

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017**

# LAKE SHASTINA COMMUNITY SERVICES DISTRICT

## Table of Contents

Independent Auditor's Report.....	1
Management Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	9
Statement of Activities.....	10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	11
Reconciliation of the Governmental Funds Balance Sheet to the	
Government-Wide Statement of Net Position – Governmental Activities.....	12
Statement of Revenues, Expenditures and Changes in Fund Balances.....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes	
In Fund Balances of Governmental Funds to the Government-Wide	
Statement of Activities – Governmental Activities.....	14
Proprietary Funds:	
Statement of Net Position.....	15
Statement of Revenues, Expenses and Changes in Net Position.....	16
Statement of Cash Flows.....	17
Notes to the Financial Statements.....	18
Required Supplementary Information:	
Budgetary Comparison Schedule:	
General Fund.....	27
Police Fund.....	28
Fire Fund.....	29
Schedule of the Plan's Proportionate Shares of the Net Pension Liability.....	30
Schedule of District Pension Contributions .....	31
Note to the Required Supplementary Information.....	32
Report on Internal Control Over Financial Reporting and on Compliance and	
Other Matters Based on an Audit of Financial Statements Performed in	
Accordance With <i>Government Auditing Standards</i> .....	33
Schedule of Findings .....	35

# LARRY BAIN, CPA

An Accounting Corporation

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Lake Shastina Community Services District  
Weed, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lake Shastina Community Service District, as of and for the year ended June 30, 2017, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

### **Opinion**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the Lake Shastina Community Service District as of June 30, 2017, and the changes in financial position, of those activities and funds for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–8, the budgetary comparison for the General fund, Police Fund and Fire Fund on pages 27-29 the District's Employees' Retirement System Schedule of the District's Proportionate Share of the Net Pension Liability and the Retirement System Schedule of the District's Contributions on pages 30-31; 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 (GASB), 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.

## **Other Information**

In accordance with *Government Auditing Standards*, we have also issued a report dated March 1, 2018 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting, compliance and other matters and the results of that testing and not to provide an opinion of the internal control over financial reporting, compliance or on other matters.

**Larry Bain, CPA,**  
**An Accounting Corporation**  
March 1, 2018

**Lake Shastina Community Services District**  
**Required Supplementary Information**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2017**

**Management's Discussion and Analysis**

This section of the District's Financial Statement presents our analysis of the District's financial performance for the Fiscal Year that ended June 30, 2017. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

**The District's Operation – an Overview**

The LSCSD is a special district formed under Government Code §61000 to operate and manage the community's Wastewater Treatment Plant/System (WWTP), the Drinking Water System (DWS), Police services and Fire services. The major activities of the District include the collection and treatment of domestic wastewater for the community of Lake Shastina, operate the pumping, storage and distribution of drinking water, manage the Lake Shastina Police Department and administer the Lake Shastina Fire Department. Lake Shastina is one of four special districts in the State that has police services as a latent power. The operation and maintenance of the WWTP and the DWS are funded through service fees, while the capital improvements are funded through grants and low interest loans through the State Water Resources Control Board. Loans are repaid through service fees. The operation and maintenance of the Lake Shastina Police and Fire Departments are funded through taxes and grants, including an annual COPS grant that offsets the cost of one full-time officer. The Fire Department participates in the California Mutual Aid Plan and receives reimbursement for personnel and equipment assigned to major fires throughout the state. The District is a post Prop 13 special district and as such gets no tax money from the county or state. Capital improvements are also funded through tax revenue and grants. Additional revenue is from the lease of a medical building the District owns, cellular antennas leases, animal control fees and miscellaneous grants and donations.

Lake Shastina was planned as a second home recreational area in 1968, which has evolved into a community consisting of retirees and families. The District was formed in 1978; the DWS was transferred to the District from the Lake Shastina Mutual Water Company in 2003 in an as-is condition. The WWTP and the DWS have several problem areas due to aging infrastructure. The District has embarked on aggressive improvement projects in order to improve the overall wastewater and water systems and the safety of the community and the environment. We recently received a planning grant for wastewater and are pursuing drinking water system improvement grants. The recently approved wastewater planning grant is for the planning of upgrades and rehabilitation of the community's wastewater system. The results and findings determined from the planning grant will possibly lead to additional State and Federal Grants or minimally assist in finding loans to make the necessary capital improvements for the District.

The Lake Shastina Police Department recently increased its staffing level to two full-time Patrol Officers, one part-time Patrol Officer, one full-time Police Sergeant and a part-time Chief of Police. This addition came as a result of a successful tax measure placed on the ballot in November of 2016. This ballot measure increased the tax revenue for police services to \$110 per year per property. This was the first increase in the Police tax in 20 years and amounts to an increase of just \$3.75 per month per property owner.

The Lake Shastina Fire Department is a volunteer department with one full-time Fire Chief. The Department is one of the best trained volunteer departments in the County and has participated in several local government strike teams throughout Northern California during this year's fire season as part of the California Mutual Aid Plan. The Strike Teams have brought in revenue from the State and Federal governments for staffing and the use of our equipment. It is anticipated the revenue generated this year will be over \$200,000.

**Lake Shastina Community Services District**  
**Required Supplementary Information**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2017**

**Basic Financial Statements**

In accordance with the Government Accounting Standards Board (GASB) Statement No. 34, the District's basic financial statements include a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

The Statement of Net Assets includes the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The difference between the assets and liabilities is shown as net assets. This statement also provides the basis of evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The Statement of Revenues, Expenses and Changes in Net Assets accounts for the current year's revenues and expenses. This statement measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash disbursements and net changes in cash resulting from operations and investments during the reporting period.

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

**Financial Highlights**

- Current Assets decreased over the last year by \$913 in cash and cash equivalents.
- Fixed Assets decreased by \$593,660 over the same period reflecting the depreciation of the assets and the purchase of a used pick-up for a Fire Chief vehicle.
- Change in Total Assets over the last year amounts to \$(594,573).
- Total Liabilities were reduced by \$355,377 reflecting prior period corrections, principal payments to the Water Department loan for the Medical Clinic Building and \$37,626 for the principal payment to City Bank for the Sewer Pond Improvement Project.
- The District's Net Income was \$(56,665) and the LAIF reserves were decreased by \$199,843.

**Capital Assets**

The WWTP Capital Improvement Projects include the upgrade and rehabilitation of the aging wastewater system for the safety of the community and the environment. Projects include 20 lift station sump and pump upgrades improving the safety of the stations and reducing the energy usage, develop sludge drying beds and head works containment as mandated by the Regional Board, line evaporation pond and start rehabilitation on manholes and collection lines as recommended by the SWRCB SSO program, a SCADA system for automatic alarms and remote operation, Photovoltaic solar system for energy reduction and general upgrades to plant infrastructure.

