, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wheeler Crest Community Services District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wheeler Crest Community Services District's internal control. Accordingly, we do not express an opinion on the effectiveness of Wheeler Crest Community Services District's internal control.

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 control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2016-001 that we considered to be a material weakness.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Wheeler Crest Community Services District, A Community Services District's Response to Findings

Wheeler Crest Community Services District's response to the findings identified in our audit is described in the accompanying schedule of findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Roseville, California
March 14, 2018

WHEELER CREST COMMUNITY SERVICES DISTRICT

Summary Schedule of Audit Findings and Responses

For the Fiscal Year Ended June 30, 2016

Finding 2016-001

Condition:

During the audit, we noted that the District had not accurately reported capital assets balances as of the end of the fiscal year. An adjustment to recognize a capital asset addition and accumulated depreciation was recorded.

Criteria:

The District's capital asset balances should be complete, accurate and agree to supporting documentation.

Effect:

As a result of this condition, additional capital assets of \$11,075 and additional depreciation expense of \$17,431, for a net adjustment of \$6,356 were recorded. Without proper tracking of capital assets and accumulated depreciation assets could become materially misstated.

Cause:

The District controls were not effective in identifying and reporting capital additions along with reconciling supporting records to the District trial balance. This created a variance between the reported balances and the supporting documentation.

Recommendation:

We recommend that the District develop a year-end closing schedule to sufficiently analyze and update all account balances, including capital assets, to ensure its accounting records are complete and accurate prior to the year-end audit. We further recommend the District develop effective procedures and controls for recognizing capital asset additions and record keeping for capital assets in service.

Current Year View of Responsible Officials:

Management recognizes that we have not reviewed our capital asset statement to ensure accounting records are complete and accurate. We will implement a review at the end of each fiscal year going forward to ensure capital assets are complete and accurate prior to the year-end audit.