

**WALLACE COMMUNITY SERVICES DISTRICT**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2008**

**WALLACE COMMUNITY SERVICES DISTRICT  
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Blomberg & Griffin Accountancy Corporation  
Certified Public Accountant

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
**Wallace Community Services District**  
Wallace, California

We have audited the accompanying basic financial statements of the Wallace Community Services District, as of and for the year's ended June 30, 2008 and 2007 as listed in the table of contents. These basic financial statements are the responsibility of Wallace Community Services District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and in accordance with guidance provided by the State of California's State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the Wallace Community Services District as of June 30, 2008 and 2007 and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special District's.

As described in Note 11 to the financial statements, in 2003 the District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Managements Discussion and Analysis – for state and local Governments, which changed the presentation of the financial statements. This results in a change to the District's method of accounting for capital contributions and change in the format and content of the basic financial statements.

*Blomberg & Griffin A.C.*  
Blomberg & Griffin Accountancy Corporation  
March 25, 2008

**WALLACE COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED June 30, 2008 and 2007**

Our management's discussion and analysis of the Wallace Community Services District's financial performance provides an overview of the District's financial activities for the year's ended June 30, 2008 and 2007. Please read it in conjunction with the District's basic financial statements, which begin on page 6.

**Basic Financial Statements**

The District's basic financial statements include four components:

- Statement of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Combined Statement of Cash Flows
- Notes to the Financial Statements

The Statement of Net Assets includes all of the District's assets and liabilities, with the difference between the two reported as net assets.

The Statement of Net Assets provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenue, expenses and changes in net assets present information, which shows how, the District's net assets changed during each year. All of the year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statements of revenue, expenses and changes in net assets measure the success of the District's operations during the year and determine whether the District has recovered its costs through user fees and other charges.

The statements of cash flows provide information regarding the District's cash receipts and cash disbursements during the year. These statements report cash activity in four categories:

- Operating
- Noncapital financing
- Capital financing and Related Financing
- Investing

These statements differentiate from the statement of revenues, expenses and changes in equity by only accounting for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

**WALLACE COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED June 30, 2008 and 2007**

**FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2008**

- The District's net assets decreased by \$49,056 or 1.86 percent from \$2,640,939 to \$2,591,883.
- Operating revenues increased by \$8,700 or 4.10 percent from \$212,031 to \$220,731.
- Total operating expenses decreased by \$14,705 or 4.87 percent from \$301,998 to \$287,293.
- Total of \$29,604 were spent in work in progress during the fiscal year ended June 30, 2008

**FINANCIAL ANALYSIS OF THE DISTRICT**

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets provide an indication of the District's financial condition and also indicate that the financial condition of the District improved during the last fiscal year. The District's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

**ASSETS**

A summary of the District's Statement of Net Assets is presented below.

**Table 1**

Condensed Statements of Net Assets

	2008	2007	Dollar Change	Percent Change	2006	Dollar Change	Percent Change
<b>Current and Other Assets:</b>							
Current Assets	\$ 482,335	\$ 457,719	\$ 24,616	5.38%	\$ 468,206	\$ (10,487)	2.29%
Capital Assets	2,198,220	2,252,376	(54,156)	-2.40%	2,319,319	(66,943)	2.89%
<b>Total Current and Other Assets</b>	<u>2,680,555</u>	<u>2,710,095</u>	<u>(29,540)</u>	<u>-1.09%</u>	<u>2,787,525</u>	<u>(77,430)</u>	<u>-2.67%</u>
Other Liabilities	88,672	69,156	19,516	28.22%	69,816	(660)	-0.95%
<b>Total Liabilities</b>	<u>88,672</u>	<u>69,156</u>	<u>19,516</u>	<u>28.22%</u>	<u>69,816</u>	<u>(660)</u>	<u>-0.95%</u>
Net Assets Invested in capital assets net of related debt	2,198,220	2,234,476	(36,256)	-1.62%	2,319,319	(84,843)	-3.66%
Designated Net Assets	341,770	303,634	38,136	12.56%	311,354	(7,720)	-2.48%
Undesignated Net Assets	51,893	102,829	(50,936)	-49.53%	87,036	15,793	18.15%
<b>Total Net Assets</b>	<u>2,591,883</u>	<u>2,640,939</u>	<u>(49,056)</u>	<u>-1.86%</u>	<u>2,717,709</u>	<u>(76,770)</u>	<u>-2.82%</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 2,680,555</u>	<u>\$ 2,710,095</u>	<u>\$ (29,540)</u>	<u>-1.09%</u>	<u>\$ 2,787,525</u>	<u>\$ (77,430)</u>	<u>-2.78%</u>

