

**WESTHAVEN COMMUNITY SERVICES DISTRICT**

**Financial Statements**

**For the Years Ended June 30, 2016 and 2015**

**WESTHAVEN COMMUNITY SERVICES DISTRICT**

**Table of Contents**

	<b><u>Page</u></b>
<b>BOARD OF DIRECTORS</b>	1
<b>INDEPENDENT AUDITORS' REPORT</b>	2
<b>MANAGEMENT'S DISCUSSION &amp; ANALYSIS</b>	4
<b>FINANCIAL STATEMENTS</b>	
Statement of Net Position	9
Statements of Revenues and Expenses and Changes in Net Position	10
Statements of Cash Flows	12
Notes to Financial Statements	14
<b>MANAGEMENT LETTER</b>	20

**WESTHAVEN COMMUNITY SERVICES DISTRICT**

**Board of Directors**

**June 30, 2016**

<b><u>MEMBER</u></b>	<b><u>RESIDENCE</u></b>
Gregory Smith, President	Trinidad, California
William Verick, Vice President	Trinidad, California
David Hankin, Fiscal Officer	Trinidad, California
Michael Moon	Trinidad, California
Steven Phipps	Trinidad, California

**June 30, 2015**

<b><u>MEMBER</u></b>	<b><u>RESIDENCE</u></b>
Gregory Smith, President	Trinidad, California
William Verick, Vice President	Trinidad, California
David Hankin, Fiscal Officer	Trinidad, California
Michael Moon	Trinidad, California
Steven Phipps	Trinidad, California

INDEPENDENT AUDITOR'S REPORT

GENE A. EKLUND, CPA  
JO ANN HUNT, CPA  
ROBERT W. SUTTER, CPA  
LARRY E. WOOD, CPA  
BRYAN D. REESER, CPA  
BRADLEY S. WILLIAMSON, CPA  
DAVID K. MONROE, EA



1680 SUTTER ROAD  
McKINLEYVILLE, CA 95519  
(707) 822-4835  
FAX (707) 822-6219  
www.jacksonandeklund.com

WILLIAM F. JACKSON, CPA 1919 - 2006

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Westhaven Community Services District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Westhaven Community Services District, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise Westhaven Community Services District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Westhaven Community Services District's 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

Board of Directors  
Westhaven Community Services District

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Westhaven Community Services District as of June 30, 2016 and 2015 and the results of its operations and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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. We have applied certain limited procedures to the required supplementary information 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Jackson and Eklund*

May 10, 2017

**MANAGEMENT'S DISCUSSION AND ANALYSIS**



# WESTHAVEN COMMUNITY SERVICES DISTRICT

## Management's Discussion and Analysis

As management of the Westhaven Community Services District, we present to readers of the District's Basic Financial Statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the Basic Financial Statements. The District's financial statements include Statements of Net Position, Statements of Revenues and Expenses and Changes in Net Position and Statements of Cash Flows. The Notes to Financial Statements provide additional information that is essential to a full understanding of the financial data provided and are an integral part of the District's financial statements.

The District's total assets for the fiscal years ended June 30, 2016 and 2015 are \$1,945,635 and \$1,175,594. The total assets mainly consist of property, plant and equipment. The total liabilities for the fiscal years ended June 30, 2016 and 2015 are \$576,024 and \$217,082 consisting mostly of long-term debt. Net assets for the fiscal years ended June 30, 2016 and 2015 is \$1,369,611 and \$958,512 respectively. Below is a summary of the Statement of Net Position.

