

WHISPERING PALMS COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2018

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Whispering Palms Community Services District
Encinitas, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Whispering Palms Community Services District (District) as of and for the year ended June 30, 2018, 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.

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. 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 the 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 auditors consider internal control relevant to the District'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 District'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 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, each major fund, and the aggregate remaining fund information of the Whispering Palms Community Services District as of June 30, 2018, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule – Governmental Fund, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not 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. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Dick Evans LLP

Carlsbad, California
November 6, 2019

Whispering Palms Community Services District

Management's Discussion and Analysis

Year Ended June 30, 2018

This section of the Whispering Palms Community Services District's (District) annual financial report presents an analysis of the District's financial performance during the fiscal year ended June 30, 2018. This information is presented in conjunction with the audited basic financial statements, which follows this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2017-2018

- The assets of the District exceeded liabilities at the close of the 2017-2018 fiscal year by \$7,503,301 (net position). Of this amount, \$2,594,656 (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors, and \$4,908,645 is invested in capital assets.
- Total assets of the District increased at the close of the 2017-2018 fiscal year by \$14,553.
- Total liabilities of the District increased at the close of the 2017-2018 fiscal year by \$74,562.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also includes additional required supplementary information in addition to the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

Government-Wide Financial Statements are designed to provide readers with a broad overview of District finances, in a manner similar to a private-sector business, and includes the Governmental Activities (the Landscape Maintenance District) and the Business-type Activities (the Sewer Improvement District).

The Statement of Net Position presents information on all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (Assets) and the obligations to District creditors (Liabilities). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes).

Both of these government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-type activities). The governmental activities of the District are roadside landscape maintenance services. The business-type activities of the District are sewer services.

Whispering Palms Community Services District
Management's Discussion and Analysis (Continued)

Year Ended June 30, 2018

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and to demonstrate finance-related legal compliance. All of the District's funds can be grouped into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The District uses a special revenue fund to account for its Landscape and Lighting Improvement District No. 1 (LLID), which provides street right-of-way landscape maintenance services. The District contracts with a landscaping contractor to maintain the Whispering Palms entry fountain and landscape maintenance for the street right-of-way for the Whispering Palms development along Via De La Valle and Cancha De Golf.

Proprietary Funds are used to account for the District's sewer service. Sewer service charges are used to fund the ongoing operations of the District including administrative, operations, treatment, collections, and acquisitions of capital assets. The proprietary fund financial statements include the statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows. These statements are accounted for using the full accrual basis of accounting similar to commercial enterprises.

Sewer service is provided throughout the service area of the District. The District serves the Whispering Palms residential development, as well as areas to the east such as the Del Mar Country Club Estates, Rancho Santa Fe Farms, Del Rayo Estates, Rancho Valencia, and San Diegueno Hills. Sewage is treated at the Whispering Palms Wastewater Reclamation Facility, which has a capacity of 400,000 gallons per day. The basic unit of charge used to calculate sewer service and connection fees is called an Equivalent Dwelling Unit (EDU), which equates to an estimated 230 gallons per day of wastewater flow. All single-family homes are charged 1 EDU as their sewer service charge. Commercial properties are charged based upon their calculated EDUs. The charge per EDU for the year ended June 30, 2018 was \$400. Sewer service charges are used to fund the ongoing operations of the District including administration, treatment plant and collections system operations, and replacement of equipment as needed.

Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. The statement of fiduciary assets and liabilities is reported using the accrual basis of accounting.

Whispering Palms Community Services District
Management's Discussion and Analysis (Continued)

Year Ended June 30, 2018

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information which can be found on the final pages of this report.

Governmental Fund Budgetary Highlights

The final fund balance at year-end was \$457,722 more than the final budget. The budget to actual variance of inflows was primarily due to increasing property values and interest rates, while the budget to actual variance of outflows was due to the postponement of the landscape renovation of the median and right-of-way areas.

