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WYNOLA WATER DISTRICT
REPORT ON EXAMINATION OF
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2012 AND 2011

WYNOLA WATER DISTRICT

INTRODUCTORY SECTION

JUNE 30, 2012

**WYNOLA WATER DISTRICT
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JUNE 30, 2012**

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WYNOLA WATER DISTRICT

FINANCIAL SECTION

JUNE 30, 2012



INDEPENDENT AUDITORS' REPORT

Board of Directors
Wynola Water District
Julian, California

We have audited the accompanying statements of net position of the Wynola Water District as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net position, and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Wynola Water District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wynola Water District as of June 30, 2012 and 2011, 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, and with the accounting systems prescribed by the State Controller's office and state regulations governing special districts.

The Management's Discussion and Analysis on pages 4 through 8 is not a required part of the basic financial statements, but is Supplementary Information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2012, on our consideration of the Wynola Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

INDEPENDENT AUDITORS' REPORT

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Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Wynola Water District. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Hosaka, Rotherham & Company

San Diego, California
August 31, 2012

**WYNOLA WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

As management of the Wynola Water District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of two main parts (1) Management's Discussion and Analysis and, (2) Basic Financial Statements.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB No. 34 established financial reporting standards for state and local governments, including cities, villages and special purpose governments.

FINANCIAL HIGHLIGHTS

- The District's ending Total Net Position balance was \$353,154.
- The Change in Net Position for the year was an increase of \$198.
- The District had a loss from operations of \$10,892, compared to a gain from operations of \$3,889 in the previous year.
- This year the District had \$10,393 worth of additions to capital assets compared to no additions last year.
- The District's Budget for this year showed a deficiency of expenditures under revenue (before Transfers) of \$11,000 compared to the actual amount of excess expenditures over revenue of \$10,892.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's audit report is comprised of four components: 1) financial statements and notes, 2) supplementary information, 3) reports on compliance and internal control, and 4) findings and recommendations.

Basic financial statements. The basic financial statements include District financial statements and fund statements.

The District, as a whole, is reported in the District statements and uses accounting methods similar to those used by companies in the private sector.

The *Statement of Net Position*, a District statement, presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. 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.

**WYNOLA WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

The *Statement of Revenues, Expenses and Changes in Net Position*, a District statement, presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position is 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 only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* provides information regarding the District's cash receipts and cash disbursements during the year.

The *Notes to the Basic Financial Statements* are included to provide more detailed data and explain some of the information in the statements.

The *Supplementary Information* gives an overview of the operations of the District and the governing body and outlines assessed property valuation.

Reports on Compliance and Internal Control encompass the independent auditor's reports showing compliance with *Government Auditing Standards* and provides additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *Findings and Questioned Costs* section notes material weaknesses in the system and recommendations.

DISTRICT'S FINANCIAL ANALAYSIS

Statement of Net Position

To begin our analysis, a summary of the District's Statement of Net Position is presented in Table 1 below for the current year and the prior year.

Net position may serve over time, as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$353,154 as of June 30, 2012.

Total assets increased 1.6% from the prior fiscal year mostly due to an increase in investments.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, and equipment); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its constituents; consequently, these assets are not available for future spending.

The District's financial position is the product of several financial transactions including the net results of revenue and expense, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**WYNOLA WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

DISTRICT'S FINANCIAL ANALYSIS (CONTINUED)

Table 1
Condensed Statement of Net Position

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% of Change</u>
Assets:				
Current assets	\$ 31,334	\$ 35,234	\$ (3,900)	-11.1%
Noncurrent assets	201,799	190,726	11,073	5.8%
Capital assets, net	120,021	128,716	(8,695)	-6.8%
Total assets	<u>\$ 353,154</u>	<u>\$ 354,676</u>	<u>\$ (1,522)</u>	-0.4%
Liabilities:				
Current liabilities	\$ -	\$ 1,720	\$ (1,720)	-100.0%
Total liabilities	<u>\$ -</u>	<u>\$ 1,720</u>	<u>\$ (1,720)</u>	-100.0%
Net position:				
Net investment in capital assets	\$ 120,021	\$ 128,716	\$ (8,695)	-6.8%
Unrestricted	233,133	224,240	8,893	4.0%
Total net position	<u>\$ 353,154</u>	<u>\$ 352,956</u>	<u>\$ 198</u>	0.1%

Statement of Revenues, Expenses and Changes in Net Position

- The District's total operating revenues for the fiscal year ended June 30, 2012, excluding inter-fund transfers, decreased by \$3,709 to \$54,019. This was due primarily to the decrease in the pass-through price of water purchased for the year.
- The District's total expenses increased by \$11,072 to \$64,911.
- The excess of operating revenue over operating expenses was \$198.