	<u>Assets</u>	
	<u>2016</u>	<u>2015</u>
Current Assets	\$ 649,216	\$ 304,626
Net Property, Plant and Equipment	1,133,019	707,568
Other Assets	<u>163,400</u>	<u>163,400</u>
Total Assets	<u>\$ 1,945,635</u>	<u>\$ 1,175,594</u>

<u>Liabilities and Net Position</u>		
Current Liabilities	\$ 423,265	\$ 43,649
Long-term Liabilities	<u>152,759</u>	<u>173,433</u>
Total Liabilities	<u>576,024</u>	<u>217,082</u>
NET POSITION		
Invested in capital assets	1,096,586	651,173
Reserve for restricted assets	26,400	26,400
Unrestricted net position	<u>246,625</u>	<u>280,939</u>
Total Net Position	<u>1,369,611</u>	<u>958,512</u>
Total Liabilities and Net Position	<u>\$ 1,945,635</u>	<u>\$ 1,175,594</u>



Westhaven Community Services District  
Management's Discussion and Analysis

The District's long-term debt consists of a loan from the State of California - Department of Water Resources that financed improved water collection and storage facilities, the construction of a filtration facility, replacement of gravity-fed transmission mains in the distribution system and the acquisition of the 4<sup>th</sup> Avenue Well. The current semi-annual payments are \$13,201. The loan payments include interest at 3.41%. The principal balance of the loan is \$173,433 and \$193,395 for fiscal years ended June 30, 2016 and June 30, 2015, respectively. The cash reserve of \$26,400 required by the Department of Water Resources was met during fiscal year 2003/2004 and will not have to increase for the remainder of the loan. In January of 2007 the \$26,400 cash reserve for the CDWR loan was transferred from the dedicated savings account to a certificate of deposit.

The water distribution system was built in 1968 by the District's predecessor, the Westhaven Mutual Water Company, much of it with substandard materials, and repair/replacement cost is an ongoing concern for management. In 1992 a Community Development Block Grant funded replacement of the 1.65-mile pressure-boosted portion of the distribution system, comprising approximately 25% of the entire system. The pipe was upgraded from 2-inch polyethylene to 4-inch PVC. Elsewhere in the distribution system approximately 2.0 miles of 2-inch diameter polyethylene pipe dating from 1968 has been particularly prone to leaking. Since 2003 the system has experienced an average of eight water main repairs per year, and most of these occurred in the old 2- inch polyethylene pipe. Since 2003, when full customer metering was first implemented, the amount of water unaccounted for (water loss), as calculated on a monthly basis, has averaged approximately 30% of total production. Taken together these conditions support a clear case for replacement of all of the 2-inch polyethylene pipe. In 2014 the District was awarded a California Department of Water Resources Proposition 84 Drought Mitigation Project grant in the amount of \$493,500 for replacement of approximately half of the 2-inch polyethylene pipe with 4- inch PVC pipe. The funding agreement, completed in September 2015, included \$115,000 in cost share from the WCSD, bringing the total funds available to \$608,500. Construction began in April 2016, and the project was essentially completed in December 2016. As of this writing the project has not received final close-out, but that is anticipated to occur shortly. Now, just a few months after completion of project, the rate of water loss due to leaks in the distribution system has decreased dramatically.

Westhaven Community Services District  
Management's Discussion and Analysis

An additional infrastructure funding concern has been the deterioration of the support structure for the roof of the District's treated water storage tank. The wooden roof trusses are slowly succumbing to dry rot, caused by the high humidity within the tank, and a new tank needs to be constructed to serve the system while the old tank is being repaired. In the spring of 2009 the District applied unsuccessfully for \$320,000 in grant funding through the federal American Recovery and Reinvestment Act for the purpose of constructing a new 85,000 gallon glass-fused steel tank in combination with replacing the roof on the existing tank.

In the fall of 2013 the District was successful in being awarded a \$360,000 California Department of Water Resources Proposition 84 grant for construction of a new 85,000 gallon tank and replacement of the roof on the existing tank. Construction was expected to begin during the winter of 2014, but all bids received came in well over the project budget and so all bids were rejected, and in 2015 a second application for supplemental DWR Prop 84 funding in the amount of \$151,500 was submitted by the District. The second grant application was successful, and the formal funding agreement was entered into in January 2017. The project was bid in March 2017, and two of the bids received were within the budget. At this writing construction is expected to begin on April 17, 2017.

