

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018**

# LAKE SHASTINA COMMUNITY SERVICES DISTRICT

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# 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, 2018, and the related notes to the financial statements, 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, 2018, and the changes in financial position, of those activities and funds, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

## **Other Matters**

### *Required Supplementary Information*

The Lake Shastina Community Services District has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Accounting principles generally accepted in the United States of America require that the budgetary comparison for the General fund, Police Fund and Fire Fund on pages 26-28 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 29-30; 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 January 16, 2019 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*  
January 16, 2019

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**STATEMENT OF NET POSITION  
JUNE 30, 2018**

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and investments	\$ 648,813	\$ 1,268,405	\$ 1,917,218
Receivables			
General receivables	70,051	49,453	119,504
Unbilled service receivables	65,156	206,787	271,943
Delinquent accounts-tax roll	166,707	119,727	286,434
Grant receivable	8,941	223,370	232,311
Interest receivable	2,586		2,586
Due from others	11,171		11,171
Prepaid expense	101,027	63,675	164,702
Inventory		35,866	35,866
Total current assets	1,074,452	1,967,283	3,041,735
<b>Noncurrent assets</b>			
Intergovernmental advance	(378,630)	378,630	-
Asset held for investment	389,263		389,263
<b>Capital assets:</b>			
Nondepreciable capital assets			
Land	37,506	31,433	68,939
Construction in progress		126,621	126,621
Depreciable capital assets			
Infrastructure		8,682,554	8,682,554
Land improvements		21,318	21,318
Structures and improvements	426,089	289,889	715,978
Equipment and vehicles	1,065,410	299,570	1,364,980
Less accumulated depreciation	(1,113,778)	(5,392,806)	(6,506,584)
Total capital assets (net of accumulated depreciation)	415,227	4,058,579	4,473,806
Total noncurrent assets	425,860	4,437,209	4,863,069
Total assets	1,500,312	6,404,492	7,904,804
<b>Deferred outflows of resources</b>			
Deferred outflows-pension	67,137	181,520	248,657
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued expense	30,234	87,211	117,445
Accrued payroll	37,754	10,324	48,078
Due to others	5,409		5,409
Capital lease-current		39,898	39,898
Compensated absences	3,763	26,082	29,845
Total current liabilities	77,160	163,515	240,675
Noncurrent liabilities			
Net pension liability	232,081	627,480	859,561
Capital lease-due in more than one year		325,021	325,021
Compensated absences	5,645	26,167	31,812
Total noncurrent liabilities	237,726	978,668	1,216,394
Total Liabilities	314,886	1,142,183	1,457,069
<b>Deferred inflows of resources</b>			
Deferred inflows-pension	18,621	50,348	68,969
<b>Net Position</b>			
Net investment in capital assets	415,227	3,693,660	4,108,887
Unrestricted	818,715	1,699,821	2,518,536
Total Net Position	\$ 1,233,942	\$ 5,393,481	\$ 6,627,423

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

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**STATEMENT OF ACTIVITIES  
JUNE 30, 2018**

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
<b>Governmental Activities:</b>							
General	\$ 22,387	\$ -	\$ -	\$ -	\$ (22,387)	\$ -	\$ (22,387)
Public safety	944,046	553,055		391,669	678		678
Total Governmental Activities	<u>966,433</u>	<u>553,055</u>	<u>-</u>	<u>391,669</u>	<u>(21,709)</u>		<u>(21,709)</u>
<b>Business-type activities:</b>							
Water	659,474	471,656				(187,818)	(187,818)
Sewer	991,148	596,090		263,067		(131,991)	(131,991)
Interest	23,400					(23,400)	(23,400)
Total Business-type Activities	<u>1,674,023</u>	<u>1,067,746</u>	<u>-</u>			<u>(343,209)</u>	<u>(343,209)</u>
Total	<u>\$2,640,456</u>	<u>\$ 1,620,802</u>	<u>\$ -</u>	<u>\$ 391,669</u>	<u>(21,709)</u>	<u>(343,209)</u>	<u>(364,918)</u>
<b>General Revenues:</b>							
Rental income					84,264		84,264
Gain on sale of equipment					74,260		74,260
Other					30,404		30,404
Investment income					7,945	24,377	32,322
Total general revenues					<u>196,873</u>	<u>24,377</u>	<u>221,250</u>
Change in net position					175,164	(318,832)	(143,668)
Net position - beginning					1,016,597	5,691,361	6,707,958
Prior period adjustment					42,181	20,952	63,133
Net position - ending					<u>\$ 1,233,942</u>	<u>\$ 5,393,481</u>	<u>\$ 6,627,423</u>