The DWS Capital Improvement Projects include the upgrade, rehabilitation and expansion of the aging drinking water system for the safety of the community and the environment. Projects include developing new wells for the long term and drought protection of the water supply for the community, reline four

**Lake Shastina Community Services District**  
**Required Supplementary Information**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2017**

storage tanks, refurbish two booster stations, rehabilitate three wells, replace meters, upgrade telemetry and SCADA system, Cathodic Protection Replacement, rehabilitate fire hydrant system and general upgrades to system infrastructure.

Our Water, Sewer, Police and Fire Departments maintain a very aged fleet of equipment and vehicles. A majority of the equipment and fleet have well surpassed the "useful life" expectancy as described under the Fixed Assets portion of the Summary of Significant Accounting Policies. A separation of the LSCSD and the LSPOA has resulted in a division of equipment, limiting the Water and Sewer Departments' access to a fully functional Backhoe, Dump Truck, Trailers and other Maintenance Equipment.

The District continues to pay down the Water Department loan for the Medical Clinic Building and the loan for the Sewer Pond Improvements. The main priorities of the District Board are to make the necessary improvements to the Wastewater and Water Systems with grant funding in order to develop safe, reliable and environmentally friendly systems, building District Reserves, strengthening the Police Department, fully equip the Fire Department, add additional leases for cellular towers and establish uniform and effective rate structures.

#### **Long-Term Debt**

The District continues to pay down the Water Department loan for the Medical Clinic Building and the loan for the Sewer Pond Improvements.

#### **Economic Factors and Next Year's Budget**

The District has applied for a \$500,000 Planning Grant from the State Water Resources Control Board Drinking Water SRF for the planning and design for a major Improvement and Rehabilitation Project for the Drinking Water System.

The District has applied for grants through FEMA for Hazard Mitigation focusing on ground water storage and supply of generators to provide power back up to the wells and pumps within the District.

The main priorities of the District Board are to make the necessary improvements to the Wastewater and Water Systems with grant funding in order to develop safe, reliable and environmentally friendly systems, building District Reserves, strengthening the Police Department, fully equip the Fire Department, add additional leases for cellular towers and establish uniform and effective rate structures.

#### **Contacting the District Administrator**

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact the General Manager, Lake Shastina Community Services District, 16320 Everhart Dr., Weed CA 96094.

# LAKE SHASTINA COMMUNITY SERVICES DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 589,903	\$ 1,589,358	\$ 2,179,261
Receivables			
General receivables	24,796	33,355	58,151
Unbilled service receivables	24,191	202,495	226,686
Delinquent accounts-tax roll	148,701	112,583	261,284
Grant receivable	9,947		9,947
Interest receivable	1,270		1,270
Due from others	8,360		8,360
Prepaid expense	22,543	5,152	27,695
Inventory		22,981	22,981
Total current assets	<u>829,711</u>	<u>1,965,924</u>	<u>2,795,635</u>
Noncurrent assets			
Intergovernmental advance	(417,519)	417,519	-
Asset held for investment	389,263		389,263
Capital assets:			
Nondepreciable capital assets			
Land	37,506	31,433	68,939
Construction in progress		124,534	124,534
Depreciable capital assets			
Infrastructure		8,575,996	8,575,996
Land improvements		21,318	21,318
Structures and improvements	426,089	289,889	715,978
Equipment and vehicles	1,249,432	306,324	1,555,756
Less accumulated depreciation	<u>(1,236,491)</u>	<u>(5,102,791)</u>	<u>(6,339,282)</u>
Total capital assets (net of accumulated depreciation)	<u>476,536</u>	<u>4,246,703</u>	<u>4,723,239</u>
Total noncurrent assets	<u>448,280</u>	<u>4,664,222</u>	<u>5,112,502</u>
Total assets	<u>1,277,991</u>	<u>6,630,146</u>	<u>7,908,138</u>
Deferred outflows of resources			
Deferred outflows-pensions	<u>55,601</u>	<u>150,330</u>	<u>205,931</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expense	31,864	7,663	39,528
Accrued payroll	23,953	6,841	30,794
Capital lease-current		37,626	37,626
Compensated absences	<u>11,280</u>	<u>21,078</u>	<u>32,358</u>
Total current liabilities	<u>67,097</u>	<u>73,208</u>	<u>140,305</u>
Noncurrent liabilities			
Net pension liability	207,278	560,419	767,697
Capital lease-due in more than one year		364,918	364,918
Compensated absences	<u>16,919</u>	<u>21,079</u>	<u>37,998</u>
Total noncurrent liabilities	<u>224,197</u>	<u>946,416</u>	<u>1,170,613</u>
Total Liabilities	<u>291,294</u>	<u>1,019,624</u>	<u>1,310,919</u>
Deferred inflows of resources			
Deferred inflows-pensions	<u>25,701</u>	<u>69,491</u>	<u>95,192</u>
Net Position			
Net investment in capital assets	476,536	4,209,078	4,685,614
Unrestricted	<u>540,061</u>	<u>1,482,283</u>	<u>2,022,344</u>
Total Net Position	<u>\$ 1,016,597</u>	<u>\$ 5,691,361</u>	<u>\$ 6,707,958</u>

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



# LAKE SHASTINA COMMUNITY SERVICES DISTRICT

## STATEMENT OF ACTIVITIES JUNE 30, 2017

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General	\$ 80,695	\$ -	\$ -	\$ -	\$ (80,695)	\$ -	\$ (80,695)
Public safety	672,330	463,991		258,695	50,356		50,356
Total Governmental Activities	753,025	463,991	-	258,695	(30,339)		(30,339)
Business-type activities:							
Water	575,431	468,426				(107,005)	(107,005)
Sewer	545,126	588,955				43,830	43,830
Interest	25,543					(25,543)	(25,543)
Total Business-type Activities	1,146,099	1,057,382	-			(88,718)	(63,175)
Total	\$1,899,124	\$ 1,521,373	\$ -	\$ 258,695	(30,339)	(88,718)	(93,514)
General Revenues:							
Rental income					80,942		80,942
Gain on sale of equipment						7,486	7,486
Other					17,759		17,759
Investment income					3,946	14,762	18,707
Total general revenues					102,647	22,248	124,895
Change in net position					72,308	(66,470)	5,838
Net position - beginning					649,144	6,074,956	6,724,100
Prior period adjustment					295,145	(317,125)	(21,980)
Net position - ending					\$ 1,016,597	\$ 5,691,361	\$ 6,707,958