Further infrastructure expense will soon be encountered due to the implementation of water quality regulations for the control of disinfection by-products. The mandated addition of chlorine to the District's surface water, which contains certain naturally occurring organic compounds, causes the formation of secondary compounds called disinfection by-products (DBPs) that are of concern for the long-term health of the consumers of the water. These compounds are tested for in two groups; Total Trihalomethanes (TTHMs) and Five Haloacetic Acids (HAA5s). The District has been sampling for TTHMs and HAA5s on a quarterly basis since August 2006. Throughout this sampling period the results for HAA5s have exceed allowable limits, and in May of 2010 the results for TTHMs also began to exceed the limits. Since April of 2010 the District has received Notices of Violation, basically on a semi-annual basis, from the California Department of Public Health (CDPH). The notices have included instructions for providing written notice of the violation to the water users. In 2013 the District was awarded \$102,400 in grant funding and \$25,600 in loan funding from the CDPH Safe Drinking Water State Revolving Fund (SRF) for the purpose of developing an additional water treatment stage to remove the naturally occurring compounds known as DBP precursors.

The first round of funding will be used for investigating options for treatment and planning for the solution. Depending on the treatment option chosen, actual construction costs could exceed \$500,000.



Westhaven Community Services District  
Management's Discussion and Analysis

In the past, the District's annual budgets and resultant water rates have failed, to greater or lesser degrees, to fully account for depreciation. After discussions with the District's auditor, depreciation was added to the annual budget in 2010. The District's financial statements show the years ending June 30 2013, 2014, 2015 and 2016 ending with net income or <loss>, including the expense of depreciation, as follows:

2013	\$ <9,552>
2014	\$ 5,545
2015	\$ 12,315
2016	\$ <14,344>

The increasing need to replace components of the water system's aging infrastructure has compelled the District manager and Board of Directors to confront the issue of underfunded depreciation by seeking additional revenues from the District's water service customers in the form of increased water rates.

Effective July 2014 the District continued the regular practice of annual adjustments to the water rates based on projected expenses contained in the annual budget. The monthly base rate was increased 1.91%, from \$45.50 to \$46.37. The estimated average monthly commodity charge was increased 1.52%, from \$30.86 to \$31.33, resulting in a 1.75% overall increase in the estimated average monthly bill, from \$76.36 to \$77.70, and producing targeted annual water sales of \$215,876. Actual water sales for FY 2014/2015 totaled \$211,683, equaling 98.8% of the budgeted target. In FY 2014/2015 \$20,000 was withdrawn from the Capital Reserve Fund to pay for capital project related engineering services, leaving its total at \$508,110. \$5,000 was contributed to the Operating Reserve Fund, leaving its total as of June 17, 2015 at \$43,391.

Effective July 2015 the District once again continued the regular practice of annual adjustments to the water rates based on projected expenses contained in the annual budget. The monthly base rate was increased 1.16%, from \$46.37 to \$46.91. The estimated average monthly commodity charge was increased 2.92%, from \$30.86 to \$31.33, resulting in a 1.93% overall increase in the estimated average monthly bill, from \$76.36 to \$77.70, and producing targeted annual water sales of \$219,922. Actual water sales for FY 2015/2016 totaled \$210,583, equaling 97.2% of the budgeted target. In FY 2015/2016 \$54,040 was withdrawn from the Capital Reserve Fund to pay for part of the water main project contractor expense, leaving its total at \$155,500. Nothing was contributed to the Operating Reserve Fund leaving its total at \$43,547 as of June 15, 2016.

Westhaven Community Services District  
Management's Discussion and Analysis

WCSD's largest expenditure is payroll. The District has three employees; one full-time and two-part time. The payroll expense has increased every year due to incremental raises now based on a formula that combines the Social Security Administration's Cost-of-Living index and the California Consumer Price Index. Salaries expense for the fiscal years ended June 30, 2016 and 2015 were \$88,796 and \$92,418 respectively. Total operating expenditures for the fiscal years ended June 30, 2016 and 2015 were \$230,230 and \$204,991 respectively.