Whispering Palms Community Services District
Management's Discussion and Analysis (Continued)

Year Ended June 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A summary of the District's Statement of Net Position in comparison to the prior year is presented below.

Condensed Statement of Net Position
 Fiscal Years
 June 30, 2017 and 2018

	2017	2018	Changes from 2017 to 2018	
			Amount	Percentage
Assets:				
Current Assets	\$ 2,651,676	\$ 2,761,119	\$ 109,443	4.1%
Capital Assets	5,003,535	4,908,645	(94,890)	-1.9%
Total Assets	7,655,211	7,669,764	14,553	0.2%
Liabilities:				
Current	91,901	166,463	74,562	81.1%
Total Liabilities	91,901	166,463	74,562	81.1%
Net Position:				
Invested in capital assets	5,003,535	4,908,645	(94,890)	-1.9%
Unrestricted	2,559,775	2,594,656	34,881	1.4%
Total Net Position	\$ 7,563,310	\$ 7,503,301	\$ (60,009)	-0.8%

The following is a brief explanation for the balance changes of the Condensed Statement of Net Position for the year ending June 30, 2018:

- Current Assets increased by \$109,443 largely due to an increase in cash and cash equivalents from the Landscape Improvement District.
- The decrease in Capital Assets owes largely to depreciation of \$273,257, offset by \$179,897 in additions.
- Total Liabilities increased by \$74,562 due to accounts payable and accrued liabilities.

Whispering Palms Community Services District
Management's Discussion and Analysis (Continued)

Year Ended June 30, 2018

A summary of the District's Statement of Activities in comparison to the prior year is presented below.

Condensed Statement of Activities				
Fiscal Years				
Ended June 30, 2017 and 2018				
	2017	2018	Changes from 2017 to 2018	
			Amount	Percentage
Program Revenues:				
Charges for Services	\$ 672,804	\$ 674,595	1,791	0.27%
Capital grants and contributions	12,912	11,412	(1,500)	-11.62%
Total Program Revenues	<u>685,716</u>	<u>686,007</u>	<u>291</u>	<u>0.04%</u>
General Revenues:				
Taxes	314,999	335,366	20,367	6.47%
Investment earnings	16,904	32,390	15,486	91.61%
Other revenues	-	57,972	57,972	-100.00%
Total General Revenues	<u>331,903</u>	<u>425,728</u>	<u>93,825</u>	<u>28.27%</u>
Total Revenue	<u>1,017,619</u>	<u>1,111,735</u>	<u>94,116</u>	<u>9.25%</u>
Expenses:				
General government	57,832	53,970	(3,862)	-6.68%
Landscape maintenance	135,942	150,634	14,692	10.81%
Sewer	914,487	967,140	52,653	5.76%
Total Expenses	<u>1,108,261</u>	<u>1,171,744</u>	<u>63,483</u>	<u>5.73%</u>
Changes in Net Position	<u>(90,642)</u>	<u>(60,009)</u>	<u>30,633</u>	<u>33.80%</u>
Beginning Net Position	<u>7,653,952</u>	<u>7,563,310</u>	<u>(90,642)</u>	<u>1.18%</u>
Ending Net Position \$	<u><u>7,563,310</u></u>	<u><u>7,503,301</u></u>	<u><u>(60,009)</u></u>	<u><u>-0.79%</u></u>

The following is a brief explanation for the balance changes of the Condensed Statement of Activities for the year ending June 30, 2018:

- There was a slight increase of \$1,791 in Charges for Services due to an increase in revenue generated by sewer and standby charges.
- Property taxes in both the sewer and landscaping district were up slightly because of increasing home values.
- Investment earnings increased by \$15,486 due to improved interest rates, while other revenue also increased due to capacity fees collected for new sewer connections.
- Expenses for General government and Landscape maintenance increased by \$63,483 due to higher operating expenses for such things as treatment plant labor, management, equipment repair, sludge disposal, and power, to name a few.