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

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2017**

	Major Special Revenue Funds				Total Governmental Funds
	General Fund	Police	Fire	Cops Grant	
<b>Assets</b>					
Cash and investments	\$ 185,193	\$ 319,637	\$ 85,073	\$ -	\$ 589,903
Receivables					
Accounts	8,087	16,507	202		24,796
Assessments		24,191			24,191
Delinquent accounts-tax roll		107,177	41,524		148,701
Grants			5,733	4,214	9,947
Interest	404	656	210		1,270
Due from other fund		91,168			91,168
Prepaid expense	13,971	3,784	1,596	3,192	22,543
Due from others	8,360				8,360
Total Assets	<u>\$ 216,015</u>	<u>\$ 563,120</u>	<u>\$ 134,338</u>	<u>\$ 7,406</u>	<u>\$ 920,879</u>
<b>Liabilities and Fund Equity</b>					
<b>Liabilities</b>					
Accounts payable	\$ 19,436	\$ 5,620	\$ 1,379	\$ 5,427	\$ 31,862
Accrued payroll	12,264	7,088	1,260	3,341	23,953
Due to other funds				91,168	91,168
Advance from other fund	417,519				417,519
Total Liabilities	<u>449,219</u>	<u>12,708</u>	<u>2,639</u>	<u>99,936</u>	<u>564,502</u>
<b>Fund Equity</b>					
Fund balances					
Nonspendable					
Prepaid expense	13,971	3,784	1,596	3,192	22,543
Assigned for police		546,628		(95,722)	450,906
Assigned for fire			130,103		130,103
Unassigned	(247,175)				(247,175)
Total Fund Equity	<u>(233,204)</u>	<u>550,412</u>	<u>131,699</u>	<u>(92,530)</u>	<u>356,377</u>
Total Liabilities and Fund Equity	<u>\$ 216,015</u>	<u>\$ 563,120</u>	<u>\$ 134,338</u>	<u>\$ 7,406</u>	<u>\$ 920,879</u>

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

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

Fund Balances of Governmental Funds	\$ 356,377
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, are not current financial resources and are not included in the governmental funds.	476,536
Assets held for investment are not current financial resources and are not included in the governmental funds	389,263
Some liabilities, including long-term debt, accrued interest and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	
Compensated absences	(28,199)
Net pension liability, deferred inflows/outflows	<u>(177,379)</u>
Net position of governmental activities	<u><u>\$ 1,016,597</u></u>

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

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	General Fund	Major Special Revenue Funds			Total Governmental Funds
		Police	Fire	Cops Grant	
Revenues					
Assessments	\$ -	\$ 338,108	\$ 115,447	\$ -	\$ 453,555
Intergovernmental revenues			129,372	129,324	258,696
Use of money and property	82,506	1,905	477		84,888
Licenses and permits		4,940			4,940
Other	4,446	9,957	8,853		23,256
Total Revenues	86,952	354,910	254,149	129,324	825,335
Expenditures					
Current:					
General administration	81,326				81,326
Public protection-police		230,235		172,369	402,604
Public protection-fire			228,268		228,268
Interest expense	3,323				3,323
Capital outlay	9,000		53,223		62,223
Total Expenditures	93,649	230,235	281,491	172,369	777,744
Excess (Deficit) of Revenues over Expenditures	(6,697)	124,675	(27,342)	(43,045)	47,591
Fund Balances, July 1, 2016	(229,117)	425,737	159,041	(49,485)	306,176
Prior Period Adjustment	2,610				2,610
Fund Balances, June 30, 2017	\$ (233,204)	\$ 550,412	\$ 131,699	(92,530)	\$ 356,377

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

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES-GOVERNMENTAL ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Net Change in Fund Balances - Total Governmental Funds	\$	47,591
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Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets are allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized		62,224
Depreciation expense		(59,367)

Changes in proportions from the pension do not effect expenditures in the governmental funds, but the change is adjusted through expense in the government-wide statement.		9,575
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Compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds.		12,285
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Change in net position of governmental activities	\$	<u>72,308</u>
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**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Water	Sewer	Totals
Current Assets:			
Cash and investments	\$ 1,036,933	\$ 552,425	\$ 1,589,358
General receivables	18,403	14,952	33,355
Unbilled services receivable	84,048	118,447	202,495
Delinquent accounts-tax roll	66,729	45,854	112,583
Prepaid expense		5,152	5,152
Inventory	17,475	5,506	22,981
Total current assets	<u>1,223,588</u>	<u>742,336</u>	<u>1,965,924</u>
Noncurrent Assets			
Advances to other funds	417,519		417,519
Capital assets:			
Nondepreciable capital assets:			
Land	26,136	5,297	31,433
Construction in progress	38,747	85,787	124,534
Depreciable capital assets			-
Infrastructure	2,224,302	6,351,694	8,575,996
Land improvements	21,318		21,318
Structures and improvements	172,905	116,984	289,889
Equipment and vehicles	234,086	72,238	306,324
Less accumulated depreciation	<u>(1,640,935)</u>	<u>(3,461,856)</u>	<u>(5,102,791)</u>
Total capital assets (net of accumulated depreciation)	<u>1,011,676</u>	<u>3,079,060</u>	<u>4,090,736</u>
Total noncurrent assets	<u>1,494,078</u>	<u>3,170,144</u>	<u>4,664,222</u>
Total Assets	<u>\$ 2,717,666</u>	<u>\$ 3,912,480</u>	<u>\$ 6,630,146</u>
Deferred Outflows of Resources			
Deferred outflows from pensions	<u>63,838</u>	<u>86,492</u>	<u>150,330</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expense	6,290	1,373	7,663
Accrued payroll	2,376	4,465	6,841
Compensated absences-current	9,739	11,339	21,078
Capital lease-current		37,626	37,626
Total current liabilities	<u>18,405</u>	<u>54,803</u>	<u>73,208</u>
Noncurrent liabilities			
Compensated absences-noncurrent	11,340	9,739	21,079
Net pension liability	237,986	322,433	560,419
Capital lease payable-noncurrent		364,918	364,918
Total noncurrent liabilities	<u>249,326</u>	<u>697,090</u>	<u>946,416</u>
Total Liabilities	<u>267,731</u>	<u>751,893</u>	<u>1,019,624</u>
Deferred Inflows of Resources			
Deferred inflows from pensions	<u>29,510</u>	<u>39,981</u>	<u>69,491</u>
Net position:			
Net investment in capital assets	1,494,078	2,767,600	4,261,678
Unrestricted	<u>990,185</u>	<u>439,498</u>	<u>1,429,683</u>
Total Net Position	<u>\$ 2,484,263</u>	<u>\$ 3,207,098</u>	<u>\$ 5,691,361</u>

