

**WHEELER CREST COMMUNITY
SERVICE DISTRICT**

Audit Report

June 30, 2013

WHEELER CREST COMMUNITY SERVICE DISTRICT AUDIT REPORT

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Wheeler Crest Community Service District
Swall Meadows, CA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Wheeler Crest Community Service District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic 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.

Auditor's 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 and the State Controller's Minimum Audit requirements for Special Districts. 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 auditor's 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.

Opinions

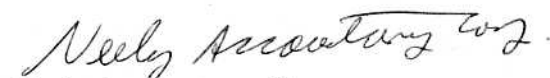
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Wheeler Crest Community Service District as of June 30, 2013, and the respective changes in financial position and, where applicable, 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

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

In accordance with Government Auditing Standards, we have also issued a report dated December 30, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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.



Neely Accountancy Corp.
Granada Hills, CA
December 30, 2013

BASIC FINANCIAL STATEMENTS

WHEELER CREST COMMUNITY SERVICE DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

Assets

Current assets

Cash	\$ 177,755
Accounts receivable	2,328
Total current assets	<u>180,083</u>

Capital assets

Machinery and equipment, net of accumulated depreciation of \$238,880	476,718
Total assets	<u>656,801</u>

Liabilities

Accounts Payable and accrued expenses	3,290
Long-term liability	
Due within one year - finance agreement	12,404
Due in more than one year - finance agreement	120,302
Total liabilities	<u>135,996</u>

Net position

Invested in capital assets, net of related debt	344,012
Unrestricted	176,793
Total net position	<u>\$ 520,805</u>

See accompanying notes to financial statements.

WHEELER CREST COMMUNITY SERVICE DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Operating revenues:	
Charges for services	\$ 7,026
Assessments	<u>33,274</u>
Total operating revenues	<u>40,300</u>
Operating expenses:	
Services and supplies	32,431
Insurance	1,824
Interest	8,130
Depreciation	<u>24,265</u>
Total operating expenses	<u>66,650</u>
Net program expenses	(26,350)
Nonoperating revenue	
Interest income	2,058
Increase (decrease) in net position	<u>(24,292)</u>
Net position at the beginning of the year	545,097
Net position at the end of the year	<u><u>\$ 520,805</u></u>

See accompanying notes to financial statements.

WHEELER CREST COMMUNITY SERVICE DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013

CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES

Receipts from customers	\$ 5,822
Receipts from assessments	33,274
Payments to suppliers	<u>(44,988)</u>
Net cash (used) by operating activities	<u>(5,892)</u>

CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES

Interest received	2,058
Well costs	<u>(62,200)</u>
Net cash (used) by investing activities	<u>(60,142)</u>

CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES

Principal repayment of finance agreement	<u>(11,698)</u>
Net cash (used) by financing activities	<u>(11,698)</u>

Net decrease in cash (77,732)

Cash, beginning of the year 255,487

Cash, end of the year \$ 177,755

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

(Decrease) in net position	\$ (24,292)
Adjustments to reconcile change in net position to net cash to operating activities:	
Increase in accounts receivable	(1,204)
Decrease in accounts payable	(2,603)
Depreciation	24,265
Interest received	<u>(2,058)</u>
Net cash provided by operating activities	<u><u>\$ (5,892)</u></u>

Cash paid for interest was \$8,421.

See accompanying notes to financial statements.

WHEELER CREST COMMUNITY SERVICE DISTRICT

Notes to Financial Statements For the Fiscal Year Ended June 30, 2013

Note 1: **Summary of Significant Accounting Policies**

The financial statements of the Wheeler Crest Community Service District (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. Reporting Entity

The Wheeler Crest Community Service 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 District includes all activities (operations of its administrative staff and officers) considered to be a part of the District. The District reviewed the criteria developed by the Governmental Accounting Standards Board (GASB) in its issuance of Statement No. 14, relating to the financial reporting entity to determine whether the District is financially accountable for other entities. The District has determined that no other outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the financial statements. In addition, the District is not aware of any entity that would be financially accountable for the District that would result in the District being considered a component unit of any entity.

B. Basis of Presentation and Accounting

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. Revenues and expenses resulting from providing these goods or services are considered to be operating revenues and expenses. All other revenues and expenses are considered to be nonoperating.

WHEELER CREST COMMUNITY SERVICE DISTRICT

Notes to Financial Statements For the Fiscal Year Ended June 30, 2013

Note 1: Summary of Significant Accounting Policies (continued)

B. Basis of Presentation and Accounting (continued)

The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Revenues and the related assets are recognized when earned rather than when received, and certain expenses are recognized when incurred rather than when the obligation is paid.

C. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, all highly liquid investments with original maturities of three months or less and the District's investment in the Treasury of the County of Mono are considered to be cash equivalents.

D. Capital Assets

Capital assets have been acquired for general District purposes. Assets purchased are recorded and capitalized at cost or estimated cost where no historical records are available. Contributed capital assets are recorded at fair market value at the date of donation. The District defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are depreciated using the straight-line method over their estimated useful lives of 10 to 35 years.