Whispering Palms Community Services District
Management's Discussion and Analysis (Continued)

Year Ended June 30, 2018

CAPITAL ASSETS

The District's capital assets are comprised of sewer lines, pump stations, force mains, and the treatment plant. The District currently operates and maintains two sewer pump stations and approximately 39 miles of pipeline. Annual depreciation is calculated using the straight-line method over the estimated useful lives of the capital assets. Actual repairs, upgrades, or replacements to capital assets are based upon a review of an asset's physical conditions as well as its expected useful life.

	Balance at June 30, 2017	Additions	Deletions & Completed Construction	Balance at June 30, 2018
Capital Assets, not being depreciated:				
Land	\$ 184,510	\$ -	\$ -	\$ 184,510
Total Capital Assets, not being depreciated	<u>184,510</u>	<u>-</u>	<u>-</u>	<u>184,510</u>
Capital Assets, being depreciated:				
Structures and improvements	8,833,653			8,833,653
Equipment	2,023,559	172,225		2,195,784
Service Vehicle	10,483	7,672	(10,483)	7,672
Subtotal	<u>10,867,695</u>	<u>179,897</u>	<u>(10,483)</u>	<u>11,037,109</u>
Less Accumulated Depreciation:	<u>(6,048,670)</u>	<u>(273,257)</u>	<u>8,953</u>	<u>(6,312,974)</u>
Net Capital Assets, being depreciated	<u>4,819,025</u>	<u>(93,360)</u>	<u>(1,530)</u>	<u>4,724,135</u>
Net Capital Assets	<u>\$ 5,003,535</u>	<u>\$ (93,360)</u>	<u>\$ (1,530)</u>	<u>\$ 4,908,645</u>

Additional information regarding capital assets can be found in note 3 in Notes to Basic Financial Statements.

LONG – TERM DEBT

As of June 30, 2018, the District has no outstanding long-term debt.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At year end, the District's governmental funds reported fund balance of \$1,011,822, which is an increase of \$92,968 from \$918,854 at June 30, 2018. The positive fund balance change was primarily due to increase in property taxes because of increasing home values as well as the District's ongoing effort to maximize efficient operations cost management.

Whispering Palms Community Services District
Management's Discussion and Analysis (Continued)

Year Ended June 30, 2018

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The current economy does not have a significant effect on the District's finances due to the relative affluence of the area.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Chuck Duffy at the Whispering Palms Community Services District at 605 Third Street, Encinitas, CA 92024. He can be reached at 760-479-4125.

BASIC FINANCIAL STATEMENTS

**WHISPERING PALMS
COMMUNITY SERVICES DISTRICT**

STATEMENT OF NET POSITION
June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,019,295	\$ 1,683,168	\$ 2,702,463
Accounts receivable	5,472	28,072	33,544
Interest receivable	4,168	6,870	11,038
Internal balance	(3,925)	3,925	-
Prepaid insurance	7,037	7,037	14,074
Total Current Assets	<u>1,032,047</u>	<u>1,729,072</u>	<u>2,761,119</u>
Noncurrent Assets:			
Capital assets, not being depreciated	-	184,510	184,510
Capital assets, net of accumulated depreciation	-	4,724,135	4,724,135
Total Noncurrent Assets	<u>-</u>	<u>4,908,645</u>	<u>4,908,645</u>
TOTAL ASSETS	<u>1,032,047</u>	<u>6,637,717</u>	<u>7,669,764</u>
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	<u>20,225</u>	<u>146,238</u>	<u>166,463</u>
Total Current Liabilities	<u>20,225</u>	<u>146,238</u>	<u>166,463</u>
TOTAL LIABILITIES	<u>20,225</u>	<u>146,238</u>	<u>166,463</u>
NET POSITION			
Investment in capital assets	-	4,908,645	4,908,645
Unrestricted	<u>1,011,822</u>	<u>1,582,834</u>	<u>2,594,656</u>
TOTAL NET POSITION	<u>\$ 1,011,822</u>	<u>\$ 6,491,479</u>	<u>\$ 7,503,301</u>