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

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2018**

	General Fund	Major Special Revenue Funds			Total Governmental Funds
		Police	Fire	Cops Grant	
<b>Assets</b>					
Cash and investments	\$ 203,138	\$ 230,098	\$ 182,744	\$ 32,833	\$ 648,813
Receivables					
Accounts	8,509	14,984	46,558		70,051
Assessments		65,156			65,156
Delinquent accounts-tax roll		122,095	44,612		166,707
Grants			8,941	-	8,941
Interest	698	1,557	331		2,586
Due from other fund		91,168			91,168
Prepaid expense	36,651	31,728	25,345	7,303	101,027
Due from others	11,171				11,171
<b>Total Assets</b>	<b>\$ 260,167</b>	<b>\$ 556,786</b>	<b>\$ 308,531</b>	<b>\$ 40,136</b>	<b>\$ 1,165,620</b>
<b>Liabilities and Fund Equity</b>					
<b>Liabilities</b>					
Accounts payable	\$ 5,412	\$ 3,975	\$ 20,248	\$ 599	\$ 30,234
Accrued payroll	10,121	10,221	15,222	2,190	37,754
Due to others	5,409				5,409
Due to other funds				91,168	91,168
Advance from other fund	378,630				378,630
<b>Total Liabilities</b>	<b>399,572</b>	<b>14,196</b>	<b>35,470</b>	<b>93,957</b>	<b>543,195</b>
<b>Fund Equity</b>					
<b>Fund balances</b>					
<b>Nonspendable</b>					
Prepaid expense	36,651	31,728	25,345	7,303	101,027
Assigned for police		510,862			510,863
Assigned for fire			247,716		247,716
Unassigned	(176,056)			(61,124)	(237,180)
<b>Total Fund Equity</b>	<b>(139,405)</b>	<b>542,590</b>	<b>273,061</b>	<b>(53,821)</b>	<b>622,424</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 260,168</b>	<b>\$ 556,786</b>	<b>\$ 308,531</b>	<b>\$ 40,136</b>	<b>\$ 1,165,620</b>

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, 2018**

Fund Balances of Governmental Funds	\$ 622,424
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.	415,227
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	(9,408)
Net pension liability, deferred inflows/outflows	<u>(183,564)</u>
Net position of governmental activities	<u><u>\$ 1,233,942</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, 2018**

	General Fund	Major Special Revenue Funds			Total Governmental Funds
		Police	Fire	Cops Grant	
<b>Revenues</b>					
Assessments	\$ -	\$ 424,270	\$ 115,359	\$ -	\$ 539,629
Intergovernmental revenues		622	251,631	139,416	391,669
Use of money and property	86,686	4,393	1,127		92,206
Licenses and permits		5,450			5,450
Other	11,667	13,014	13,700		38,381
<b>Total Revenues</b>	<b>98,353</b>	<b>447,749</b>	<b>381,817</b>	<b>139,416</b>	<b>1,067,335</b>
<b>Expenditures</b>					
Current:					
General administration					-
Public protection-police		475,772		95,344	571,116
Public protection-fire			349,415		349,415
Interest expense	5,112				5,112
Capital outlay	5,602	7,592		5,363	18,557
<b>Total Expenditures</b>	<b>8,504</b>	<b>483,364</b>	<b>349,415</b>	<b>100,707</b>	<b>941,990</b>
<b>Excess (Deficit) of Revenues over Expenditures</b>					
Before Other Financing Sources (Uses)	89,849	(35,615)	32,402	38,709	125,345
<b>Other Financing Sources (Uses)</b>					
Gain on sale of assets		3,534	94,988		98,522
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>3,534</b>	<b>94,988</b>	<b>-</b>	<b>98,522</b>
<b>Net Change in Fund Balance</b>	<b>89,849</b>	<b>(32,081)</b>	<b>127,390</b>	<b>38,709</b>	<b>223,867</b>
Fund Balances, July 1, 2017	(233,204)	550,412	131,699	(92,530)	356,377
Prior Period Adjustment	3,950	24,259	13,972		42,181
<b>Fund Balances, June 30, 2018</b>	<b>\$ (139,405)</b>	<b>\$ 542,590</b>	<b>\$ 273,061</b>	<b>(53,821)</b>	<b>\$ 622,425</b>

