

**INDEPENDENCE RANCH
COMMUNITY SERVICES DISTRICT**

Independent Auditor's Report
and
Financial Statements

For the Years Ended
June 30, 2011 and 2012

INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
For the Years Ended June 30, 2011 and 2012

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INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT
BOARD OF DIRECTORS
June 30, 2012

BOARD OF DIRECTORS

<u>NAME</u>	<u>TERM EXPIRES</u>
Mark Kenyon, President	December 7, 2014
George Tracy, Vice President	December 6, 2012
Carol Noe, Director	December 6, 2012
Don Duke, Director	December 7, 2014
John Hunter, Director	December 6, 2012

CROSBY COMPANY, CERTIFIED PUBLIC ACCOUNTANT

1457 MARSH STREET, SUITE 100 - SAN LUIS OBISPO, CA 93401

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Independent Auditor's Report

Board of Directors
Independence Ranch Community Services District
San Miguel, California

I have audited the accompanying financial statements of the governmental activities of the Independence Ranch Community Services District, for the years ending June 30, 2011 and 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with U.S. generally accepted auditing standards. Those standards require that I 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. I believe my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Independence Ranch Community Services District as of June 30, 2011 and 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, management has elected not to include a management discussion and analysis. This analysis is not a required part of the basic financial statements but is supplementary information normally required by U.S. generally accepted accounting principles.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Information on pages 10 through 11 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.



CROSBY COMPANY
Certified Public Accountant

October 2, 2012

INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT

STATEMENT OF NET ASSETS

June 30, 2011 and 2012

ASSETS

Cash in Bank
 Cash with San Luis Obispo County Treasury
 Prepaid expenses

Total assets

LIABILITIES

Accounts payable

Total liabilities

NET ASSETS

Unrestricted

Total net assets

Street Maintenance	
	Street Maintenance
	<div style="display: flex; justify-content: space-around;"> <u>2011</u> <u>2012</u> </div>
\$ 93,769	\$ 22,225
1,759	1,759
22	80
\$ 95,550	\$ 24,064
\$ -	\$ -
\$ -	\$ -
\$ 95,550	\$ 24,064
\$ 95,550	\$ 24,064

The accompanying notes are an integral part of the financial statements

INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT

STATEMENT OF ACTIVITIES For the Years Ending June 30, 2011 and 2012

	<u>2011</u>	<u>2012</u>
Governmental activities expenses:		
General government - street maintenance	\$ 72,143	\$ 143,597
Total expenses	72,143	143,597
General Revenues:		
Taxes:		
Property taxes	62,500	62,500
Grant income	52,183	9,559
Investment income	50	52
Total general revenues, investment and transfers	114,733	72,111
Change in net assets	42,590	(71,486)
Net Assets, Beginning of Year	52,960	95,550
Net Assets, End of Year	\$ 95,550	\$ 24,064

The accompanying notes are an integral part of the financial statements

INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT

BALANCE SHEET Governmental Funds June 30, 2011 and 2012

ASSETS

Cash in Bank
Cash with San Luis Obispo County Treasury
Prepaid expenses

Total assets

LIABILITIES AND FUND BALANCES

Accounts payable

Total liabilities

Fund balances:

Nonspendable
Assigned

Total fund balances

Total liabilities and fund balances

Street Maintenance	
<u>2011</u>	<u>2012</u>
\$ 93,769	\$ 22,225
1,759	1,759
22	80
\$ 95,550	\$ 24,064
-	-
22	80
95,528	23,984
95,550	24,064
\$ 95,550	\$ 24,064

INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET

TO THE STATEMENT OF NET ASSETS

June 30, 2011 and June 30, 2012

Total fund balances - government funds at June 30, 2011

\$	95,550
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Amounts reported for governmental activities in the statement of net assets are different because:

No differences

-

Net assets of governmental activities at June 30, 2011

\$	95,550
----	--------

Total fund balances - government funds at June 30, 2012

\$	24,064
----	--------

Amounts reported for governmental activities in the statement of net assets are different because:

No differences

-

Net assets of governmental activities at June 30, 2012

\$	24,064
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INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

Governmental Funds

For the Year Ended June 30, 2011 and 2012

	General Fund	
	<u>2011</u>	<u>2012</u>
Revenues:		
Property taxes	\$ 62,500	\$ 62,500
Grant income	52,183	9,559
Interest income	50	52
Total revenues	114,733	72,111
Expenditures:		
Fees and dues	530	373
General overhead	18,103	10,604
Street maintenance	53,369	132,477
Utilities	141	143
Total expenditures	72,143	143,597
Excess of revenues over (under) expenditures	42,590	(71,486)
Fund balance at beginning of the year	52,960	95,550
Fund balance at end of the year	\$ 95,550	\$ 24,064