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

**WHISPERING PALMS
COMMUNITY SERVICES DISTRICT**

STATEMENT OF ACTIVITIES
For the year ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 53,970	\$ -	\$ -	\$ -
Landscape maintenance	150,634	-	-	-
Total governmental activities	<u>204,604</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-type activities:				
Sewer	967,140	674,595	-	11,412
Total business-type activities	<u>967,140</u>	<u>674,595</u>	<u>-</u>	<u>11,412</u>
Total primary government	<u>\$ 1,171,744</u>	<u>\$ 674,595</u>	<u>\$ -</u>	<u>\$ 22,824</u>

General Revenues:
Taxes and special assessments
Unrestricted investment earnings
Other revenues

Total General Revenues

Change in net position

Net position at beginning of year

Net position at end of year

Net (Expense) Revenue and Changes in Net Position Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (53,970)	\$ -	\$ (53,970)
(150,634)	-	(150,634)
<u>(204,604)</u>	<u>-</u>	<u>(204,604)</u>
-	(281,133)	(281,133)
-	(281,133)	(281,133)
<u>(204,604)</u>	<u>(281,133)</u>	<u>(485,737)</u>
285,540	49,826	335,366
12,032	20,358	32,390
-	57,972	57,972
<u>297,572</u>	<u>128,156</u>	<u>425,728</u>
92,968	(152,977)	(60,009)
<u>918,854</u>	<u>6,644,456</u>	<u>7,563,310</u>
<u>\$ 1,011,822</u>	<u>\$ 6,491,479</u>	<u>\$ 7,503,301</u>

**WHISPERING PALMS
COMMUNITY SERVICES DISTRICT**

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2018

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,019,295
Accounts receivable	5,472
Interest receivable	4,168
Prepaid insurance	<u>7,037</u>
TOTAL ASSETS	<u>\$ 1,035,972</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable and accrued liabilities	\$ 20,225
Due to other funds	<u>3,925</u>
TOTAL LIABILITIES	<u>24,150</u>
FUND BALANCE	
Nonspendable:	
Prepaid insurance	7,037
Unassigned	<u>1,004,785</u>
TOTAL FUND BALANCE	<u>1,011,822</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,035,972</u>

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

**WHISPERING PALMS
COMMUNITY SERVICES DISTRICT**

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE
GOVERNMENTAL FUND
For the year ended June 30, 2018

	<u>General Fund</u>
REVENUES	
Taxes	\$ 285,540
Revenues from use of money and property	<u>12,032</u>
Total Revenues	<u>297,572</u>
EXPENDITURES	
Landscape maintenance	150,634
General government	<u>53,970</u>
Total Expenditures	<u>204,604</u>
NET CHANGE IN FUND BALANCE	92,968
FUND BALANCE AT BEGINNING OF YEAR	<u>918,854</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 1,011,822</u></u>

**WHISPERING PALMS
COMMUNITY SERVICES DISTRICT**

STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2018

	<u>Sewer Operations and Capital Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 1,683,168
Accounts receivable	28,072
Interest receivable	6,870
Prepaid insurance	7,037
Due from other funds	<u>3,925</u>
Total Current Assets	<u>1,729,072</u>
Noncurrent Assets:	
Capital assets, not being depreciated	184,510
Capital assets, net of accumulated depreciation	<u>4,724,135</u>
Total Noncurrent Assets	<u>4,908,645</u>
TOTAL ASSETS	<u>6,637,717</u>
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	<u>146,238</u>
TOTAL LIABILITIES	<u>146,238</u>
NET POSITION	
Investment in capital assets	4,908,645
Unrestricted	<u>1,582,834</u>
TOTAL NET POSITION	<u>\$ 6,491,479</u>