The following table presents a summary of the Statement of Activities for the fiscal year ended June 30, 2012:

Table 2
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% of Change</u>
Operating revenues:				
Direct	\$ 30,125	\$ 34,347	\$ (4,222)	-12.3%
Indirect	23,894	23,381	513	2.2%
Total operating revenues	<u>54,019</u>	<u>57,728</u>	<u>(3,709)</u>	-6.4%
Operating expenses:	64,911	53,839	11,072	20.6%
Nonoperating revenues:	11,090	13	11,077	85207.7%
Change in net position	<u>\$ 198</u>	<u>\$ 3,902</u>	<u>\$ (3,704)</u>	-94.9%

**WYNOLA WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

DISTRICT'S FINANCIAL ANALYSIS (CONTINUED)

General Fund Budgetary Highlights

The General fund did not have any excess of expenditures over appropriations (instances where actual amounts exceeded budgeted amounts) in individual categories:

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

**Table 3
Changes in Capital Assets**

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% of Change</u>
Central system equipment	\$ 217,886	\$ 207,493	\$ 10,393	5.0%
Storage tanks and distribution systems	87,515	87,515	-	0.0%
Access roads and well site preparation	14,266	14,266	-	0.0%
Wells	101,282	101,282	-	0.0%
Less: accumulated depreciation	(300,928)	(281,840)	(19,088)	6.8%
Total capital assets, net	<u>\$ 120,021</u>	<u>\$ 128,716</u>	<u>\$ (8,695)</u>	-6.8%

The increase in central system equipment is due to the repairs, maintenance and replacements to pumps.

Long-Term Debt

The District had no outstanding debt as of June 30, 2012.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Wynola Water District is considered to be one of the best-managed and most cost-effective Water District in the State of California. Its water quality is excellent, its rates for water usage are very low, and its physical plant and distribution system are in reasonably good condition, despite the fact that they are now over 30 years old. A significant factor is the there are no full-time paid employees. All of the District's functions are performed by volunteers or subcontractors receiving nominal fees. While it is hoped that these favorable circumstances will continue indefinitely, realistically, the day will come when new wells, major capital replacements, and paid professional staff will be necessary.

The District Board and its many community volunteers pledge themselves to maintain, as long as possible, the current favorable operating environment and to deliver quality water and services to the community.

**WYNOLA WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

CONTACTING THE DISTRICT

Questions regarding this report should be directed to Joyce Gans, Office Manager or Robert Gans, Assistant Treasurer, at (760) 765-1746, or by mail at P.O. Box 193, Santa Ysabel, CA 92070.

Wynola Water District

**WYNOLA WATER DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2012 AND 2011**

Assets:	2012	2011
Current assets:		
Cash and cash equivalents	\$ 24,766	\$ 21,921
Accounts receivable:	6,568	13,313
Total current assets	31,334	35,234
Noncurrent assets:		
Investments	201,799	190,726
Capital assets, net of accumulated depreciation	120,021	128,716
Total noncurrent assets	321,820	319,442
Total assets	\$ 353,154	\$ 354,676
 Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$ -	\$ 1,720
Total current liabilities	-	1,720
Net position:		
Net investment in capital assets	120,021	128,716
Unrestricted	233,133	224,240
Total net assets	353,154	352,956
Total liabilities and net position	\$ 353,154	\$ 354,676

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

WYNOLA WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2012 AND 2011

	2012	2011
Operating revenues:		
Direct operating revenues:		
Water sales	\$ 22,859	\$ 25,275
Water system maintenance fees	7,266	9,072
Total direct operating revenues	30,125	34,347
Indirect operating revenues:		
Property tax revenue	23,894	23,381
Total indirect operating revenues	23,894	23,381
Total operating revenues	54,019	57,728
Operating expenses:		
Power	11,094	10,179
Repairs and maintenance	1,052	1,572
Water and well testing	10,630	2,073
Telephone	3,646	3,954
Audit and legal	3,270	4,027
Office	9,801	6,947
Insurance	3,744	4,005
Permits and dues	2,586	3,518
Depreciation	19,088	17,564
Total operating expenses	64,911	53,839
Loss from operations	(10,892)	3,889
Non-operating revenues:		
Interest income	11,090	13
Total non-operating revenues	11,090	13
Change in net position	198	3,902
Net position, beginning	352,956	349,054
Net position, ending	\$ 353,154	\$ 352,956