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

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Water	Sewer	Totals
Operating Revenues			
Charges for services	\$ 454,889	\$ 547,124	\$ 1,002,012
Other	8,699	5,589	14,289
Total Operating Revenues	463,588	552,713	1,016,301
Operating Expenses			
Salary and benefits	189,076	166,915	355,991
Services and supplies	248,885	209,746	458,630
Depreciation expense	137,470	168,465	305,935
Total Operating Expenses	575,431	545,126	1,120,557
Operating Income	(111,843)	7,587	(104,256)
Non-operating Revenue (Expense)			
Connection fees	4,838	36,243	41,081
Interest revenue	11,539	3,223	14,762
Gain on sale of equipment	3,743	3,743	7,486
Interest expense		(25,543)	(25,543)
Total Non-operating Revenue (Expense)	20,120	17,666	37,786
Change in net position	(91,723)	25,253	(66,470)
Net Position, July 1, 2016	2,790,639	3,284,317	6,074,956
Prior year adjustment	(214,653)	(102,472)	(317,125)
Net Position, June 30, 2017	\$ 2,484,263	\$ 3,207,098	\$ 5,691,361

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

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
JUNE 30, 2017**

	Water	Sewer	Totals
<b>Cash Flows from Operating Activities</b>			
Cash received from customers	\$ 453,672	\$ 542,141	\$ 995,812
Cash payments to suppliers	(262,758)	(216,361)	(479,119)
Cash payments to employees	(178,355)	(171,139)	(349,494)
Net Cash Provided By Operating Activities	12,559	154,641	167,200
<b>Cash Flows from Non-Capital Financing Activities</b>			
Payment for interfund advances	40,677		40,677
Net Cash Provided (Used) By Noncapital Financing Activities	40,677	-	40,677
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchases of capital assets	(178,707)	(87,364)	(266,071)
Gain on sale of assets	3,743	3,743	7,486
Principal paid on debt		(35,482)	(35,482)
Interest paid on debt		(25,543)	(25,543)
Connection fees	4,838	36,243	41,081
Net Cash Provided (Used) By Capital And Related Financing Activities	(170,126)	(108,403)	(278,529)
<b>Cash flows from investing activities:</b>			
Interest received on investments	11,539	3,223	14,762
Net Increase (Decrease) in Cash and Cash Equivalents	(105,351)	49,460	(55,891)
Cash and Cash Equivalents, July 1, 2016	1,142,284	502,965	1,645,249
Cash and Cash Equivalents, June 30, 2017	<u>\$ 1,036,933</u>	<u>\$ 552,425</u>	<u>\$ 1,589,358</u>
Reconciliation of Cash and Cash Equivalents:			
Cash and investments	<u>\$ 1,036,933</u>	<u>\$ 552,425</u>	<u>\$ 1,589,358</u>
Reconciliation of operating income to net cash flows from operating activities:			
Operating income	\$ (111,843)	\$ 7,587	\$ (104,256)
Noncash items included in operating loss:			
Depreciation	137,470	168,465	305,935
Changes in:			
General receivables	(1,503)	(4,550)	(6,052)
Unbilled service receivables	(1,956)	(776)	(2,732)
Tax roll receivables	(6,458)	(5,246)	(11,704)
Prepays		451	451
Inventory	(2,623)	(335)	(2,958)
Accounts payables	(11,249)	(6,732)	(17,981)
Accrued payroll and benefits	638	1,071	1,709
Compensated absences	21,079	9,603	30,682
GASB 68 pension adjustments	(10,996)	(14,898)	(25,894)
Net Cash Provided By Operating Activities	<u>\$ 12,559</u>	<u>\$ 154,641</u>	<u>\$ 167,200</u>

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



**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

Note 1: Summary of Significant Accounting Policies

The basic financial statements of Lake Shastina Community Services District, (the “District”) have been prepared in conformity with accounting principles generally in the United States of America (“U.S. GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the acceptable standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

A. Reporting Entity

The District was form in 1978 and is located in Siskiyou County, California. The District operated under a five member Board of Directors and provides services including police and fire protection, the collection and treatment of wastewater and provides water to the residences within the District’s boundaries.

The financial reporting entity, as defined by the GASB, consists of the primary government, the District, organizations for which the primary government is financially accountable, and any other organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

B. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or, for assessment revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or as a reservation of fund balance..

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt, as well as compensated absences and claims and judgments are recorded only when payment is due. General capital acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financial sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

C. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the District. These statements include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the District. Governmental activities, which normally are supported by taxes, assessments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continue)

The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function. Program revenues include 1) charges paid by the recipient of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

When both restricted and unrestricted net position are available, unrestricted resources are used only after the restricted resources are depleted.

Fund Financial Statements

The fund financial statements provide information about the District's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in separate columns.

The District reports the following major governmental funds:

General Fund - This fund accounts for all the financial resources not required to be accounted for in another fund. This fund consists primarily of general government type activities.

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District has three special revenue funds; the police fund, the fire fund and the COPS Grant fund.

The District reports the following major enterprise funds.

Water and Sewer Funds - account for the operation of the District's water and sewer utilities. Activities of these funds include administration, operation and maintenance of the water and sewer systems and billing and collection activities. The Funds also accumulate resources for, and payment of long-term debt principal and interest. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the Funds.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

E. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the District considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Restricted cash and unrestricted pooled cash and investments held by the District are considered cash equivalents for purposes of the combined statement of cash flow's because the District's cash management pool and funds invested by the District possess the characteristics of demand deposit accounts.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

Note 1: Summary of Significant Accounting Policies (Continued)

F. Accounts Receivable

Accounts receivable are recorded for services, provided to individuals or non-governmental entities that are billed but unpaid. Proprietary Fund receivables are shown net of allowance for uncollectible accounts.

G. Inventory of Supplies

The inventory of supplies account is valued at cost and is determined on a first-in, first-out basis, which approximates market.

H. Prepaid Expense

Prepaid expenses are payments made to vendors in the current accounting period for costs applicable to future accounting periods.

I. Fixed Assets

Capital assets, recorded at historical cost or estimated historical cost if actual historical cost is not available, are reported in governmental activities column of the government-wide financial statements. Contributed fixed assets are valued at their estimated fair market value. Capital assets include land, buildings and building improvements and equipment. Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,500.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is recorded in the government-wide financial statements on the straight-line basis over the useful life of the assets as follows:

<u>Assets</u>	<u>Useful Life</u>
Subsurface sewer lines	40-50 years
Sewage collections facilities	10-40 years
Sewage disposal facilities	40 years
Water System	5-35 years
Building	20-40 years
Equipment	5-20 years
Vehicles	5-10 years

J. Compensated Absences

District employees are granted vacation and sick time in varying amounts based on classification and length of service. Upon termination or retirement, the District is to pay 100% of the vacation time accrued and sick time will be paid based on the tier system the District has established for sick time earned. For employees who retire from the District, accrued sick leave at the time retirement will be added to years of service for pension purposes.

K. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

Note 1: Summary of Significant Accounting Policies (Continued)

L. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) which will only be recognized as an outflow of resources (expense/expenditures) in the futures. The change in proportion and differences between the District contributions and proportionate share of contributions, and resources in the government-wide statement of net position. District contributions subsequent to the measurement date are being amortized in the current fiscal year as provided by accounting pronouncement GASB Statement No. 71. The change in proportion and difference between District contributions and proportionate share of contributions is amortized over the estimated service lives of pension plan participants. In addition to liabilities, the statement of net position includes a separate section of deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and would only be recognized as an inflow of resources (revenue) at that time. The District's proportionate share of the net difference between projected and actual earnings on pension plan investments is reported as deferred inflows of resources in the government-wide statement of net position. The amount will be amortized over a five year period.

M. Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net position – Consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. These principally include restrictions for capital projects, debt service requirements and other special revenue fund purposes.
- Unrestricted net position – All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

N. Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2017, fund balances for governmental funds are made up of the following:

- Nonspendable fund balance - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.
- Restricted fund balance - includes amounts that can be spent for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

Note 1: Summary of Significant Accounting Policies (Continued)

N. Fund Balances (Continued)

- Committed fund balance - includes amounts that can only be used for the specific purposes determined by a formal action of the District's highest level of decision-making authority, the Board of Directors. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).
- Assigned fund balance - comprises amounts intended to be used by the District for specific purposes that are neither restricted nor committed. Intent is expressed by (1) the Board of Directors or (b) a body (for example: a budget or finance committee) or official to which the Board of Directors has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned fund balance - is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, that fund would report a negative unassigned fund balance.

Note 2: Cash and Investments

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as cash and investments. Unless otherwise dictated by legal or contractual requirements, income earned or losses arising from the investment of pooled cash are allocated on a quarterly basis to the participating funds and component units based on their proportionate shares of the average quarterly cash balance.

The District maintains "restricted cash and investments".

Cash and investments at June 30, 2017, consisted of the following:

Cash on hand	\$ 303
Deposit accounts	303,085
Investments (LAIF)	<u>1,875,874</u>
Total cash and investments	<u><u>\$ 2,179,261</u></u>

A. Investments Authorized by the California Government Code and the Entity's Investment Policy

The table below identifies the **investment types** that are authorized for Lake Shastina Community Services District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address **interest rate risk**, **credit risk** and **concentration of credit risk**. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District investment policy.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

Note 2: Cash and Investments (Continued)

A. Investments Authorized by the California Government Code and the Entity's Investment Policy (Continued)

Authorized Investment Type	Maximum Maturity	Percentage of Portfolio	Investment in One Issuer
Investment pools authorized under CA Statutes governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Accounts	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-Purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of all investments. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment maturity:

Investment Type	Totals	Remaining Maturity (in Months)	
		12 Months or Less	13-48 Months
Local Agency Investment Fund	\$ 1,875,874	\$ 1,875,874	\$ -
Totals	\$ 1,875,874	\$ 1,875,874	\$ -

\*Not subject to categorization

C. Concentrations of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. There are no investments to one issuer exceeding those limits.

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secured deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2017, the District's deposits balance was \$335,831 and the carrying amount was \$303,085. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance \$250,000 was covered by the Federal Depository Insurance or by collateral held in the pledging bank's trust department in the District's name and \$85,831 was collateralized with pledged securities.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

Note 2: Cash and Investments (Continued)  
D. Custodial Credit Risk (Continued)

LAIF is included in the State's Pooled Money Investment Account. The total amount invested by all public agencies in the State's Pooled Money Investment Account approximates \$77.56 billion. Of the \$77.56 billion managed by the State Treasurer, 100% is invested in non-derivative financial products and 2.89% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

Investments are accounted for in accordance with the provisions of GASB Statement No. 31, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value of investments in the year in which the change occurred. The District reports its investments at fair value based on quoted market information obtained from fiscal agents or other sources if the change is material to the financial statements.

Note 3: Assessments and Accounts Receivable

Major receivable balances for both governmental and business-type activities include assessments for services and assessments for services placed on the Siskiyou County tax rolls. There is no allowances for uncollectible accounts as management feels all amounts are collectible.

Charges for sewer and water services are recorded when earned. Services provided but unbilled at year-end have been included in the accompanying financial statements.

Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Retirements/ Adjustments	Balance June 30, 2017
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 37,506	\$ -	\$ -	\$ 37,506
Capital assets, being depreciated:				
Structures and improvements	182,168		243,921	426,089
General equipment	451,744	9,000	454	461,198
Vehicles and rolling stock	735,011	53,223		788,234
Total capital assets, being depreciated	1,368,923	53,223		1,675,521
Less accumulated depreciation:	(1,119,755)	(59,769)	(56,967)	(1,236,491)
Governmental activities capital assets, net	\$ 286,674	\$ (6,546)	\$ (56,967)	\$ 476,536
<b>Business-Type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 31,433	\$ -	\$ -	\$ 31,433
Construction in progress	118,596	5,938		124,534
Capital assets, being depreciated:				
Infrastructure	8,316,812	260,133	(949)	8,575,996
Land improvements	21,318			21,318
Structures and improvements	289,890			289,890
Vehicles and rolling stock	306,323			306,323
Total capital assets, being depreciated	8,934,343	260,133	(949)	9,193,527
Less accumulated depreciation:	(4,699,348)	(305,769)	(97,674)	(5,102,791)
Total capital assets, being depreciated, net	4,234,995	(45,636)	(98,623)	4,090,736
Business- type activities capital assets, net	\$ 4,385,024	\$ (39,698)	\$ (98,623)	\$ 4,246,703

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

Note 5: Long-term Liabilities

Governmental Activities:

A summary of the changes in the District's long-term liabilities reported in the governmental activities column of the government-wide financial statements for the year ended June 30, 2017:

	Balance 7/1/2016	Additions	Adjustments/ Retirements	Balance 6/30/2017	Due Within One Year
Compensated absences	\$ 40,484	\$ 18,541	\$ (30,826)	\$ 28,199	\$ 11,280
Net pension liability	429,123	30,703	(252,548)	207,278	
Total	<u>\$ 469,607</u>	<u>\$ 49,244</u>	<u>\$ (283,374)</u>	<u>\$ 235,477</u>	<u>\$ 11,280</u>

Business Activities:

A summary of the changes in the District's long-term business-type liabilities reported in the proprietary funds statement of net position and the business-type activities column of the government-wide financial statements for the year ended June 30, 2017:

	Balance 7/1/2016	Additions	Adjustments/ Retirements	Balance 6/30/2017	Due Within One Year
Compensated absences	\$ 11,475	\$ 34,485	\$ (3,803)	\$ 42,157	\$ 16,863
Net pension liability	224,859	83,013	252,547	560,419	
Note Payable	438,026	-	(35,482)	402,544	37,626
Total	<u>\$ 674,360</u>	<u>\$ 117,498</u>	<u>\$ 213,262</u>	<u>\$ 1,005,120</u>	<u>\$ 54,489</u>

Note Payable

On August 18, 2010, the sewer fund obtained a \$600,000 loan to finance the sewer pond construction. The loan, with interest calculated at 5.95%, is to be repaid in thirty semi-annual payments of \$30,513 over fifteen years. Principal and interest paid for the current year was \$61,026. Total principal and interest remaining on the loan is \$518,718 which is the amount of the remaining dedicated source of pledged revenues.