**WHISPERING PALMS
COMMUNITY SERVICES DISTRICT**

STATEMENT OF REVENUES, EXPENSES, AND
CHANGE IN NET POSITION
PROPRIETARY FUND
For the year ended June 30, 2018

	<u>Sewer Operations and Capital Fund</u>
OPERATING REVENUES	
Sewer service charges	\$ 595,846
Sale and disposal of effluent	<u>78,749</u>
Total Operating Revenues	<u>674,595</u>
OPERATING EXPENSES	
Sewage collection and treatment	577,180
General and administrative	116,703
Depreciation	<u>273,257</u>
Total Operating Expenses	<u>967,140</u>
OPERATING LOSS	<u>(292,545)</u>
NONOPERATING REVENUES (EXPENSES)	
Taxes and special assessments	49,826
Capacity fees	11,412
Interfund reimbursement	58,439
Investment earnings	20,358
Miscellaneous income	11
Loss on sale of capital asset	<u>(478)</u>
Total Nonoperating Revenues (Expenses)	<u>139,568</u>
Change in Net Position	(152,977)
Net position at beginning of year	<u>6,644,456</u>
Net position at end of year	<u><u>\$ 6,491,479</u></u>

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

**WHISPERING PALMS
COMMUNITY SERVICES DISTRICT**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the year ended June 30, 2018

	<u>Sewer Operations and Capital Fund</u>
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 677,027
Capacity fees received	11,412
Reimbursement received from other funds	58,439
Other income	11
Cash payments for services and supplies	(613,701)
Net Cash Provided by Operating Activities	<u>133,188</u>
Cash Flows from Noncapital Financing Activities:	
Property taxes received	49,826
Loans to other funds	(2,375)
Net Cash Provided by Noncapital Financing Activities	<u>47,451</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	(179,897)
Proceeds from sale of capital assets	1,052
Net Cash Used by Capital and Related Financing Activities	<u>(178,845)</u>
Cash Flows from Investing Activities:	
Interest received	17,012
Net Cash Provided by Investing Activities	<u>17,012</u>
Net Change in Cash and Cash Equivalents	18,806
Cash and cash equivalents at beginning of year	<u>1,664,362</u>
Cash and cash equivalents at end of year	<u>\$ 1,683,168</u>
Reconciliation of Operating Loss to Net Cash Flows Provided by Operating Activities:	
Operating loss	<u>\$ (292,545)</u>
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	273,257
Capacity fees	11,412
Interfund reimbursement	58,439
Other income	11
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	2,432
(Increase) decrease in prepaid insurance	1,043
Increase (decrease) in accounts payable	79,139
Total Adjustments	425,733
Net Cash Provided (Used) by Operating Activities	<u>\$ 133,188</u>

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

**WHISPERING PALMS
COMMUNITY SERVICES DISTRICT**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
June 30, 2018

	<u>Total Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 17,749
 TOTAL ASSETS	 \$ 17,749
LIABILITIES	
Accounts payable	\$ 148
Deposits held for others	17,601
 TOTAL LIABILITIES	 \$ 17,749

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Whispering Palms Community Services District (the District) have been prepared in accordance 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. Reporting Entity

In November 1987, the citizens of Whispering Palms formed a community services district pursuant to the California Government Code Section 61000. The District provides landscaping services to property owners in the community of Whispering Palms, and sewer service to Whispering Palms and other surrounding communities.

b. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units). Eliminations have been made in the statement of activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the District. Interfund services provided and used are not eliminated in the process of consolidation.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular function. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Basis of Accounting and Measurement Focus (Continued)

Government-Wide Financial Statements (Continued)

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be 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, deferred inflows of resources, fund equity, revenues and expenditures, or 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.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about the major funds individually and other governmental funds in the aggregate for governmental funds. Fiduciary statements, even though excluded from the government-wide financial statements, represent agency funds.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period.