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, 2018**

Net Change in Fund Balances - Total Governmental Funds \$ 125,345

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	18,557
Gain on sale of assets	74,260
Depreciation expense	(55,605)

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. (6,186)

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. 18,793

Change in net position of governmental activities \$ 175,164

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
<b>Current Assets:</b>			
Cash and investments	\$ 912,918	\$ 355,487	\$ 1,268,405
General receivables	31,986	17,467	49,453
Unbilled services receivable	86,452	120,335	206,787
Delinquent accounts-tax roll	71,525	48,202	119,727
Grants receivable		223,370	223,370
Prepaid expense	34,505	29,170	63,675
Inventory	29,642	6,224	35,866
<b>Total current assets</b>	<u>1,167,028</u>	<u>800,255</u>	<u>1,967,283</u>
<b>Noncurrent Assets</b>			
Advances to other funds	378,630		378,630
<b>Capital assets:</b>			
<b>Nondepreciable capital assets:</b>			
Land	26,136	5,297	31,433
Construction in progress	38,747	87,874	126,621
<b>Depreciable capital assets</b>			
Infrastructure	2,330,861	6,351,693	8,682,554
Land improvements	21,318		21,318
Structures and improvements	172,905	116,984	289,889
Equipment and vehicles	210,139	89,431	299,570
Less accumulated depreciation	(1,750,888)	(3,641,918)	(5,392,806)
<b>Total capital assets (net of accumulated depreciation)</b>	<u>1,049,218</u>	<u>3,009,361</u>	<u>4,058,579</u>
<b>Total noncurrent assets</b>	<u>1,427,848</u>	<u>3,009,361</u>	<u>4,437,209</u>
<b>Total Assets</b>	<u>\$ 2,594,876</u>	<u>\$ 3,809,616</u>	<u>\$ 6,404,492</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows from pensions	81,784	99,736	181,520
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expense	18,168	69,043	87,211
Accrued payroll	4,333	5,991	10,324
Compensated absences-current	13,041	13,041	26,082
Capital lease-current		39,898	39,898
<b>Total current liabilities</b>	<u>35,542</u>	<u>127,973</u>	<u>163,515</u>
<b>Noncurrent liabilities</b>			
Compensated absences-noncurrent	13,084	13,084	26,167
Net pension liability	276,569	350,911	627,480
Capital lease payable-noncurrent		325,021	325,021
<b>Total noncurrent liabilities</b>	<u>289,653</u>	<u>689,015</u>	<u>978,668</u>
<b>Total Liabilities</b>	<u>325,195</u>	<u>816,988</u>	<u>1,142,183</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows from pensions	18,496	31,852	50,348
<b>Net position:</b>			
Net investment in capital assets	1,049,218	2,644,442	3,693,660
Unrestricted	1,283,751	416,070	1,699,821
<b>Total Net Position</b>	<u>\$ 2,332,969</u>	<u>\$ 3,060,512</u>	<u>\$ 5,393,481</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, 2018**

	Water	Sewer	Totals
Operating Revenues			
Charges for services	\$ 460,781	\$ 550,622	\$ 1,011,403
Other	9,120	7,784	16,904
Total Operating Revenues	469,901	558,405	1,028,307
Operating Expenses			
Salary and benefits	285,769	276,147	561,917
Services and supplies	239,878	542,339	782,217
Depreciation expense	133,827	172,662	306,489
Total Operating Expenses	659,474	991,148	1,650,623
Operating Inome	(189,573)	(432,743)	(622,316)
Non-operating Revenue (Expense)			
Connection fees	1,755	37,685	39,440
Interest revenue	19,213	5,164	24,377
Grant revenue		263,067	263,067
Interest expense		(23,400)	(23,400)
Total Non-operating Revenue (Expense)	20,968	282,516	303,484
Change in net position	(168,605)	(150,227)	(318,832)
Net Position, July 1, 2017	2,484,263	3,207,098	5,691,361
Prior year adustment	17,311	3,641	20,952
Net Position, June 30, 2018	\$ 2,332,969	\$ 3,060,512	\$ 5,393,481