**WALLACE COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED June 30, 2008 and 2007**

As the above table indicates, total assets decreased by \$35,697 from \$2,710,095 to \$2,680,555 during the fiscal year ended June 30, 2008. This is comprised of an increase of \$24,616 in current and other assets and a net decrease of \$54,156 in capital assets.

Total liabilities reflect an increase of \$19,516.

Table 1 also indicates that total net assets decreased by \$49,056 from \$2,640,939 to 2,591,883. This decrease is primarily due to depreciation of \$90,616. For the fiscal year ended June 30, 2006 total assets decreased by \$5,101 from \$2,792,626 to \$2,787,525.

Table 2  
Condensed Statements of Revenues, Expenses  
and Changes in Net Assets

	2008	2007	Dollar Change	Percent Change	2006	Dollar Change	Percent Change
Operating Revenues	\$ 220,731	\$212,031	\$ 8,700	4.10%	\$182,544	\$29,487	16.15%
Non operating Revenues	11,349	12,042	(693)	-5.75%	11,344	698	6.15%
<b>Total Revenues</b>	<b>232,080</b>	<b>224,073</b>	<b>8,007</b>	<b>3.57%</b>	<b>193,888</b>	<b>30,185</b>	<b>15.57%</b>
Depreciation Expense	90,616	90,616	0	0.00%	90,295	321	0.36%
Other Operating Expenses	183,667	193,591	(9,924)	-5.13%	135,322	58,269	43.06%
Non operating Expenses	13,010	17,791	(4,781)	-26.87%	20,276	(2,485)	-12.26%
<b>Total Expenses</b>	<b>287,293</b>	<b>301,998</b>	<b>(14,705)</b>	<b>-4.87%</b>	<b>245,893</b>	<b>56,105</b>	<b>22.82%</b>
Changes in Net Assets	(55,213)	(77,925)	22,712	-29.15%	(52,005)	(25,920)	49.84%
Beginning Net Assets	2,640,939	2,717,709	(76,770)	-2.82%	2,769,714	(52,005)	-1.88%
Prior period adjustment	6,157	1,155	5,002	433.07%		1,155	2.82%
<b>Ending Net Assets</b>	<b>\$ 2,591,883</b>	<b>\$ 2,640,939</b>	<b>\$ (49,056)</b>	<b>-1.86%</b>	<b>\$ 2,717,709</b>	<b>\$ (76,770)</b>	<b>-2.82%</b>

The Statements of Revenues, Expenses and Changes in Net Assets identified the various revenue and expense items which affect the change in net assets. As the information in Table 2 indicated the change in Net Assets is mainly due to an excess of operating expenses over operating revenues of \$55,213 with an overall decrease of \$49,056 in Net Assets by the end of the fiscal year 2008.

For the fiscal year ended June 30, 2007, net assets decreased by \$76,770. The excess of operating expenses over operating revenues of \$77,925 was the main item that resulted in this decrease in net assets. Total revenues for the fiscal year ended June 30, 2007 increased by \$30,185. Total expenses increased by \$56,105 due mainly to an overall increase in operating costs.

Table 2 indicates that the District's total revenues increased by \$8,007 or 4.10 percent to \$232,080 in the fiscal year ended June 30, 2008 from \$224,073 the prior year. The increase in revenue was primarily due to increases in service income of \$8,700. Total expenses decreased by \$14,705 or 4.87 percent during the fiscal year. This decrease is due mainly to an overall decrease in operating costs.