Revenue recognition is subject to the *measurable* and *available* criteria for the governmental funds in the fund financial statements. Significant revenues subject to the criteria include taxes and intergovernmental revenues. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed nonexchange transactions* are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary nonexchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets, current liabilities, and deferred inflows of resources are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Revenues, expenses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Basis of Accounting and Measurement Focus (Continued)

Governmental Funds (Continued)

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available where cash is received by the government. The availability period for these revenues is 60 days.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Proprietary and Fiduciary Funds

The District's enterprise funds are proprietary funds. In the fund financial statements, the proprietary funds and fiduciary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds and fiduciary funds are presented using the *economic resources measurement focus*. This means that all assets, deferred outflows of resources, all liabilities, and deferred inflows of resources (whether current or noncurrent) associated with their activity are included on their statements of net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Proprietary funds' operating revenue, such as charges for services, results from exchange transactions associated with the principal activities of the funds. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies, taxes, and investment earnings, result from nonexchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the enterprise funds financial statements rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the enterprise fund financial statements rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the enterprise fund are reported as a reduction of the related liability rather than as an expenditure.

The District's fiduciary funds are accounted for using the economic resources measurement focus and accrual basis of accounting. The District's fiduciary agency funds have no measurement focus but utilize the accrual basis for reporting its assets and liabilities. Because these funds are not available for use by the District, fiduciary funds are not included in the governmental-wide statements.

c. Fund Classifications

The District reports the following major governmental fund:

The **General Fund** is the primary operating fund for landscape maintenance. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The District has no other governmental funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Fund Classifications (Continued)

The District reports the following major proprietary fund:

The **Sewer Operations and Capital Fund** is used to account for the operation and maintenance of the District's sewer systems, which is funded by user charges and other fees.

The District's fund structure also includes the following fund type:

The **Fiduciary Fund** includes a trust and agency fund. Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments, and/or other funds. Fiduciary statements, even though excluded from the government-wide financial statements, represent agency funds that are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

d. New Accounting Pronouncements

Current-Year Standards

GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for periods starting after June 15, 2017, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for postemployment benefits other than pension, and did not impact the District.

GASB Statement No. 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, and did not impact the District.

GASB Statement No. 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017, and did not impact the District.

GASB Statement No. 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017, and did not impact the District.

GASB Pending Accounting Standards

GASB 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.

GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.

GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.

GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018.

GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.

GASB 90 - *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2018.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents have been defined as demand deposits and highly liquid investments with an original maturity of 90 days or less. Cash includes amounts in demand and time deposits. Investments are stated at fair value (quoted market price or best available estimate thereof) (see Note 2).

f. Investments

Investments are reported in the accompanying financial statements at fair value. Changes in fair value that occur during a fiscal year are recognized as income from property and investments reported for that fiscal year. Income from property and investments includes interest earnings, changes in fair value, any gains or losses realized upon liquidation, maturity, or sale of investments. There are no significant differences between fair value and cost at June 30, 2018.

g. Receivables and Payables

Management estimates all receivables at June 30, 2018, to be collectible, as any receivables deemed uncollectible have been written off.

h. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to / from other funds (i.e., the current portion of interfund loans) or advances to / from other funds (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as due to / from other funds.

i. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The consumption method of accounting is used for prepaid items.

j. Capital Assets

Capital assets, which include land, structures and improvements, and equipment, are depreciated and are reported in the applicable governmental or business-type activity columns in the government-wide financial statements.

Capital assets have an estimated useful life greater than one year and have a cost greater than \$5,000. Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Construction-in-progress costs are capitalized and transferred to their respective fixed asset category upon completion of the project.

Depreciation is charged to operations using the straight-line method based on the estimated useful life of an asset. Land and construction-in-progress are not depreciated.