Beyond rehabilitation of aging infrastructure and meeting the challenges of ever-increasing governmental mandates, the WCSD's goal for the future is to continue efforts begun in 1988 to develop sufficient water source capacity to serve all the residents of the District. Just extending service to the remaining un-served dwellings that existed at the time of District formation would increase the customer base by 13%, from 232 to 263 accounts. However, the addition of just a few new service connections, 4 in 1997, and 6 in 2006/2007, was only made possible by special permission from the California Department of Health Services (CDPH) and was based upon the District's documentation of conservation resulting from the implementation of metered rates. Administration of the California Drinking Water Program has now been taken over by the Department of Water Resources Department of Drinking Water (DDW). Further permission from DDW for addition of more new services without first increasing the District's water source capacity may depend upon the final analysis of a ten-year CDPH-mandated water source capacity study, and those results continue to show source capacity well in excess of total system consumption, even after including water lost in leaks in the distribution system. And now the recent installation of new water mains seems to have significantly reduced the rate of water loss. So, the possibility of increasing the customer base without increasing source capacity may not be completely out of the question. A new development in the source capacity study has been the occurrence of a state-wide drought in 2014 and 2015 that had the effect locally of reducing the District's source capacity to approximately 75% of prior levels. But the current rain year totals are far above normal, and the source capacity has increased accordingly. So, at this time the effect of the drought on DDW's determination regarding the District's source capacity is unknown.

**FINANCIAL STATEMENTS**

**WESTHAVEN COMMUNITY SERVICES DISTRICT**  
**Statement of Net Position**  
**June 30, 2016 and 2015**

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash in bank (Note 6)	\$ 211,452	\$ 267,033
Accounts receivable	6,250	7,324
Grants receivable	430,818	29,573
Prepaid assets	696	696
	<hr/>	<hr/>
Total Current Assets	649,216	304,626
PROPERTY, PLANT AND EQUIPMENT (Note 7)		
Land	158,497	158,497
Buildings	2,991	2,991
Machinery and equipment	31,472	31,472
Reservoirs and tanks	109,465	99,664
Water system	1,676,797	1,222,359
Office Equipment	5,578	5,578
Accumulated depreciation	(851,781)	(812,993)
	<hr/>	<hr/>
Total Property, Plant and Equipment	1,133,019	707,568
OTHER ASSETS		
Restricted cash (Note 5)	26,400	26,400
Timber (Note 1)	137,000	137,000
	<hr/>	<hr/>
Total Other Assets	163,400	163,400
Total Assets	<u>\$ 1,945,635</u>	<u>\$ 1,175,594</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 390,074	\$ 10,958
Accrued interest	1,955	2,186
Accrued payroll liabilities (Note 2)	10,562	10,543
Loan payable - current (Note 3)	20,674	19,962
	<hr/>	<hr/>
Total Current Liabilities	423,265	43,649
LONG-TERM LIABILITIES		
State of California (Note 3)	152,759	173,433
	<hr/>	<hr/>
Total Liabilities	576,024	217,082
NET POSITION		
Invested in capital assets	1,096,586	651,173
Reserve for restricted assets (Note 5)	26,400	26,400
Unrestricted net position	246,625	280,939
	<hr/>	<hr/>
Total Net Position	1,369,611	958,512
Total Liabilities and Net Position	<u>\$ 1,945,635</u>	<u>\$ 1,175,594</u>

See Accompanying Notes.

**WESTHAVEN COMMUNITY SERVICES DISTRICT**  
**Statements of Revenues and Expenses**  
**and Changes in Net Position**  
**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Water sales	\$ 210,583	\$ 211,683
Other	5,303	5,623
	<hr/>	<hr/>
Total Operating Revenues	215,886	217,306
OPERATING EXPENSES		
Salaries	88,796	92,418
Payroll taxes and employee benefits	18,990	18,160
Lab fees and chemicals	8,683	7,409
Travel and Mileage	328	695
Insurance	2,389	2,457
Professional services	9,330	9,600
Office expense	2,067	1,486
Utilities	8,890	8,165
Repairs and maintenance	6,979	7,770
Depreciation	38,788	39,850
Rent	4,200	4,200
Other expense	40,790	12,781
	<hr/>	<hr/>
Total Operating Expenses	230,230	204,991
Income from Operations	<hr/> (14,344)	<hr/> 12,315
NON-OPERATING REVENUES (EXPENSES)		
Grant income	429,616	45,340
Interest income	2,035	2,086
Interest expense	(6,208)	(6,872)
	<hr/>	<hr/>
Total Non-Operating Revenues (Expenses)	425,443	40,554
NET INCOME	<hr/> \$ 411,099	<hr/> \$ 52,869

See Accompanying Notes.