**WALLACE COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED June 30, 2008 and 2007**

**CAPITAL ASSETS**

As of June 30, 2008, the District's investment in capital assets totaled \$2,198,220, which is a net decrease of \$54,156 or 2.40 percent over the capital asset balance of \$2,252,376 at June 30, 2007. The District's investment in capital showed a net decrease of \$66,943 in the fiscal year ended June 30, 2007. A comparison of the District's capital assets over the past three fiscal years is presented in Note D of the financial statements.

**LONG-TERM DEBT**

There was no Long-Term Debt as of June 30, 2008 or June 30, 2007.

**ECONOMIC FACTORS**

The Board of Directors adopts the District's budget on an annual basis which provides funding for the District's operation, and costs for the upcoming fiscal year. The District's water and sewer rates are reviewed by staff and the Board of Directors on an as-needed basis. The District's primary source of revenue comes from water and sewer fees, assessments of landowners and interest income.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Wallace Community Services District's General Manager at P.O. Box 398, Wallace, CA 95254, and Telephone (209) 763-2882.

**WALLACE COMMUNITY SERVICES DISTRICT**  
**STATEMENTS OF NET ASSETS**  
For the Years Ended June 30, 2008 and 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b><u>ASSETS</u></b>		
<b>Current Assets</b>		
Cash on Hand and in Banks	\$ 110,062	\$ 135,857
Accounts Receivable	30,503	18,228
Total Unrestricted Current Assets	<u>140,565</u>	<u>154,085</u>
Restricted Cash and Investments	<u>341,770</u>	<u>303,634</u>
Total Current Assets	<u>482,335</u>	<u>457,719</u>
<b><u>CAPITAL ASSETS</u></b>		
Non depreciable Capital Assets		
Land	481,002	481,002
Capital Works in Progress	47,504	17,900
Depreciable Capital Assets		
Waste Water Treatment Facility-Sewer	1,562,835	1,562,835
Plant and Equipment-Water	903,995	897,139
Roads	-	-
Miscellaneous Equipment	25,017	25,017
Total Depreciable Capital Assets	<u>2,491,847</u>	<u>2,484,991</u>
Accumulated Depreciation	<u>(822,133)</u>	<u>(731,517)</u>
Total Capital Assets	<u>2,198,220</u>	<u>2,252,376</u>
Total Current Assets and Capital Assets	<u>\$ 2,680,555</u>	<u>\$ 2,710,095</u>
<b><u>LIABILITIES</u></b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 25,209	\$ 19,344
Auditors Accounts Payable	11,374	-
Accounts Payable - Developer Deposits	52,089	49,812
Total Current Liabilities	<u>88,672</u>	<u>69,156</u>
<b><u>NET ASSETS</u></b>		
Invested in Capital Assets, net of Related Debt	2,198,220	2,252,376
Restricted	341,770	303,634
Unrestricted	51,893	84,929
Total Net Assets	<u>2,591,883</u>	<u>2,640,939</u>
Total Current Liabilities and Net Assets	<u>\$ 2,680,555</u>	<u>\$ 2,710,095</u>

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

**WALLACE COMMUNITY SERVICES DISTRICT**  
**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**  
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b><u>OPERATING REVENUES</u></b>		
Service Income	\$ 149,511	\$ 134,311
Connection Fees	-	6,500
Assessments	<u>71,220</u>	<u>71,220</u>
Total Operating Revenue	<u>220,731</u>	<u>212,031</u>
<b><u>OPERATING EXPENSES</u></b>		
Accounting	428	4,215
Advertising	219	438
Bank Charges	12	42
Director's Fees	1,800	1,950
Repairs and Maintenance	26,128	54,935
Utilities	11,393	10,140
Depreciation	90,616	90,616
Salaries	66,160	53,405
Taxes and Licenses	5,298	4,731
Travel and Mileage	4,008	2,193
Workers Compensation Insurance	3,878	3,828
Other Benefits (Health Insurance)	3,420	-
Insurance	6,534	6,534
Office Supplies and Data Processing	6,021	7,778
Professional Services	17,949	18,980
Chemicals and Testing Supplies	29,155	23,728
Services	956	632
Miscellaneous	<u>308</u>	<u>62</u>
Total Operating Expenses	<u>274,283</u>	<u>284,207</u>
Net Income (Loss) From Operations	<u>\$ (53,552)</u>	<u>\$ (72,176)</u>
<b><u>NON OPERATING INCOME (EXPENSES)</u></b>		
Interest Income	11,599	10,042
Investment Income	-	-
Other Income	(250)	2,000
Other Expenditures	<u>(13,010)</u>	<u>(17,791)</u>
Total Non Operating Income (Expenses)	<u>(1,661)</u>	<u>(5,749)</u>
Total Net Income (Loss)	(55,213)	(77,925)
Beginning Net Assets	2,640,939	2,717,709
Prior Period Adjustment	<u>6,157</u>	<u>1,155</u>
Ending Net Assets	<u>\$ 2,591,883</u>	<u>\$ 2,640,939</u>