The annual debt service requirements to maturity for Business-Type Activities are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 37,626	\$ 23,400	\$ 61,026
2019	39,898	21,128	61,026
2020	42,307	18,719	61,026
2021	44,862	16,164	61,026
2022	47,570	13,456	61,026
2023-2026	190,282	23,307	213,589
Totals	<u>\$ 402,544</u>	<u>\$ 116,174</u>	<u>\$ 518,718</u>



**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan

**A. General Information about the Pension Plans**

**Plan Descriptions** – All qualified non-safety permanent and probationary employees are eligible to participate in the District's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**Benefits Provided** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire between ages 55 and 60, dependent upon the individual plan criteria, with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<b>Miscellaneous</b>	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-57	52-67
Monthly benefits, as a % of compensation	1.5% to 2.0%	1.0% to 2.0%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	8.38%	6.56%

**Contributions** – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions-Employer-Misc Tier 1	\$ 68,061
Contributions-Employer-PEPRA	3,942

**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	<u><b>Proportionate share of Net pension liability</b></u>
Miscellaneous Plan	\$ 767,697

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability as of June 30, 2015 and 2016 was as follows:

**Miscellaneous**

Proportion - June 30, 2015	0.02384%
Proportion - June 30, 2016	0.02210%
Change - Increase (Decrease)	-0.00174%

For the year ended June 30, 2017, the District recognized pension expense of \$36,511. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 2,065	\$ -
Changes of assumptions		(25,340)
Net difference between projected and actual earnings on pension plan investments	131,884	-
Changes in proportion and differences between District contributions and proportionate share of contributions		(69,853)
District contributions subsequent to the measurement date	71,983	-
Total	<u>\$ 205,932</u>	<u>\$ (95,193)</u>

\$71,983 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

**Measurement Period**  
**Year Ended June 30:**

2018	\$ (37,029)
2019	(4,196)
2020	45,821
2021	34,160
2022	-
Thereafter	-

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	<b>Miscellaneous</b>
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.30% - 14.20%
Investment Rate of Return	7.50%

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2010 actuarial experience study for the period 1997 to 2007. Further details of the Experience Study can be found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

**Note 6: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)**

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1-10 (1)</b>	<b>Real Return Years 11+ (2)</b>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43
Inflation Sensitive	6%	0.45%	3.36
Private Equity	10%	6.83%	6.95
Real Estate	10%	4.50%	5.13
Infrastructure and Forestland	2%	4.50%	5.09
Liquidity	2%	-0.55%	(1.05)

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the District’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<b>Discount Rate -1% (6.65%)</b>	<b>Current Discount Rate (7.65%)</b>	<b>Discount Rate +1% (8.65%)</b>
Misc Tier I	\$ 1,196,050	\$ 767,697	\$ 413,682

**Note 7: Money Purchase Pension Plan**

The Lake Shastina Community Services District Money Purchase Pension Plan was adopted for the purpose of rewarding long and loyal service to the District by providing Police Officer employees additional financial security at retirement. Incidental benefits are provided in the case of disability, death or termination of employment. The Plan is a type of qualified retirement plan commonly referred to as a money purchase plan. Since the principal purpose of the plan is to provide benefits at normal retirement age, the principal goal of the investment of the funds in the plan should be both security and long-term stability with moderate growth commensurate with the anticipated retirement dates of participants. Investments, other than “fixed dollar” investments, should be included among the plan’s investments to prevent erosion by inflation. However, investments should be sufficiently liquid to enable to plan, on short notice, to make some distributions in the event of death or disability of a participant. Employees are generally not taxed on the amounts the District contributes to the Plan on their behalf until they withdraw these amounts from the Plan.

The District contributes an amount equal to 6 percent of eligible police department employees’ regular wages. Total contributions for the year ended June 30, 2017 and were \$7,343 Police department eligible employees are also covered by Social Security.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

Note 8: Interfund Transactions

Transfers are used to (1) move revenues from the fund required by statute or budget to collect them to the fund required by statute or budget to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the fiscal year end are reported as either “due from/due to other funds” (amounts due within one year), “advances to/from other funds” (non-current portions of interfund lending/borrowing transactions), or “loans to/from other funds” (long-term lending/borrowing transactions evidenced by loan agreements). Advances and loans to other funds are offset by a fund balance reserve in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Note 9: Related Party Transaction

The District prepares, bills and collects the association dues for the Lake Shastina Property Owner’s Association (LSPOA). The District also processes bills, payroll and provides other financial and administrative services for the LSPOA. The LSPOA utilizes office space in the District administration building, has a separate Board of Directors, is a separate legal entity and is not presented as a component unit of Lake Shastina Community Services District as defined by its reporting entity.

Note 10: Stewardship, Compliance and Accountability

A. Deficit Fund Balances

At June 30, 2017, the General Fund had a negative fund balance of \$233,204, and the Cops Fund had a negative fund balance of \$92,530.

B. Prior Period Adjustments

A prior period adjustment was made in the general fund increasing fund balance \$2,610 for an adjustment to a prior year prepaid permit and meter.

A prior period adjustment was made in the water fund reducing net position \$214,953 for activity related to prior year unrecorded net pension liability and unrecorded deferred inflows/outflows.

A prior period adjustment was made in the sewer fund reducing beginning net position \$4,015 to reallocate net pension liability and unrecorded deferred inflows/outflows.

A prior period adjustment was made to the sewer fund reducing beginning net position \$98,457 for errors in the formula to record the prior year accumulated depreciation expense.

A prior period adjustment was made increasing governmental activities net position \$292,535 to reallocate beginning net pension liability and deferred inflows/outflows.

Note 11: Revenue Limitations Imposed by California Proposition 218

Proposition 218, which was approved by the voters in November 1996, regulates the District’s ability to impose, increase, and extend taxes and assessments. Any new increase or extended taxes and assessments subject to the provisions of Proposition 218, requires voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes and assessments are subject to voter initiative and may be rescinded in the future years by the voters.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2017**

Note 12: Commitments and Contingencies

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

In the normal course of business, the District is subject to various lawsuits. Defense of lawsuits is typically handled by the District's insurance carrier and losses, if any, are expected to be covered by insurance.