**WESTHAVEN COMMUNITY SERVICES DISTRICT**  
**Statements of Revenues and Expenses**  
**and Changes in Net Position**  
**June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>CHANGES IN UNRESTRICTED NET POSITION:</b>		
Net income	\$ 411,099	\$ 52,869
(Increase) Decrease in reserve	-	-
(Increase) Decrease in investments in capital assets	<u>(445,413)</u>	<u>(79,994)</u>
Change in Net Position	(34,314)	(27,125)
Unrestricted Net Position, Beginning, Restated (Note 10)	<u>280,939</u>	<u>308,064</u>
Unrestricted Net Position, Ending	<u>\$ 246,625</u>	<u>\$ 280,939</u>
<b>INVESTED IN CAPITAL ASSETS</b>		
<b>INVESTED IN PROPERTY, PLANT AND EQUIPMENT</b>		
Depreciation	\$ (38,788)	\$ (39,850)
Additions	464,239	100,533
(Increase) Decrease in invested property, plant and equipment liability	<u>19,962</u>	<u>19,311</u>
Change in investments in capital assets	445,413	79,994
Invested in capital assets, beginning, restated (Note 10)	<u>651,173</u>	<u>571,179</u>
Invested in capital assets, ending	<u>\$ 1,096,586</u>	<u>\$ 651,173</u>
<b>CHANGES IN RESERVE FOR RESTRICTED ASSETS:</b>		
(Decrease) Increase in reserve for restricted assets	\$ -	\$ -
Reserve for restricted assets, beginning	<u>26,400</u>	<u>26,400</u>
Reserve for restricted assets, ending	<u>\$ 26,400</u>	<u>\$ 26,400</u>
<b>CHANGES IN TOTAL NET POSITION:</b>		
Combined change in total net position	<u>411,099</u>	<u>52,869</u>
Total Net Position, Beginning, Restated (Note 10)	<u>\$ 958,512</u>	<u>905,643</u>
Total Net Position, Ending	<u>\$ 1,369,611</u>	<u>\$ 958,512</u>

See Accompanying Notes.

**WESTHAVEN COMMUNITY SERVICES DISTRICT**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2016 and 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 216,960	\$ 218,850
Payments to suppliers	(95,613)	(70,611)
Payments for payroll activities	<u>(95,813)</u>	<u>(98,052)</u>
Net cash provided by operating activities	<u>25,534</u>	<u>50,187</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants received	28,371	30,773
Purchase of capital assets	(85,120)	(92,275)
Principal paid on capital debt	(19,962)	(19,311)
Interest paid on capital debt	<u>(6,439)</u>	<u>(7,091)</u>
Net cash used by capital and related financing activities	<u>(83,150)</u>	<u>(87,904)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>2,035</u>	<u>2,086</u>
Net cash provided in investing activities	<u>2,035</u>	<u>2,086</u>
Net increase (decrease) in cash	(55,581)	(35,631)
Cash balance, Beginning of Year	<u>267,033</u>	<u>302,664</u>
Cash balance, End of Year	<u>\$ 211,452</u>	<u>\$ 267,033</u>

See Accompanying Notes.