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

**WALLACE COMMUNITY SERVICES DISTRICT**  
**COMBINED STATEMENT OF CASH FLOWS**  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Cash received from Customers	\$ 210,733	\$ 256,133
Other Operating Receipts (Expenses)	(13,260)	(15,791)
Cash Payments for Goods and Services	(100,268)	(190,658)
Cash Payments to Employees	(66,160)	(53,405)
Net Cash Provided (Used) by Operating Activities	31,045	(3,721)
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>		
Prior Period Adjustment	6,157	1,306
Acquisition of Fixed Assets	(6,856)	(5,924)
Capital Work in Progress	(29,604)	(17,900)
Net Cash Provided (Used) by Capital and Related Financing Activities	(30,303)	(22,518)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Receipts of Interest	11,599	10,042
Net Cash Provided (Used) by Investing Activities	11,599	10,042
Net Increase (Decrease) in Cash	12,341	(16,197)
Cash and Cash Equivalents, Beginning of Year	439,491	455,688
Cash and Cash Equivalents, End of Year	\$ 451,832	\$ 439,491
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED) OPERATING ACTIVITIES</u></b>		
Net Income from Operations	\$ (53,552)	\$ (72,176)
Other Receipts (Expenses)	(13,260)	(15,791)
Adjusted Income	(66,812)	(87,967)
Depreciation	90,616	90,616
(Increase) Decrease in Accounts Receivable	(12,275)	(5,710)
Increase (Decrease) in Accounts Payable	17,239	(660)
Increase (Decrease) in Developer Deposits	2,277	-
Net Cash Provided (Used) by Operating Activities	\$ 31,045	\$ (3,721)

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

**WALLACE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

A summary of significant accounting policies consistently applied in the preparation of the financial statement follows.

**Business Activity**

The District provides water and sewer services to the Wallace area residents. In addition, the District provides Street Light, Garbage collection, LPG Distribution and open space maintenance and repair for the Wallace Lake Estates Subdivision.

**Reporting Entity**

The District management considered all potential component units for inclusion in the reporting entity by applying the criteria set forth in generally accepted accounting principles. The District concluded that there are no potential component units, which should be included in the reporting entity.

**Basis of Accounting**

The financial statements are prepared in accordance with generally accepted accounting principles (GAAP) and the uniform accounting system prescribed by the controller of the State of California. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments. The District uses proprietary fund accounting and follows all Governmental Accounting Standard Board pronouncements. The financial statements are prepared in accordance with GASB Statement No. 34 (GASB 34), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The preparation of a Management Discussion and Analysis to clarify the District's financial activities is also required by GASB 34.

**Budgetary Accounting**

The District does not adopt an appropriated budget and is not required to adopt such a budget by law. However, the District does adopt a non-appropriated budget annually, which is approved by the Board of Directors.

**WALLACE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE A - SUMMARY OF ACCOUNTING POLICIES** (Continued)

**Budgetary Basis of Accounting**

While the District reports financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented as RSI for each major governmental fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

	<u>Net Change in Net Assets</u>	
	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Budget Basis	\$ 70,657	\$ 115,496
Adjustments (net)		
Revenue Accruals	(4,417)	(113,396)
Expenditure - Depreciation	(616)	(90,616)
Expenditure - Accruals	(10,411)	10,591
GAAP Basis	<u>\$ 55,213</u>	<u>\$ (77,925)</u>

**Excess of expenditures over appropriations**

For the year ended June 30, 2008 actual operating expenditures were less than budgeted totals by \$4,687 and for June 30, 2007 expenditures exceeded budgeted totals by \$80,025 respectively. The 2008 actual expenditure were less than budgeted because of inclusion of depreciation expense in the budget, not provided in previous years. The 2007 expenditure exceeded the budget because of omission of Depreciation expense in the 2007 budget. The budgeted expenditures of \$298,320 in the fiscal year ended June 30, 2008 was expected to be offset by expected revenues of \$227,663. The budgeted expenditures of \$204,182 in the fiscal year ended June 30, 2007 was expected to be offset by expected revenues of \$319,678.