The accompanying notes are an integral part of the financial statements

INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ending June 30, 2011 and 2012

Net Change in Governmental Fund Balances at June 30, 2011

	\$ 42,590
	-
	\$ 42,590

Amounts reported for governmental activities in the statement of activities are different because:

No differences

Change in Net Assets of Governmental Activities at June 30, 2011

Net Change in Governmental Fund Balances at June 30, 2012

	\$ (71,486)
	-
	\$ (71,486)

Amounts reported for governmental activities in the statement of activities are different because:

No differences

Change in Net Assets of Governmental Activities at June 30, 2012

INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Budget and Actual - Governmental Funds

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 62,500	\$ 62,500	\$ 62,500	\$ -
Grant income			52,183	52,183
Interest income	408	408	50	(358)
Total revenues	62,908	62,908	114,733	51,825
Expenditures:				
Dues	490	490	164	326
Election costs	400	400	166	234
Fees	500	500	200	300
General manager/secretary	7,200	7,200	8,553	(1,353)
Insurance	1,240	1,240	2,244	(1,004)
Internet expense			120	(120)
Office supplies	300	300	628	(328)
Professional fees	6,000	6,000	6,150	(150)
Road repair and maintenance	39,059	39,059	53,369	(14,310)
Travel	400	400	375	25
Utilities	144	144	141	3
Miscellaneous	925	925	33	892
Total expenditures	56,658	56,658	72,143	(15,485)
Excess of revenues over expenditures	\$ 6,250	\$ 6,250	42,590	\$ 36,340
Fund balance at beginning of year			52,960	
Fund balance at end of year			\$ 95,550	

The accompanying notes are an integral part of the financial statements

INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Budget and Actual - Governmental Funds

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 62,500	\$ 62,500	\$ 62,500	\$ -
Grant income	9,559	9,559	9,559	
Interest income	78	78	52	(26)
Total revenues	72,137	72,137	72,111	(26)
Expenditures:				
Dues	175	175	169	6
Fees	200	200	204	(4)
General manager/secretary	8,400	8,400	7,965	435
Insurance	1,100	1,100	982	118
Interest expense			433	(433)
Internet expense	156	156	156	
Office supplies	300	300	82	218
Rent - meeting facilities			265	(265)
Road repair and maintenance	150,015	150,015	132,477	17,538
Travel	100	100		100
Utilities	140	140	143	(3)
Weed abatement	600	600	456	144
Miscellaneous			265	(265)
Total expenditures	161,186	161,186	143,597	17,589
Excess of revenues over (under) expenditures	\$ (89,049)	\$ (89,049)	(71,486)	\$ 17,563
Fund balance at beginning of year			95,550	
Fund balance at end of year			\$ 24,064	

The accompanying notes are an integral part of the financial statements

INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2012

NOTE 1: ORGANIZATION

The Independence Ranch Community Services District (District) was formed in 1992. It is a political subdivision of the State of California and operates under a Board of Directors form of government. The District provides street maintenance and road improvement services for 125 parcels.

The District complies with U.S. Generally Accepted Accounting Principles and all relevant Governmental Accounting Standards Board pronouncements. These technical pronouncements establish criteria for determining the organization's activities and functions that are included in the financial statements of a governmental unit. Management has elected not to include a management discussion and analysis, which is not a required part of the basic financial statements but is supplementary information normally required by U.S. generally accepted accounting principles. The general ledger and budgetary projections are maintained by the District.

The District is a member of the Special District Authority Risk Management Joint Powers Agency, which was organized for the purpose of providing general liability, automobile, errors and omissions, and property loss insurance coverage to special districts. This organization is financed through premium charges to each member.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 and 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 statement. 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, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains losses, assets, and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement number 33.

See Auditor's report

INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

Fund financial statements for the primary government are presented after the government-wide financial statements. In the fund financial statements, the governmental fund is presented using the modified – accrual basis of accounting. The 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 availability criteria for the governmental fund in the fund financial statements. 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 non-exchange 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 in the period for which they were imposed, when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, the governmental fund is presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. 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.

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

When both restricted and unrestricted resources are combined in a fund, expenditures are considered to be paid first from restricted resources, and then from unrestricted resources.

Budgets and Budgetary Accounting

An annual budget is adopted by the Board of Directors at the start of each year. The budget is revised by the District’s governing Board during the year to give consideration to unanticipated income and expenditures. All unencumbered appropriations in the budget lapse at the end of the year.

See Auditor’s report

INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

Encumbrances

Encumbrance accounting is used for the General Fund. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year but are carried forward as reserved fund balance until liquidated.