**WESTHAVEN COMMUNITY SERVICES DISTRICT**  
**Statements of Cash Flows - Continued**  
**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Net Income	\$ 411,099	\$ 52,869
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities and Non-Operating Revenue:		
Depreciation	38,788	39,850
(Increase) decrease in:		
Accounts receivable	1,074	1,544
Grant receivable	(401,245)	(14,567)
Increase (decrease) in:		
Accounts payable	379,116	2,815
Accrued interest	(231)	(219)
Accrued payroll liabilities	19	1,921
Net Cash Provided (Used) by Operating Activities and Non-Operating Revenue	<u>428,620</u>	<u>84,213</u>
Cash Flows Provided (Used) by Investing Activities		
Capital expenditures	<u>(464,239)</u>	<u>(100,533)</u>
Net Cash Provided (Used) by Investing Activities	<u>(464,239)</u>	<u>(100,533)</u>
Cash Flows (Used) by Financing Activities		
Loan repayment - State of California	<u>(19,962)</u>	<u>(19,311)</u>
Net Cash Provided (Used) by Financing Activities	<u>(19,962)</u>	<u>(19,311)</u>
Net Increase (Decrease) in Cash	(55,581)	(35,631)
Cash Balance, Beginning of Year	<u>267,033</u>	<u>302,664</u>
Cash Balance, End of Year	<u>\$ 211,452</u>	<u>\$ 267,033</u>
 <b><u>Supplemental Disclosure</u></b> 		
Interest Paid	<u>\$ 6,439</u>	<u>\$ 7,091</u>

See Accompanying Notes.

**WESTHAVEN COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**NOTE 1**      **SIGNIFICANT ACCOUNTING POLICIES**

The District is a political subdivision of the State of California. The District was formed under California Government Code Section 61000 et. seq. The District began providing the residents of the Westhaven area of Humboldt County with water service on January 1, 1988.

The District's predecessor, Westhaven Mutual Water Corporation, contributed assets with a fair market value of \$230,475. Included in this value is land appraised at \$63,000 and timber appraised at \$137,000.

The District is governed by a board of five directors elected at large from the area within the District's boundaries.

**Basis of Accounting**

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**Property, Plant and Equipment**

Property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method over useful lives as follows:

General plant and equipment	5-15 years
Reservoirs, tanks and distribution system	20-50 years

**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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2**      **ACCRUED PAYROLL LIABILITIES**

Effective June, 2005, District employees accrue two weeks vacation and six holidays annually. Beginning July 1<sup>st</sup> following the tenth anniversary of employment, and continuing annually thereafter, employees shall be granted one additional day of paid time off for each additional year of employment, to a maximum of twenty-six total days per year. Accrued payroll liabilities include the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Accrued payroll	\$ 2,683	\$ 3,470
Accrued vacation	6,069	5,028
Accrued payroll taxes	<u>1,810</u>	<u>2,045</u>
	<u>\$10,562</u>	<u>\$10,543</u>

**WESTHAVEN COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**NOTE 3      STATE OF CALIFORNIA LOAN**

Construction of the District's water system was financed in part by a \$493,500 loan from the California State Department of Water Resources. Terms of the loan require 60 semi-annual payments. Beginning April 1, 1994 payments were \$13,199. On October 1, 2006 the payments were adjusted to \$13,201. The loan payments include interest at 3.41 percent. The State has a primary security interest in both the District's real and personal property. Debt service requirements of the long-term debt is summarized below:

**June 30, 2016**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	20,674	5,728	26,402
2018	21,373	5,029	26,402
2019	22,108	4,294	26,402
2020	22,861	3,541	26,402
2021	23,660	2,742	26,402
2022-2024	<u>62,757</u>	<u>3,247</u>	<u>66,004</u>
Total	<u>173,433</u>	<u>\$ 24,581</u>	<u>\$ 198,014</u>
Current Portion	<u>20,674</u>		
Long-Term Liability	<u>\$ 152,759</u>		

**June 30, 2015**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	19,963	6,439	26,402
2017	20,674	5,728	26,402
2018	21,373	5,029	26,402
2019	22,108	4,294	26,402
2020	22,861	3,541	26,402
2021-2024	<u>86,416</u>	<u>5,989</u>	<u>92,405</u>
Total	<u>193,395</u>	<u>\$ 31,020</u>	<u>\$ 224,415</u>
Current Portion	<u>19,962</u>		
Long-Term Liability	<u>\$ 173,433</u>		



**WESTHAVEN COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**NOTE 4      PARTICIPATION IN INSURANCE AUTHORITY**

The District was a member of the Special District Risk Management Authority (SDRMA). The SDRMA is an entity created by the execution of a joint exercise of powers agreement by a large number of California governmental agencies to provide liability and property insurance coverage to its members. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the SDRMA. Each entity has an equal voice in the selection of a board which oversees the SDRMA. A summary of coverage under this arrangement follows:

General and auto liability, public officials' and employees' errors and omissions, employment practices, and employee benefits	\$2.5 million per occurrence
Public Officials Personal Liability	\$500,000 per loss
Employee Dishonesty Coverage	\$400,000 per loss
Property loss	Replacement cost

Management has no knowledge of any district liability for any reported or unreported claims.