**Cash Equivalents**

For the purpose of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Retained Earnings (unreserved-designated)**

Retained earnings (unreserved - designated) represent board designation of net assets for capital improvements and acquisitions.

**WALLACE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)**

**Governing Board**

The governing board of the District consists of the following five directors:

<u>Name</u>	<u>Position</u>
Charles Cantoni	President
Richard Guantone	Vice President
Floran Schneider	Director
Mark Fussehnan	Director
William Pugh	Director

**Property, Plant, and Equipment**

Property, plant, and equipment are stated at cost. When cost could not be determined from the available records, estimated historical cost was used to record the estimated value of the assets. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer.

The Fixed Assets were donated to the District by the developer of the land encompassing the District. The Union Safe Deposit Bank, who financed the project, foreclosed the developer, and an agreement was reached between all the parties whereby the District would acquire the assets and maintain them in the future. The values for land were derived from property tax values established by the Calaveras County Assessor's office as of that date of transfer. The values for Sewer and Water Facilities were the fair market values for these facilities as of the date of transfer and were established from bids received from Union Safe Deposit Bank for the entire completed development.

Depreciation is charged, as an expense against operations, and accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation.

The estimated useful lives for each major class of depreciable fixed assets are as follows:

Pumping and Transmission Equipment	10-50 years
Office Equipment	3-7 years
Vehicles	10 years
Buildings	35 years

**WALLACE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE B - CASH AND INVESTMENTS**

The District deposits its cash with commercial banks. Water and Sewer Assessments are billed and collected by Calaveras County Treasurer on behalf of the District. These billings earn interest while being held by the treasurer's office and are later turned over to the District. They are then deposited into the District's bank accounts.

Cash held in banks and on hand at cost, which also approximates market value is as follows:

	<u>2008</u>	<u>2007</u>
General Checking	\$ 9,576	\$ 20,892
Payroll Checking	3,676	4,464
Cash in Pooled Funds - County	96,810	110,501
Cash on Hand and in Banks	<u>110,062</u>	<u>135,857</u>
Schwab One Account	-	-
Water Capital Improvement	20,102	22,000
Sewer Capital Improvement	227,571	220,146
Repair and Maintenance Reserve	30,000	-
Cash - Developers	52,089	49,813
Architectural Account	12,008	11,674
Restricted Cash Investment	<u>\$ 341,770</u>	<u>\$ 303,633</u>

The Federal Depository Insurance Corporation insures cash balances held in banks up to \$250,000. All cash held by financial institutions are fully insured or collateralized

Investments at June 30, 2008 and 2007, held on behalf of the District, are presented below, categorized separately to give an indication of the level of risk associated with each investment.

	2008			<u>Carrying Value</u>	<u>Fair Value</u>
	<u>Category</u>				
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash in Banks	\$ 13,252	\$ -	\$ -	\$ 13,252	\$ 13,252
Pooled Funds	438,580	-	-	\$ 438,580	\$ 438,580
Money Market Accounts	-	-	-	-	\$ -
	<u>\$ 451,832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 451,832</u>	<u>\$ 451,832</u>

**WALLACE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE B - CASH AND INVESTMENTS** (Continued)

2007

	<u>Category</u>			<u>Carrying Value</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash in Banks	\$ 25,356	\$ -	\$ -	\$ 25,356	\$ 25,356
Pooled Funds	414,134	-	-	414,134	414,134
Money Market Accounts	-	-	-	-	-
	<u>\$ 439,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 439,490</u>	<u>\$ 439,490</u>

Category 1: Insured or registered, or securities held by the District or its agent in the District's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the District's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, its trust department, or its agent, but not held in the District's name.