Commitments

The District had professional service commitments as of June 30, 2017.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
June 30, 2017**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Interest	\$ 200	\$ 200	\$ 1,564	\$ 1,364
Rental income	82,331	82,331	80,942	(1,389)
Other revenues and reimbursements	<u>3,000</u>	<u>3,000</u>	<u>4,446</u>	<u>1,446</u>
Total Revenues	<u>85,531</u>	<u>85,531</u>	<u>86,952</u>	<u>1,421</u>
Expenditures				
General administration	83,335	83,335	81,326	2,009
Interest expense	2,196	2,196	3,323	(1,127)
Capital outlay	<u>          </u>	<u>9,000</u>	<u>9,000</u>	<u>(0)</u>
Total Expenditures	<u>85,531</u>	<u>94,531</u>	<u>93,649</u>	<u>882</u>
Change in Fund Balances*	\$ <u>-</u>	\$ <u>(9,000)</u>	(6,697)	\$ <u>2,303</u>
Fund Balances, July 1, 2016			(229,117)	
Prior Period Adjustment			<u>2,610</u>	
Fund Balances, June 30, 2017			\$ <u><u>(233,204)</u></u>	

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
POLICE FUND  
June 30, 2017**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Assessments	\$ 257,315	\$ 344,238	\$ 338,108	\$ (6,130)
Use of money and property			1,905	1,905
License and permits	4,300	4,300	4,940	640
Other revenues and reimbursements	7,700	7,700	9,957	2,257
Total Revenues	<u>269,315</u>	<u>356,238</u>	<u>354,910</u>	<u>(1,328)</u>
Expenditures				
Public protection-police	239,690	256,445	230,235	26,210
Capital outlay	3,000	3,000		3,000
Total Expenditures	<u>242,690</u>	<u>259,445</u>	<u>230,235</u>	<u>29,210</u>
Change in Fund Balances	\$ <u>26,625</u>	\$ <u>96,793</u>	124,675	\$ <u>27,882</u>
Fund Balances, July 1, 2016			<u>425,737</u>	
Fund Balances, June 30, 2017			\$ <u>550,412</u>	



**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
FIRE FUND  
June 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Assessments	\$ 118,070	\$ 118,070	\$ 115,447	\$ (2,623)
Intergovernmental revenues	7,500	129,734	129,372	(362)
Use of money and property			477	477
Other revenues and reimbursements	<u>134,316</u>	<u>26,316</u>	<u>8,853</u>	<u>(17,463)</u>
Total Revenues	<u>259,886</u>	<u>274,120</u>	<u>254,149</u>	<u>(19,971)</u>
Expenditures				
Public protection-fire	233,873	273,907	228,268	45,639
Capital outlay	<u>113,000</u>	<u>113,000</u>	<u>53,223</u>	<u>59,777</u>
Total Expenditures	<u>346,873</u>	<u>386,907</u>	<u>281,491</u>	<u>105,416</u>
Change in Fund Balances*	\$ <u>(86,987)</u>	\$ <u>(112,787)</u>	(27,342)	\$ <u>85,444</u>
Fund Balances, July 1, 2016			<u>159,041</u>	
Fund Balances, June 30, 2017			\$ <u><u>131,699</u></u>	

\*Reserve carryover used to balance the budget.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE NET PENSION  
LIABILITY  
June 30, 2017**

<u>Measurement Date</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's covered-employee payroll</u>	<u>District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
6/30/2014	0.01041%	\$647,752	\$531,976	121.76%	66.00%
6/30/2015	0.02384%	\$653,982	\$433,896	150.72%	71.25%
6/30/2016	0.02210%	\$767,697	\$334,425	229.56%	72.61%

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS  
June 30, 2017**

<u>Measurement Date</u>	<u>Contractually required contribution</u>	<u>Contributions in relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employees payroll</u>	<u>Contribution as a percentage of covered-employee payroll</u>
6/30/2014	\$83,991	(\$83,991)	\$0	\$531,976	15.79%
6/30/2015	\$83,991	(\$83,991)	\$0	\$433,896	19.36%
6/30/2016	\$71,983	(\$71,983)	\$0	\$334,425	21.52%

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2017**

Budgets and Budgetary Accounting

As required by the laws of the State of California, the District prepares and legally adopts a final balanced operating budget. Public hearings were conducted on the proposed final budget to review all appropriations and the sources of financing. Because the final budget must be balanced, any shortfall in revenue requires an equal reduction in financing requirements. At the fund level, actual expenditures cannot exceed budgeted appropriations.

Budgets for the general, and special revenue funds are adopted on the modified accrual basis of accounting. The budgets for the general and special revenue funds are the only legally adopted budgets. Budgets for the proprietary funds are used for management and control purposes only.

The budgetary data presented in the accompanying financial statements includes all revisions approved by the Board of Directors.

# LARRY BAIN, CPA

An Accounting Corporation

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## **INDEPENDENT AUDITOR'S 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**

To the Board of Directors  
Lake Shastina Community Services District  
Weed, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lake Shastina Community Services District as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Lake Shastina Community Services District basic financial statements and have issued our report thereon dated March 1, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Lake Shastina Community Service District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lake Shastina Community Services District internal control. Accordingly, we do not express an opinion on the effectiveness of Lake Shastina Community Services District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We consider findings FS 17-1 through FS 17-4 in the following schedule of findings to be deficiencies in internal control that we considered a material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding FS 17-5 through FS 17-8 in the following schedule of findings to be significant deficiencies in the District's internal control:

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lake Shastina Community Service District's financial statements are free from 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 statement 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.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The Lake Shastina Community Service District's written response to the significant deficiencies identified in our audit and any follow up for subsequent year corrections has not been subjected to the audit procedures applied in the audit of the financial statements and accordingly, we do not express an opinion on the responses.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, the Siskiyou County Auditor Controller's Office, the California State Controller's Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

***Larry Bain, CPA,***  
***An Accounting Corporation***  
March 1, 2018

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**FINDINGS and RECOMMENDATIONS**  
**JUNE 30, 2017**

**Deemed to be Significant Deficiency and Material Weaknesses**

**Finding 17-1:** During our testing of capital assets we noted during the prior fiscal year ended June 30, 2016 audit, a journal entry to remove the medical building from the capital assets schedule was recorded offset to assets held for investment, per the new GASB 72 accounting standard. In the process reclassifying the medical building, the District administration building was also removed from the capital asset schedule. We provided the District with a journal entry to move \$243,921 less \$59,915 accumulated depreciation from assets held for investments back to the buildings and accumulated depreciation accounts to account for the administration building with general fixed assets.

Recommendation: The District should review the balance of capital assets in the auditor's financial report and determine the balance agrees to the District's internal capital asset schedule.

Management Response: The District agrees with this recommendation and will work on creating an up to date internal capital asset schedule to compare with the balance of capital assets in the auditor's financial report for future internal audits and reviews.

**Finding 17-2:** During our testing of the administrative overhead expenses, accounted for and allocated in the general fund of the District, we noted the District accounted for legal cost of \$59,660 associated with the medical clinic law suit as part of the administrative overhead. Because the general fund accounts for the medical clinic revenues and related expenditures, the cost noted above should have been recorded to the medical clinic department 22 expenditures in the general fund and should not be part of the overhead allocation where the cost is spread out to the other funds. We removed this cost from the overhead allocation.