Structures and improvements	40-50 years
Equipment	5-40 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Property Taxes

Real property taxes are levied on July 1 against owners of record on January 1. The taxes are due in two equal installments, on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Tax liens attach annually as of 12:01a.m. on the first day in January in the fiscal year for which the taxes have been levied. Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided it is within 60 days of the end of the year.

l. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until that time. The District does not have any applicable deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any applicable deferred inflows of resources.

m. Net Position Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

n. Fund Balance Classification

In the fund financial statements, fund balances are classified as follows:

Nonspendable includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The not in spendable form criterion includes items that are not expected to be converted to cash (for example, inventories and prepaid amounts).

Restricted includes amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. The Board of Directors has the authority to establish, modify, or rescind a fund balance commitment.

Assigned includes amounts that are constrained by the government's intent to be used for specific purposes but are neither restricted nor committed. The Board of Directors or designee has the authority to establish, modify, or rescind a fund balance assignment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Fund Balance Classification (Continued)

Unassigned includes the residual amounts that have not been restricted, committed, or assigned to specific purposes.

An individual governmental fund could include nonspendable resources and amounts that are restricted or unrestricted (committed, assigned, or unassigned) or any combination of those classifications. Restricted amounts are to be considered spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, and committed, assigned, and unassigned amounts are considered to be spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

o. Use of Estimates

The preparation of financial statements in accordance with GAAP 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 and assumptions.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments held by the District at June 30, 2018, are reported in the accompanying financial statements as follows:

Statement of Net Position	
Cash and cash equivalents	\$ 2,702,463
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	<u>17,749</u>
Total cash and investments	<u>\$ 2,720,212</u>

Cash and investments as of June 30, 2018, consist of the following:

Deposits with financial institutions	\$ 153,460
Investment in Local Agency Investment Fund	<u>2,566,752</u>
Total cash and investments	<u>\$ 2,720,212</u>

Investments Authorized by the California Government Code

The California Government Code authorizes the District to invest in certain types of investments.

The table below identifies these investment types and the related maximum percentages by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

NOTE 2 - CASH AND INVESTMENTS (CONTTNUED)

Investments Authorized by the California Government Code (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
US Treasury Securities	5 years	None	None
US Government-Sponsored Agency Securities	5 years	50%	30%
Banker’s Acceptance	180 days	40%	5%
Commercial Paper	270 days	25%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Repurchase Agreements	30 days	None	5%
Medium-Term Notes	5 years	None	5%
Receivable-Back Securities	5 years	20%	5%
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund	N/A	None	\$65M

N/A - Not Applicable

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations. At June 30, 2018, District’s investments in the Local Agency Investment Fund (LAIF) have a maturity of less than one year.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2018, the District’s investment in LAIF is not rated.

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 District’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk other than the following provision 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% 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% of the secured public deposits. At June 30, 2018, the District’s deposits are covered by the Federal Deposit Insurance Corporation.

NOTE 2 - CASH AND INVESTMENTS (CONTNUED)

California Local Agency Investment Fund

The District is a voluntary participant in LAIF, which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized basis.

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by GAAP. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The District's investments in LAIF are not subject to the fair value hierarchy.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance at June 30, 2017	Additions	Deletions and Completed Construction	Balance at June 30, 2018
Capital Assets, not being depreciated:				
Land	\$ 184,510	\$ -	\$ -	\$ 184,510
Capital Assets, being depreciated:				
Structures and improvements	8,833,653	-	-	8,833,653
Equipment	2,023,559	172,225	-	2,195,784
Service vehicle	10,483	7,672	(10,483)	7,672
Subtotal	10,867,695	179,897	(10,483)	11,037,109
Less Accumulated Depreciation	(6,048,670)	(273,257)	8,953	(6,312,974)
Net Capital Assets, being depreciated	4,819,025	(93,360)	(1,530)	4,724,135
Net Capital Assets	<u>\$ 5,003,535</u>	<u>\$ (93,360)</u>	<u>\$ (1,530)</u>	<u>\$ 4,908,645</u>

Depreciation expense was charged to functions/programs of the District as follows:

Business-type Activities:	
Sewer	<u>\$ 273,257</u>
Total Depreciation Expense	<u>\$ 273,257</u>

NOTE 4 - INTERNAL BALANCE

Current internal balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. The following is a summary of current internal balances as of June 30, 2018. The internal balances listed below represent the advancement of cash to cover operating expenses.