**NOTE C - ACCOUNTS RECEIVABLE**

Accounts receivables are stated at their realizable value as of June 30, 2008 and 2007. Most of the District's business activity is with customers within the service District. The District's receivables from residential and commercial customers for June 30, 2008 and June 30, 2007 were \$20,085 and \$5,648. The District has not reserved a portion of the ending receivable as a reserve for doubtful accounts because the District has experienced little or no loss on accounts receivable in prior years and California Water Code allows the attachment of a lien against the debtors' property.

**WALLACE COMMUNITY SERVICES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE D – PROPERTY, PLANT AND EQUIPMENT**

The District maintains detailed records of the cost of property, plant and equipment. Costs and estimated costs of such assets have been accumulated as follows:

	Balance	Additions	Balance	Additions	Balance
	6/30/06	(Decrease) (Depreciation)	6/30/07	(Decrease) (Depreciation)	6/30/08
Capital Work in Progress	\$ -	\$ 17,900	\$ 17,900	\$ 29,604	\$ 47,504
Waste Water Treatment Facility - Sewer	1,559,087	3,748	1,562,835	-	1,562,835
Plant and Equipment	894,963	2,176	897,139	6,856	903,995
Miscellaneous Equipment	25,017	-	25,017	-	25,017
Land	481,002	-	481,002	-	481,002
Accumulated Depreciation	(640,750)	(90,616)	(731,366)	(90,616)	(821,982)
Prior Period Adjustment	-	(151)	(151)	-	(151)
Total Net Fixed Assets	<u>\$ 2,319,319</u>	<u>\$ (66,943)</u>	<u>\$ 2,252,376</u>	<u>\$ (54,156)</u>	<u>\$ 2,198,220</u>

**NOTE E - POSSIBLE FUTURE FACILITY EXPANSION**

The District has considered expanding the number of customers it currently serves which would require additional capital expenditures.

**WALLACE COMMUNITY SERVICES DISTRICT**  
**SUPPORTING SCHEDULE OF BOARD DESIGNATED INVESTMENTS**  
For the Years Ended June 30, 2008 and June 30, 2007

	<u>2008</u>	<u>2007</u>
Cash - Water Capital Improvements	\$ 20,102	\$ 22,000
Cash - Sewer Capital Improvements	227,571	220,146
Cash - Repair and Maintenance	30,000	-
Cash - Architectural Account	12,008	11,674
Cash - Developers	<u>52,089</u>	<u>49,813</u>
Total	<u>\$ 341,770</u>	<u>\$ 303,633</u>

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

**WALLACE COMMUNITY SERVICES DISTRICT**  
**SCHEDULE OF ACTUAL BUDGET AND VARIANCE**  
For Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Actual vs Budget Positive (Negative)</u>
<b><u>OPERATING REVENUES</u></b>			
Service Income	\$ 148,020	\$ 134,311	\$ (13,709)
Connection Fees	62,500	6,500	(56,000)
Assessments	77,900	71,220	(6,680)
Total Operating Revenue	<u>288,420</u>	<u>212,031</u>	<u>(76,389)</u>
<b><u>OPERATING EXPENSES</u></b>			
Accounting	6,670	4,215	2,455
Advertising	500	438	62
Bank Charges	94	42	52
Director's Fees	2,400	1,950	450
Dues and Subscriptions	10,386	-	10,386
Repairs and Maintenance	48,500	54,935	(6,435)
Utilities	17,749	10,140	7,609
Depreciation	-	90,616	(90,616)
Salaries	47,000	53,405	(6,405)
Engineering	12,000	7,198	4,802
Taxes and Licenses	3,705	4,731	(1,026)
Travel and Mileage	1,200	2,193	(993)
Workers Compensation Insurance	5,796	3,828	1,968
Liability Insurance	4,800	6,534	(1,734)
Office Supplies and Data Processing	3,708	7,778	(4,070)
Professional Services	16,098	11,782	4,316
Chemicals and Testing Supplies	23,326	23,728	(402)
Miscellaneous	250	694	(444)
Total Operating Expense	<u>204,182</u>	<u>284,207</u>	<u>(80,025)</u>
Net Income (Loss) from Operations	<u>84,238</u>	<u>(72,176)</u>	<u>(156,414)</u>
<b><u>NON OPERATING INCOME</u></b>			
<b><u>(EXPENSE)</u></b>			
Interest Income	7,918	12,042	4,124
Other Income (Expense)	23,340	(17,791)	(41,131)
Other Expenditures	-	-	-
Total Other Income (Expense)	<u>31,258</u>	<u>(5,749)</u>	<u>(37,007)</u>
Excess of Revenue Over (Under) Expenses	<u>\$ 115,496</u>	<u>\$ (77,925)</u>	<u>\$ (193,421)</u>