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

**WYNOLA WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 36,870	\$ 27,429
Receipts from County of San Diego	23,894	23,381
Payments to suppliers and vendors	(47,543)	(34,555)
Net cash provided from operating activities	13,221	16,255
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of capital assets	(10,393)	-
Net cash (used) by investing activities	(10,393)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of investments	(11,073)	(25,000)
Interest received	11,090	13
Net cash from (used in) financing activities	17	(24,987)
Net increase (decrease) in cash and cash equivalents	2,845	(8,732)
CASH AND CASH EQUIVALENTS - Beginning	21,921	30,653
CASH AND CASH EQUIVALENTS - Ending	\$ 24,766	\$ 21,921
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating gain (loss)	\$ (10,892)	\$ 3,889
Adjustments to reconcile net income from operations to net cash provided by operating activities		
Depreciation	19,088	17,564
(Increase) decrease in operating assets:		
Accounts receivable	6,745	(6,918)
Increase (decrease) in operating liabilities:		
Accounts payable	(1,720)	1,720
Net cash provided from operating activities	\$ 13,221	\$ 16,255
RECONCILIATION TO BALANCE SHEET		
Cash	\$ 24,766	\$ 21,921
Net reconciliation to balance sheet	\$ 24,766	\$ 21,921

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

**WYNOLA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

A. Summary of Significant Accounting Policies

Wynola Water District (District) accounts for its financial transactions in accordance with the policies and procedures of the Irrigation District Law, now Division 11 of the California State Water Code. The accounting policies of the District conform to accounting principles generally accepted in the United State of American (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No 14, "The Financial Reporting Entity," as amended by GASB Statement NO. 39 "Determining Whether Certain Organizations are Component Units", include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- it would be misleading or cause the financial statements to be incomplete to exclude another organization

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB statement.

2. Basis of Accounting

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its customers on a continuing basis be financed or recovered primarily through user charges (water sales and services) or similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flow took place.

Operating revenues and expenses are generated and incurred through the water sales activities to the District's customers. Administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

**WYNOLA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

A. Summary of Significant Accounting Policies (Continued)

3. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reporting.

GASB No. 34 and subsequent GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net position replaces the balance sheet and reports assets, liabilities, and the difference between them as net position, not equity. A statement of revenues, expenses, and changes in net position replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

4. Implementation of New Accounting Pronouncements

For the fiscal year ended June 30, 2012, the District was required to adopt GASB Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide guidance to include two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are required to be reported in a Statement of Net Position in a separate section following assets. Similarly, amounts reported as deferred inflows of resources are required to be reported in a Statement of Net Position in a separate section following liabilities. In addition, the totals of these two new classifications should be added to the total for assets and liabilities, respectively.

Another change to financial reporting will include new definitions and calculations of former net asset classifications—invested in capital assets, net of related debt, restricted and unrestricted. Invested in capital assets, net of related debt will be titled "Net Investment in Capital Assets." The title of the other two classifications will remain the same. The calculations used in arriving at the balances of the classifications will be similar to what they were before, but each will include the new components of deferred outflow and deferred inflow of resources consistent with the placement of assets and liabilities, respectively.

The District did not have any deferred inflows or outflows of resources at June 30, 2012. The adoption of this pronouncement resulted in a retroactive change in the term "net assets" being changed to "net position" throughout the financial statements.

**WYNOLA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

A. Summary of Significant Accounting Policies (Continued)

5. Assets, Liabilities, and Equity

a. Deposits and Investments

For purposes of the statement of cash flows, cash and cash equivalents consist of short-term highly liquid investments with maturities of ninety days or less from the date of purchase. These include cash on hand, cash held in the restricted assets accounts, and the Local Agency Investment Fund.

The District's investment policy and state statutes authorize the District to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit with national and state-licensed or chartered banks or federal or state savings and loan associations, money market and mutual funds whose portfolios consist of one or more of the foregoing investments, and the Local Agency Investment Fund.

State statutes require all deposits be insured or collateralized. Depositories holding public funds on deposit are required to maintain collateral in the form of a pool of securities with the agent of the depository having a market value of at least 10 to 50 percent in excess of the total amount of all public funds on deposit.

b. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital Assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	10-50
Water systems	10-50
Improvements of Sites	7-25
Equipment	5-10

c. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred Revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

**WYNOLA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

A. Summary of Significant Accounting Policies (Continued)

d. Interfund Activity

Interfund Activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

e. Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

f. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

**WYNOLA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

B. Cash and Cash Equivalents

The summary of cash and cash equivalents is as follows at June 30, 2012 and 2011:

	Credit Quality Rating	Fair Value	
		2012	2011
Deposits with financial institutions	Not Applicable	\$ 24,766	\$ 21,921
Total cash and cash equivalents		\$ 24,766	\$ 21,921

The summary which presents the amount of the District's deposits which are fully insured or collateralized with securities held by the District or its agent in the District's name (Category One), those deposits which are collateralized with securities held by the pledging financial institution's trust department, or agent in the District's name (Category Two), and those deposits which are not collateralized or are collateralized with securities held by the pledging financial institution, or its trust department, or agent, but not in the District's name (Category Three), is as follows at June 30, 2012 and 2011:

	Category One	Category Two	Category Three	Total Bank Balance	Carrying Amount
Deposits with Financial Institutions - 2012	\$ 25,461	\$ -	\$ -	\$ 25,461	\$ 24,766
Deposits with Financial Institutions - 2011	\$ 25,969	\$ -	\$ -	\$ 25,969	\$ 21,921

C. Investments

The District categorizes investments according to the level of risk assumed by the District. Category one includes investments that are insured or registered, with securities held by the District or its agent in the District's name. Category Two includes uninsured and unregistered investments held by the counter-party's trust department, or agent in the District's name. Category Three includes uninsured and unregistered deposits held by the counter-party, its trust department, or its agent, but not in the District's name. Certain investments have not been categorized because securities are not used as evidence of the investment. These uncategorized investments include ownership interest in pooled investment funds. A summary, which identifies the level of risk assumed by the District and the total carrying amount and market value of the District's investments are as follows at June 30, 2012 and 2011:

	Category			Uncategorized	Total Investments	Market Value
	One	Two	Three			
Morgan Stanley Investments - 2012	\$ 201,799	\$ -	\$ -	\$ -	\$ 201,799	\$ 201,799
Morgan Stanley Investments - 2011	\$ 190,726	\$ -	\$ -	\$ -	\$ 190,726	\$ 195,715

**WYNOLA WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

D. Accounts receivable

Accounts receivable as of June 30, 2012 and 2011, consist of the following:

	<u>2012</u>	<u>2011</u>
Water usage billing	\$ 6,568	\$ 13,021
Other receivables	-	292
Total accounts receivables	<u>\$ 6,568</u>	<u>\$ 13,313</u>

E. Capital assets

A schedule of changes in capital assets and accumulated depreciation for the year ended June 30, 2012 and 2011, is shown as follows:

	<u>2012</u>	
Central system equipment		\$ 217,886
Storage tanks and distribution systems		87,515
Access roads and well site preparation		14,266
Wells		101,282
Less: accumulated depreciation		<u>(300,928)</u>
Total capital assets		<u>\$ 120,021</u>
	<u>2011</u>	
Central system equipment		\$ 207,493
Storage tanks and distribution systems		87,515
Access roads and well site preparation		14,266
Wells		101,282
Less: accumulated depreciation		<u>(281,840)</u>
Total capital assets		<u>\$ 128,716</u>

F. Subsequent event

The District's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through August 31, 2012, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

WYNOLA WATER DISTRICT
SUPPLEMENTARY INFORMATION SECTION
JUNE 30, 2012

**WYNOLA WATER DISTRICT
ORGANIZATION
JUNE 30, 2012**

Name	Office	Term	Term Expires
JoAnn Bernard	President	4 Years	December 7, 2012
Malcolm Dyos	Treasurer	4 Years	December 5, 2014
Troy Beatty	Operations Director	4 Years	December 5, 2014
Ray Mitchell	Director	4 Years	December 5, 2014
Franklin Miller	Director	4 Years	December 7, 2012

Administration

Name	Position
Marie Beatty	Office Manager

**WYNOLA WATER DISTRICT
ASSESSED VALUATION
JUNE 30, 2012**

The assessed valuation of the Wynola Water District at June 30, 2012, is as follows:

Assessed valuation

Secured property	\$	24,222,108
Unsecured property		<u>19,422</u>
Total assessed valuation	\$	<u><u>24,241,530</u></u>

WYNOLA WATER DISTRICT
OTHER INDEPENDENT AUDITORS' REPORTS SECTION
JUNE 30, 2012



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

Board of Directors
Wynola Water District
Julian, California

We have audited the financial statements of the Wynola Water District (District) as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated August 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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

Page 2

Compliance and Other Matters

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

This report is intended solely for the information and use of Management, the Audit/Finance Committee, others within the entity, the Board of Directors, federal awarding agencies and pass-through entities, where applicable, and is not intended to be and should not be used by anyone other than these specified parties.

Hosaka, Rotherham & Company

San Diego, California
August 31, 2012

WYNOLA WATER DISTRICT
FINDINGS AND RECOMMENDATIONS SECTION
JUNE 30, 2012

**WYNOLA WATER DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

A. Summary of auditors' results

1. Financial statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal awards

Internal control over major programs:

One or more material weaknesses identified? N/A

One or more significant deficiencies identified that are not considered to be material weaknesses? N/A

Type of auditors' report issued on compliance for major programs: N/A

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? N/A

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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The District did not have over \$500,000 in federal expenditures

Dollar threshold used to distinguish between type A and type B programs: N/A

Auditee qualified as low-risk auditee? N/A

**WYNOLA WATER DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

B. Financial statement findings

NONE

C. Federal award findings and questioned costs

NONE

**WYNOLA WATER DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
JUNE 30, 2012**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None	N/A	N/A