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Proprietary Fund	\$ 3,925	General Fund	\$ 3,925

NOTE 5 - COMMERCIAL INSURANCE POLICY

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District purchases commercial insurance for its exposure to risk. The District is insured against claims and judgments for general liability, automobile liability, and public officials and management liability (up to \$1,000,000 per occurrence). Property insurance was purchased with coverage of up to \$5,874,200 and subject to a \$1,000 deductible. The District has also purchased excess liability insurance (up to \$10,000,000 per occurrence). Settled claims have not exceeded any of the District's coverage amounts in any of the last three fiscal years, and there were no significant reductions in the District's insurance coverage during the year ended June 30, 2018. The District's insurance coverage also includes inland marine, unscheduled equipment, scheduled equipment, and excess liability. There is no deductible on the general liability insurance. There are varying deductibles between \$500 and \$1,000 for automobile and miscellaneous coverage.

NOTE 6 - CONTINGENCIES

Litigation

The District's management and legal counsel estimate that any legal claims against the District, not covered by insurance, resulting from such litigation would not have a material effect on the basic financial statements.

NOTE 7 - SUBSEQUENT EVENTS

Events occurring after June 30, 2018, have been evaluated for possible adjustments to the financial statements or disclosures as of November 6, 2019, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**BUDGETARY COMPARISON SCHEDULE
GOVERNMENTAL FUND
For the year ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
FUND BALANCE, JULY 1	<u>\$ 957,000</u>	<u>\$ 957,000</u>	<u>\$ 918,854</u>	<u>\$ (38,146)</u>
RESOURCES (INFLOWS)				
Taxes and special assessments	280,000	280,000	285,540	5,540
Revenues from use of money and property	<u>7,000</u>	<u>7,000</u>	<u>12,032</u>	<u>5,032</u>
Amount Available for Appropriations	<u>287,000</u>	<u>287,000</u>	<u>297,572</u>	<u>10,572</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Landscape maintenance	631,500	631,500	150,634	480,866
General government	<u>58,400</u>	<u>58,400</u>	<u>53,970</u>	<u>4,430</u>
Total Charges to Appropriations	<u>689,900</u>	<u>689,900</u>	<u>204,604</u>	<u>485,296</u>
EXCESS OF RESOURCES OVER (UNDER) CHARGES TO APPROPRIATIONS	<u>(402,900)</u>	<u>(402,900)</u>	<u>92,968</u>	<u>495,868</u>
FUND BALANCE, JUNE 30	<u>\$ 554,100</u>	<u>\$ 554,100</u>	<u>\$ 1,011,822</u>	<u>\$ 457,722</u>

BUDGETS AND BUDGETARY ACCOUNTING

The District follows these procedures in establishing the budgetary data reflected in the Budgetary Comparison Schedule:

- a. The annual budget adopted by the Board of Directors provides for the general operation of the District. It includes proposed expenditures and the means of financing them.
- b. The Board of Directors approves total budgeted appropriations and any amendments to appropriations throughout the year. Actual expenditures may exceed budgeted appropriations at the fund level. However, the District's general manager is authorized to transfer budgeted amounts between individual departments. Budget figures used in the financial statements are the final adjusted amounts, including any amendments to the budget during the year.
- c. Formal budgetary integration is employed as a management control device. Appropriations that are encumbered at year-end lapse, and then are added to the following year's budgeted appropriations. However, encumbrances at year-end are reported as reservations of fund balance. There were no encumbrances at June 30, 2018.
- d. Budget information is adopted for the governmental fund and presented as required supplemental information. The presentation represents original appropriations adjusted for supplemental appropriations, if any, made during the year. The budget for the governmental fund is adopted on a basis substantially consistent with GAAP.