Below is a summary of SDRMA's balance sheet as of June 30, 2016 and 2015. The District's share of these assets and liabilities has not been determined.

	<u>2016</u>	<u>2015</u>
Total Assets	<u>\$ 111,015,788</u>	<u>\$ 108,604,290</u>
Liabilities	\$ 58,754,717	\$ 59,619,796
Net Position	<u>52,261,071</u>	<u>48,984,494</u>
Total Liabilities and Net Position	<u>\$ 111,015,788</u>	<u>\$ 108,604,290</u>

**NOTE 5      RESTRICTED CASH**

Restricted cash consists of cash on deposit with the District's fiscal agent, Umpqua Bank. This account is maintained pursuant to a State of California Department of Water Resources loan requirement. Terms of the loan require that \$1,320 be accumulated semi-annually to build a loan repayment reserve account equal to two semi-annual loan payments during the first ten years of the loan repayment period. The balance of this account was \$26,400 for both of the fiscal years ended June 30, 2016 and 2015. The repayment period began April 1, 1994. The reserve has been fully funded.

**WESTHAVEN COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**NOTE 6      CASH**

Cash balance consists of the following at June 30, 2016 & 2015:

	<u>2016</u>	<u>2015</u>
Cash on hand and in banks <i>umpqua ck</i>	\$ 51,977	\$ 55,000
Cash in Humboldt County treasury	115,928	168,642
Cash in Local Agency Investment Fund	43,547	43,391
 Total Cash	 \$ 211,452	 \$ 267,033

The District's cash in Humboldt County treasury is pooled with other Humboldt County funds and invested by the County Treasurer for the purpose of maximizing investment earnings. The pooled funds are invested principally in securities insured or registered. A portion of the pool consists of deposits with financial institutions. Deposits in excess of the federally insured maximum are collateralized according to an agent of the County in the County's name and, therefore, are considered to be uncollateralized and uninsured under Governmental Accounting Standards Board Statement 3.

The funds deposited in the Local Agency Investment Fund are invested in accordance with Government Code Sections 16430 and 16480, the stated investment authority for the Pooled Money Investment Account.

**NOTE 7      CAPITAL ASSETS**

Capital asset activity for the period ending June 30, 2015 is as follows:

	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 158,497	\$ -	\$ -	\$ 158,497
Buildings	2,991	-	-	2,991
Machinery and equipment	29,259	2,213	-	31,472
Reservoirs and tanks	58,826	40,838	-	99,664
Water system	1,164,877	57,482	-	1,222,359
Office equipment	5,578	-	-	5,578
Accumulated depreciation	(773,143)	(39,850)	-	(812,993)
 Net capital assets	 \$ 646,885	 \$ 60,683	 \$ -	 \$ 707,568



**WESTHAVEN COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**NOTE 7**      **CAPITAL ASSETS (Continued)**

Capital asset activity for the period ending June 30, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 158,497	\$ -	\$ -	\$ 158,497
Buildings	2,991	-	-	2,991
Machinery and equipment	31,472	-	-	31,472
Reservoirs and tanks	99,664	9,801	-	109,465
Water system	1,222,359	454,438	-	1,676,797
Office equipment	5,578	-	-	5,578
Accumulated depreciation	<u>(812,993)</u>	<u>(38,788)</u>	<u>-</u>	<u>(851,781)</u>
Net capital assets	<u>\$ 707,568</u>	<u>\$ 425,451</u>	<u>\$ -</u>	<u>\$ 1,133,019</u>

**NOTE 8**      **RETIREMENT PLAN**

During fiscal year ended June 30, 2012 the District developed an agreement to provide retirement benefits to its eligible employees through a Simplified Employee Pension Plan (SEP) in accordance with Internal Revenue Code Section 408(K). Under the SEP, the District makes contributions directly to each employee's Individual Retirement Account (IRA). The IRA to which the District contributes is referred to as a SEP-IRA.