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

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**STATEMENT OF CASH FLOWS  
PROPIETARY FUNDS  
JUNE 30, 2018**

	Water	Sewer	Totals
<b>Cash Flows from Operating Activities</b>			
Cash received from customers	\$ 458,835	\$ 562,694	\$ 1,021,529
Cash payments to suppliers	(274,478)	(499,405)	(773,883)
Cash payments to employees	(269,143)	(262,471)	(531,614)
Net Cash Provided By Operating Activities	(84,786)	(199,182)	(283,968)
<b>Cash Flows from Non-Capital Financing Activities</b>			
Payment for interfund advances	38,889		38,889
Net Cash Provided (Used) By Noncapital Financing Activities	38,889	-	38,889
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchases of capital assets	(99,086)	(19,276)	(118,362)
Cash received from grants		39,697	39,697
Principal paid on debt		(37,626)	(37,626)
Interest paid on debt		(23,400)	(23,400)
Connection fees	1,755	37,685	39,440
Net Cash Provided (Used) By Capital And Related Financing Activities	(97,331)	(2,920)	(100,251)
<b>Cash flows from investing activities:</b>			
Interest received on investments	19,213	5,164	24,377
Net Increase (Decrease) in Cash and Cash Equivalents	(124,015)	(196,938)	(320,953)
Cash and Cash Equivalents, July 1, 2017	1,036,933	552,425	1,589,358
Cash and Cash Equivalents, June 30, 2018	\$ 912,918	\$ 355,487	\$ 1,268,405
Reconciliation of Cash and Cash Equivalents:			
Cash and investments	\$ 912,918	\$ 355,487	\$ 1,268,405
Reconciliation of operating income to net cash flows from operating activities:			
Operating income	\$ (189,573)	\$ (432,743)	\$ (622,316)
Noncash items included in operating loss:			
Depreciation	133,827	172,662	306,489
Changes in:			
General receivables	(3,866)	8,526	4,660
Unbilled service receivables	(2,404)	(1,888)	(4,292)
Tax roll receivables	(4,796)	(2,348)	(7,145)
Prepays	(34,505)	(24,018)	(58,523)
Inventory	(12,167)	(718)	(12,885)
Accounts payables	12,073	67,670	79,743
Accrued payroll and benefits	1,957	1,526	3,483
Compensated absences	5,046	5,047	10,093
GASB 68 pension adjustments	9,623	7,103	16,726
Net Cash Provided By Operating Activities	\$ (84,786)	\$ (199,182)	\$ (283,967)

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

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2018**

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, 2018**

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, 2018**

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, 2018**

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, 2018, 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, 2018**

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, 2018, consisted of the following:

Cash on hand	\$	303
Deposit accounts		194,211
Investments (LAIF)		<u>1,722,704</u>
Total cash and investments	\$	<u><u>1,917,218</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, 2018**

Note 2: Cash and Investments (Continued)

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>Investment in One Issuer</u>
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:

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturity (in Months)</u>	
		<u>12 Months or Less</u>	<u>13-48 Months</u>
Local Agency Investment Fund	\$ 1,722,704	\$ 1,722,704	\$ -
Totals	<u>\$ 1,722,704</u>	<u>\$ 1,722,704</u>	<u>\$ -</u>

\*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, 2018, the District's deposits balance was \$336,225 and the carrying amount was \$194,211. 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 \$86,225 was collateralized with pledged securities.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2018**

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 \$88.94 billion. Of the \$88.94 billion managed by the State Treasurer, 100% is invested in non-derivative financial products and 2.67% 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, 2018 was as follows:

	Balance July 1, 2017	Additions	Retirements/ Adjustments	Balance June 30, 2018
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 37,506	\$ -	\$ -	\$ 37,506
Capital assets, being depreciated:				
Structures and improvements	426,089			426,089
General equipment	461,198	20,481		481,679
Vehicles and rolling stock	788,234	10,726	(215,229)	583,731
Total capital assets, being depreciated	1,675,521	31,207	(215,229)	1,491,499
Less accumulated depreciation:	(1,236,491)	(55,604)	178,317	(1,113,778)
Governmental activities capital assets, net	<u>\$ 476,536</u>	<u>\$ (24,397)</u>	<u>\$ (36,912)</u>	<u>\$ 415,227</u>
<b>Business-Type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 31,433	\$ -	\$ -	\$ 31,433
Construction in progress	124,534	2,087		126,621
Capital assets, being depreciated:				
Infrastructure	8,575,996	106,558		8,682,554
Land improvements	21,318			21,318
Structures and improvements	289,890			289,890
Vehicles and rolling stock	306,323	9,720	(16,474)	299,569
Total capital assets, being depreciated	9,193,527	116,278	(16,474)	9,293,331
Less accumulated depreciation:	(5,102,791)	(306,489)	16,474	(5,392,806)
Total capital assets, being depreciated, net	4,090,736	(190,211)		3,900,525
Business- type activities capital assets, net	<u>\$ 4,246,703</u>	<u>\$ (188,124)</u>	<u>\$ -</u>	<u>\$ 4,058,579</u>