Cash and Cash Equivalents

The District considers all highly liquid investments including money market accounts to be cash and cash equivalents.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2011 and 2012 are recorded as prepaid expenses.

Property Taxes/Taxes Receivable

The County of San Luis Obispo bills and collects property taxes for the District. The County charges the District for these services. Tax revenues are recognized by the District in the year received. Management has determined that an allowance for doubtful accounts is zero because of the District's credit policies and collection experience.

Concentrations

The District provides street maintenance services to customers located in the Independence Ranch community, in the County of San Luis Obispo. Consequently, its ability to collect taxes from the County of San Luis Obispo may be affected by economic fluctuations, within this region and within the State of California as a whole.

See Auditor's report

INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2012

NOTE 3: CASH AND CASH EQUIVALENTS

The values of cash and cash equivalents at June 30, 2011 and 2012 are summarized as follows:

	<u>2011</u>	<u>2012</u>
Demand deposits	\$ 93,769	\$ 22,225
Cash and investments with County Treasury	<u>1,759</u>	<u>1,759</u>
Totals	\$ <u>95,528</u>	\$ <u>23,984</u>

The California Government Code requires California banks and savings and loan associations to secure a district's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a district's deposits. California law also allows financial institutions to secure district deposits by pledging first trust deed mortgage notes having a value of 150% of a district's total deposits. The District may waive collateral requirements for deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Effective October 3, 2008, the FDIC temporarily increased insured deposits up to \$250,000 and is scheduled to return to \$100,000 after December 31, 2013.

Credit Risk, Carrying Amount, and Market Value

Cash is classified in three categories of credit risk as follows:

- Category 1 - insured or collateralized with securities held by the entity or by its agent in the entity's name;
- Category 2 - collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name; and
- Category 3 - uncollateralized.

Investments in pools managed by other governments (County of San Luis Obispo) or in mutual funds are not required to be categorized.

At June 30, 2011 and 2012, the carrying amount of the District's cash deposits was \$95,528 and \$23,984, respectively. The bank balances were \$95,528 and \$23,984, respectively. Any difference would be due to the normal deposits in transit and outstanding checks. District cash deposits by category as of June 30, 2011 and 2012, are as follows:

	<u>1</u>	<u>Category</u> <u>2</u>	<u>3</u>	<u>Bank</u> <u>Balance</u>	<u>Carrying</u> <u>Amount</u>
Bank accounts - 2011	\$ <u>95,528</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>95,528</u>	\$ <u>95,528</u>
Bank accounts - 2012	\$ <u>23,984</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>23,984</u>	\$ <u>23,984</u>

See Auditor's report

INDEPENDENCE RANCH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2012

NOTE 4: LINE OF CREDIT

A line of credit was established on June 12, 2012 for \$50,000. This line of credit had a zero balance at June 30, 2011 and June 30, 2012. The interest rate is variable, based on 2% over West Coast Prime rate, with an interest rate floor of 6% and an interest rate ceiling of 30%. The line of credit matures June 30, 2013.

NOTE 5: JOINT POWERS AUTHORITY

The District is a member of the Special District Risk Management Authority (S.D.R.M.A.), an intergovernmental risk sharing joint powers authority, created pursuant to California Government Code Sections 6500 et.seq. In becoming a member of the S.D.R.M.A., the District elected to participate in the risk financing program(s) listed below for the program periods July 1, 2010 through July 1, 2012.

General Liability: Special District Risk Management Authority, coverage number LCA SDRMA 201112. This covers \$2,500,000 per occurrence.

Public Officials and Employees Errors: Special District Risk Management Authority, coverage number LCA SDRMA 201112. This covers \$2,500,000 per occurrence/general aggregate.

Personal Liability Coverage for Board Members: Special District Risk Management Authority, coverage number LCA SDRMA 201112. This covers \$500,000 per occurrence/general aggregate.

Employment Practices Liability: Special District Risk Management Authority, coverage number LCA SDRMA 201112. This covers \$2,500,000 per occurrence/general aggregate.

Employee Benefits Liability: Special District Risk Management Authority, coverage number LCA SDRMA 201112. This covers \$2,500,000 per occurrence/general aggregate.

Employee Dishonesty Coverage: Special District Risk Management Authority, coverage number EDC SDRMA 201112. This covers \$400,000 per occurrence.

Auto Liability: Special District Risk Management Authority, coverage number LCA SDRMA 201112. This policy covers \$2,500,000 per occurrence for personal injury and property damage.

Uninsured/Under Insured Motorist: Special District Risk Management Authority, coverage number UMI SDRMA 201112. This covers \$750,000 each accident.

See Auditor's report