The District is not statutorily required to make any contributions to the SEP-IRAs of eligible employees. Discretionary contributions are elected on an annual basis. The maximum contribution that can be made is the lesser of \$41,000 or 25% of the employee's compensation.

During the year ended June 30, 2016 and 2015 the District made contributions totaling \$4,430 and \$4,671 respectively.

**NOTE 9**      **SUBSEQUENT EVENTS**

Subsequent events were evaluated through May 10, 2017, which is the date the financial statements were available to be issued.

**WESTHAVEN COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**NOTE 10**      **PRIOR PERIOD ADJUSTMENT**

The need for a prior period adjustment was discovered during the audit of fiscal year ended June 30, 2015. The error resulted in an understatement of grant revenue and an understatement of capital assets. The grant revenue and capital assets were not properly recognized in the year in which expenses were incurred. Accordingly, a prior period adjustment totaling \$50,116 was made during fiscal year ended June 30, 2015 to increase accounts receivable and capital asset accounts.

Prior period adjustment activity for June 30, 2015 is as follows:

Expenditures not previously capitalized	\$ 35,110
Accrued grant revenue	<u>15,006</u>
	<u>\$ 50,116</u>

**WESTHAVEN COMMUNITY SERVICES DISTRICT**

**Management Letter**

**June 30, 2016 & 2015**

GENE A. EKLUND, CPA  
JO ANN HUNT, CPA  
ROBERT W. SUTTER, CPA  
LARRY E. WOOD, CPA  
BRYAN D. REESER, CPA  
BRADLEY S. WILLIAMSON, CPA  
DAVID K. MONROE, EA



1680 SUTTER ROAD  
McKINLEYVILLE, CA 95519  
(707) 822-4835  
FAX (707) 822-6219  
www.jacksonandeklund.com

WILLIAM F. JACKSON, CPA 1919 - 2006

Board of Directors  
Westhaven Community Services District  
Trinidad, California

In planning and performing our audit of the basic financial statements of Westhaven Community Services District as of and for the year ended June 30, 2016 and 2015, 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, we considered Westhaven Community Services District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Westhaven Community Services District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying current year recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

May 10, 2017

**WESTHAVEN COMMUNITY SERVICES DISTRICT**  
**Management Letter**  
**For the Fiscal Years Ending June 30, 2016 and 2015**

**CURRENT YEAR RECOMMENDATIONS:**

**RECOMMENDATION 1**

JOURNAL ENTRIES SHOULD BE REVIEWED DURING THE YEAR AND ACCOUNTS SHOULD BE RECONCILED AT YEAR END.

During our audit, we noted several accounting errors. We noted the audit adjustment from the 6/30/14 audit had not been entered. Also, we noted journal entries that were made for internal reporting purposes that are not in accordance with Generally Accepted Accounting Principles. These entries were not reconciled at year end.

**RECOMMENDATION 2**

INVOICES NEED TO BE ACCRUED BASED ON WHEN GOODS AND SERVICES ARE RECEIVED.

During our audit, we noted several paid invoices for goods and services received in the prior fiscal year that were not properly accrued. This is not in accordance with Generally Accepted Accounting Principles.

This finding is considered to be a material weakness.

**RECOMMENDATION 3**

REVENUE RECOGNITION SHOULD BE PROPERLY RECORDED AND IN THE CORRECT PERIOD.

During our audit, we noted three grants where the revenue recognized did not equal the expenditures related to the grant resulting in revenue being understated. This is not in accordance with Generally Accepted Accounting Principles.

This finding is considered to be a material weakness.

**WESTHAVEN COMMUNITY SERVICES DISTRICT**  
**Management Letter**  
**For the Fiscal Years Ending June 30, 2016 and 2015**

\*\*\*\*\*

*We wish to express our appreciation for the cooperation and courtesy extended to us by you and your staff.*