We also noted the District allocates the administrative overhead as follows: 42% to the Sewer fund, 42% to the Water fund, 8% to the Police Department fund and 8% to the Fire Department fund. Based on our review these percentages may not reflect the actual use of administrative resources used by each fund (Police, Fire, Water and Sewer).

Recommendation: We recommend the District record all revenue and expenditure activity related to the medical clinic to the general fund department 22 and not include the medical clinic related expenditures in the overhead allocation accounts.

We also recommend the District review the percentage of the general fund overhead allocation recorded to each fund and determine if it is a reasonable basis or if the percentages should be changed to reflect each funds use of administrative resources.

Management Response: The District agrees with the first part of this recommendation for the District to record all revenue and expenditure activity related to the medical clinic to the general fund department 22 and not include the medical clinic related expenditures in the general overhead allocation accounts.

The District also agrees with the second part of this recommendation and will initially rectify this by changing the allocations as follows: 25% to the Sewer fund, 25% to the Water fund, 25% to the Police Department fund and 25% to the Fire Department fund. In follow up, the District will conduct a workload study to determine actual time and resources used for the administration of each department.

**Finding 17-3:** During our testing of accounts receivable we noted the District had not reconciled their accounts receivable balance to the general ledger at year-end. We also noted the District was unable to provide us with a detailed report to show the accounts receivable balance for each outstanding customer at June 30, 2017. This detail is necessary in order to validate that the accounts receivable balance as stated in the general ledger is supported. According to District staff in order to obtain the detail report it needs to be printed as of the specific date and the system will not allow the user to print the detail as of a past date.

Recommendation: We recommend the print, or save to a PDF, the accounts receivable detail as of year-end and reconcile the balance to the general ledger.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**FINDINGS and RECOMMENDATIONS**  
**JUNE 30, 2017**

**Deemed to be Significant Deficiency and Material Weaknesses (Continued)**

Management Response: The District agrees with the recommendation to print, or save to a PDF, the accounts receivable detail as of year-end and reconcile the balance to the general ledger. The Board has approved the purchase of FundBalance software for the needed Accounts Receivable, Cash Receipts and Billing modules, which will address this issue. Staff and IT services will be implementing this new system in the coming months.

**Finding 17-4:** The District relies on the external auditor to ensure its financial statements are in accordance with GAAP. In addition, the District relies on the external auditor to ensure that all necessary disclosures are included in the notes to the financial statements. The District does not employ a staff member with the necessary knowledge and training to prepare governmental financial statements. In accordance with Statement of Auditing Standards No. 122c external auditors cannot be part of an entity's internal controls over preparation of the financial statements and are prohibited from auditing their own work, which would impair their independence. We also posted numerous material journal entries as part of our audit in order to agree the financial statements with the underlying support.

Recommendation: The District should consider training staff in preparing GAAP financial statements or hire an external qualified accountant to prepare the GAAP financial statements. The District could opt to take no action if it considers the cost will outweigh the benefit.

Management Response: The District agrees with this recommendation and, in addition to providing staff with additional training in preparing GAAP financial statements, the District will explore the costs of hiring a CPA to prepare GAAP financial statements after fiscal year end or as needed.

**Deemed to be Significant Deficiency and Not Material Weakness**

**Finding 17-5:** During our testing of Fire Department strike teams we noted the District is paying the strike team members at a high rate than what the District is actually being reimbursed for by OES. For the firefighter's category, the District was paying \$24.59 per hour and the Chief category was paid \$31.35 per hour while OES reimbursed the District at \$19.98 per hour. Based on our sample testing of the Chimney, Clayton and Cold fire the District paid the strike members \$3,250.48 more than what was received by OES.

Recommendation: The District can submit rate a schedule to OES annually to request the base rates they would need to support the cost of paying strike team member, administration cost and engine expenses. The District should request these adjustments to be in line with what they are actually compensating the District firefighters. The intent of the reimbursements is to make the District whole and not use District funds to pay for out of District fires.

Management Response: The District acknowledges this finding and believes it has resolved any future similar circumstances by providing accurate rate schedules to OES. In the future, the District will continue to be aware of this and will continue to submit accurate rate schedules.

**Finding 17-6:** The District allocates CalPERS pension expense as part of the administration overhead allocation and to the Sewer Fund. The CalPERS net pension liability and related deferred inflows/outflows are also only recorded in the Sewer fund and governmental funds and are not recorded in the Water fund. We proposed a journal entry to record the amount of the net pension liability and deferred inflows/outflows that should have been recorded in the Water fund as a prior period adjustment and then allocated the current year activity based on the % of salary for each function.

During our review of the prior year balances for the CalPERS net pension liability and deferred inflows/outflows we noted material errors made in the calculations. We proposed a prior year adjustment to correct the errors.

Recommendation: We recommend the District allocate the pension expense and the net pension liability and deferred inflows/outflows (GASB 68) based on each funds share of the expense, liability and deferred inflow/outflow.



**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**FINDINGS and RECOMMENDATIONS**  
**JUNE 30, 2017**

**Deemed to be Significant Deficiency and Not Material Weakness (Continued)**

Management Response: The District agrees with this recommendation and will correct the CalPERS pension expenses and liabilities to both the Sewer and Water Funds based on actual employee activity within those departments. In follow up, these changes will correctly reflect each department's share of the CalPERS pension expense, liability and deferred inflows/outflows.

**Finding 17-7:** During our audit we noted the Cops Fund had a negative cash balance of \$91,168 which was reclassified as a due to/from the Cops Grant Fund to the Policy Department fund. The Cops Grant fund also had a negative fund balance of \$92,530 at June 30, 2017.

Recommendation: We recommend the District review why the Cops Grant fund has a negative cash balance and negative fund balance and take action to cure the deficits.

Management Response: The District has reviewed the negative cash balance and determined this occurred when the District was challenged with the shortage of personnel. This situation required a single officer to provide 24/7/365 day coverage for most of the year, which is not typical. The District has resolved the staffing shortage and does not expect to see a negative cash balance in the future. The District does understand if a negative cash balance occurs at fiscal year-end, funds will be transferred from the Police Department fund to Cops Grant fund to cure the deficit.

**Finding 17-8:** During the fiscal year under audit the former general manager was working as an independent contractor. Based on our review of his duties it does not appear that he fit the criteria to be classified as an independent contractor, but should have been classified as an employee subject to all applicable payroll withholdings.

Recommendation: The District should review all personnel classified as independent contractors and analyze if they meet the criteria needed to be treated as such.

Management Response: The District agrees with the recommendations and has resolved this situation by terminating the contract of the independent contractor who was working as General Manager and hiring a regular employee to fill this position. The District will be cognizant of this in the future and review with legal counsel any personnel classified as independent contractors to determine if they meet the criteria needed to be treated as such.