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

**WALLACE COMMUNITY SERVICES DISTRICT**  
**SCHEDULES OF ACTUAL BUDGET AND VARIANCE**  
For Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	Variance with Actual vs Budget Positive (Negative)
<b><u>OPERATING REVENUES</u></b>			
Service Income	\$ 151,113	\$ 149,511	\$ (1,602)
Connection Fees	-	-	-
Assessments	71,200	71,220	20
Total Operating Revenue	<u>222,313</u>	<u>220,731</u>	<u>(1,582)</u>
<b><u>OPERATING EXPENSES</u></b>			
Accounting	2,000	428	1,572
Advertising	400	219	181
Bank Charges	70	12	58
Director's Fees	3,600	1,800	1,800
Repairs and Maintenance	41,800	26,128	15,672
Utilities	11,300	11,393	(93)
Depreciation	90,000	90,616	(616)
Salaries	57,534	66,160	(8,626)
Engineering	7,700	(592)	8,292
Taxes and Licenses	5,753	5,298	455
Travel and Mileage	2,000	4,008	(2,008)
Workers Compensation Insurance	5,753	3,878	1,875
Other Benefits (Health Insurance)	-	3,420	(3,420)
Insurance	6,600	6,534	66
Office Supplies and Data Processing	8,660	6,021	2,639
Professional Services	10,100	18,541	(8,441)
Chemicals and Testing Supplies	25,700	29,155	(3,455)
Services	-	956	(956)
Other Expenditures	-	308	(308)
Total Operating Expense	<u>278,970</u>	<u>274,283</u>	<u>4,687</u>
Net Income (Loss) from Operations	<u>(56,657)</u>	<u>(53,552)</u>	<u>3,105</u>
<b><u>NON OPERATING INCOME</u></b>			
<b><u>(EXPENSE)</u></b>			
Interest Income	2,000	11,599	9,599
Other Income (Expense)	3,350	(250)	(3,600)
Other Expenditures	(19,350)	(13,010)	6,340
Total Other Income (Expense)	<u>(14,000)</u>	<u>(1,661)</u>	<u>12,339</u>
Excess of Revenue Over (Under) Expenses	<u>\$ (70,657)</u>	<u>\$ (55,213)</u>	<u>\$ 15,444</u>

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

**WALLACE COMMUNITY SERVICES DISTRICT**  
**SUPPORTING SCHEDULE OF INSURANCE IN FORCE**  
 June 30, 2008

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended June 30, 2008 and 2007, the District carried insurance through various commercial carriers, including Special District Risk Mgmt Authority, to cover all risks of losses. The District has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

<u>Policy</u>	<u>Coverage</u>
Workers Compensation	Statutory
Property - Buildings, Contents and Equipment	Replacement Cost
Employee Dishonesty	\$ 400,000
General, Automobile and Wrongdoing Acts per Occurrence	\$ 2,500,000
Directors Liability	\$ 500,000
Boiler and Machinery	Replacement Cost up to 100 million



Blomberg & Griffin Accountancy Corporation  
Certified Public Accountant

April 4, 2009

Wallace Community Service District  
PO Box 398  
Wallace, CA 95237

Dear Ms. Barbara Kascht

Enclosed you will find 6 copies of the Wallace Community Service District Financial Statements and Independent Auditor's Report for June 30, 2008.

Thank you for your assistance and we look forward to working with you again.

Should you have any questions or need additional copies please contact our office.

Sincerely,

Zoeb Khambati, CPA