E. Net Position

The government-wide activities fund financial statements utilize a net position presentation. Net position is categorized as invested capital assets (net of related debt), restricted and unrestricted.

- Invested in Capital Assets, Net of Related Debt – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balance of debt that are attributable to capital assets reduce the balance in this category.
- Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

WHEELER CREST COMMUNITY SERVICE DISTRICT

Notes to Financial Statements For the Fiscal Year Ended June 30, 2013

Note 1: **Summary of Significant Accounting Policies** (continued)

E. **Net Position** (continued)

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

When both restricted and unrestricted net position are available, unrestricted resources are used only after the restricted resources are depleted.

As of June 30, 2013, the District had no restrictions to its /net position.

F. **Water Revenue**

The first 15,000 gallons of water each month are billed by the county on the tax roll. Taxes are payable in two installments on December 10th and April 10th. The district bills for water use in excess of 15,000 gallons semi-annually. Revenues are recognized by the District when earned.

G. **Estimates**

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

H. **Impact of Recently Issued Accounting Principles**

In December 2010 the Government Accounting Standards Board (GASB) issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011 and the adoption of GASB 62 does not have any impact on the District's financial statements.

WHEELER CREST COMMUNITY SERVICE DISTRICT

Notes to Financial Statements For the Fiscal Year Ended June 30, 2013

Note 1: **Summary of Significant Accounting Policies** (continued)

H. **Impact of Recently Issued Accounting Principles** (continued)

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011 and does not have any impact on the District's current financial statements.

I. **Subsequent Events**

Management has evaluated subsequent events through December 30, 2013, the date the financial statements were available to be issued.

J. **Fair Value of Financial Instruments**

The financial position of the District at June 30, 2013 includes certain financial instruments that may have a fair value that is different from the value currently reflected in the financial statements. In reviewing the financial instruments to the district, certain assumptions and methods were used to determine the fair value of each category of financial instruments for which it is practicable to estimate that value. The carrying amounts of the district's financial instruments generally approximate their fair values at June 30, 2013.

Note 2: **Cash and Investments**

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 investment 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 balance in the account as of June 30, 2013 was as follows:

Wheeler Crest Community Service District Operating Fund \$ 176,186

WHEELER CREST COMMUNITY SERVICE DISTRICT

Notes to Financial Statements For the Fiscal Year Ended June 30, 2013

Note 2: **Cash and Investments** (continued)

Government Accounting Standards require additional disclosures about a government's deposits and investments risks that include credit risk, custodial risk, concentration risk and interest rate risk. The District had no deposit or investment policy that addressed a specific type of risk.

Required disclosures for the District's investment in the Inyo County Investment Pool at June 30, 2013, were as follows:

Credit risk	A
Custodial risk	N/A
Concentration of credit risk	N/A
Interest rate risk	5 years or less

Investments held in the County's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value.

The district maintains an account at its office to pay operating expenses. The balance of the account at June 30, 2013 was \$1,569.

Note 3: **Capital Assets**

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2013</u>
Capital assets, not being depreciated:				
Construction	\$ 144,285	\$ 62,200	\$ -	\$ 206,485
Capital assets, being depreciated:				
Machinery and equipment	<u>509,113</u>	<u>-</u>	<u>-</u>	<u>509,113</u>
Total capital assets	653,398	62,200	-	715,598
Less accumulated depreciation:	<u>(214,615)</u>	<u>(24,265)</u>	<u>-</u>	<u>(238,880)</u>
Total capital assets, net	<u>\$438,783</u>	<u>\$ 37,935</u>	<u>\$ -</u>	<u>\$ 476,718</u>

Depreciation expense for the year ended June 30, 2013 was \$24,265.

WHEELER CREST COMMUNITY SERVICE DISTRICT

Notes to Financial Statements For the Fiscal Year Ended June 30, 2013

Note 4: Finance Agreement

The following is a summary of long-term debt transactions of the District for the fiscal year ended June 30, 2013:

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2013</u>	Due Within <u>One Year</u>
Finance agreement	<u>\$ 144,403</u>	<u>-</u>	<u>\$ 11,698</u>	<u>\$ 132,705</u>	<u>\$ 12,404</u>

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

	\$ 132,705
Current portion	(12,404)
	<u>\$ 120,301</u>

Future minimum annual principal payments under the terms of the agreement are as follows:

<u>Year ending June 30</u>	
2014	\$ 12,404
2015	13,153
2016	13,947
2017	14,789
2018	15,682
Thereafter	<u>62,730</u>
	<u>\$ 132,705</u>

Note 5: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; general liability and natural disasters. The District has secured commercial lines of coverage for these types of losses.

OTHER REPORT

NEELY ACCOUNTANCY CORP.
CERTIFIED PUBLIC ACCOUNTANT
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**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**

Board of Directors
Wheeler Crest Community Service 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Wheeler Crest Community Service District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Wheeler Crest Community Service District's basic financial statements, and have issued our report thereon dated December 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wheeler Crest Community Service 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 Service District's internal control. Accordingly, we do not express an opinion on the effectiveness of Wheeler Crest Community Service 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wheeler Crest Community Service 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*.

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.



Neely Accountancy Corp.
Granada Hills, CA
December 30, 2013