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2018**

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, 2018:

	Balance 7/1/2017	Additions	Adjustments/ Retirements	Balance 6/30/2018	Due Within One Year
Compensated absences	\$ 28,199	\$ 22,222	\$ (41,013)	\$ 9,408	\$ 3,763
Net pension liability	207,278	24,803	-	232,081	
Total	<u>\$ 235,477</u>	<u>\$ 47,025</u>	<u>\$ (41,013)</u>	<u>\$ 241,489</u>	<u>\$ 3,763</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, 2018:

	Balance 7/1/2017	Additions	Adjustments/ Retirements	Balance 6/30/2018	Due Within One Year
Compensated absences	\$ 42,157	\$ 28,914	\$ (15,820)	\$ 55,251	\$ 22,100
Net pension liability	560,419	67,061		627,480	
Note Payable	402,544	-	(37,626)	364,918	39,898
Total	<u>\$ 1,005,120</u>	<u>\$ 95,975</u>	<u>\$ (53,446)</u>	<u>\$ 1,047,649</u>	<u>\$ 61,998</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
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	50,443	13,456	63,899
2024-2026	139,839	23,307	163,146
Totals	<u>\$ 364,918</u>	<u>\$ 106,230</u>	<u>\$ 471,148</u>

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2018**

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, 2018, 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	8.42%	6.53%

**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, 2018, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions-Employer-Misc Tier 1	\$	75,112
Contributions-Employer-PEPRA		5,970

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	<b>Proportionate share of Net pension liability</b>
Miscellaneous Plan	\$ 859,561

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2018**

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, 2016 and 2017 was as follows:

Proportion - June 30, 2016	0.02210%
Proportion - June 30, 2017	0.02180%
Change - Increase (Decrease)	-0.00029%

For the year ended June 30, 2018, the District recognized pension expense of \$36,511. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (15,653)
Changes of assumptions	134,618	
Net difference between projected and actual earnings on pension plan investments	32,958	-
Changes in proportion		(31,110)
Changes in proportionate share of contributions		(22,205)
District contributions subsequent to the measurement date	81,081	-
Total	<u>\$ 248,657</u>	<u>\$ (68,968)</u>

\$81,081 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, 2019.

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

<b>Measurement Period</b>	
<b><u>Year Ended June 30:</u></b>	
2019	\$ (12,717)
2020	(62,038)
2021	(43,631)
2022	19,569

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2018**

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:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by entry age of service
Investment Rate of Return	7.15%

**Discount Rate** – The discount rate used to measure the total pension liability was 7.15% 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 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.

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, 2018**

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.

<u>Asset Class</u>	<u>Current Allocation Target</u>	<u>Real Return Years 1-10 (1)</u>	<u>Real Return Years 11+ (2)</u>
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19%	0.80%	0.0227
Inflation Sensitive	6%	0.60%	0.0139
Private Equity	12%	6.60%	0.0663
Real Estate	11%	2.80%	0.0521
Infrastructure and Forestland	3%	3.90%	0.0536
Liquidity	2%	-0.40%	(0.90)

(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:

	<u>Discount Rate -1% (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>Discount Rate +1% (8.15%)</u>
Misc Tier I	\$ 1,339,928	\$ 859,560	\$ 461,711

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 Police Officer employee’s by adding 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, 2018 were \$12,671. Police department eligible employees are also covered by Social Security.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2018**

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 reported as a component unit of Lake Shastina Community Services District as defined by its reporting entity. The amount of payroll reimbursements paid by LSPOA to the District during the 2017/18 fiscal year was \$88,325 and the amount of shared services and supplies reimbursed was \$25,716.

Note 10: Stewardship, Compliance and Accountability

A. Deficit Fund Balances

At June 30, 2018, the General Fund had a negative fund balance of \$141,615, and the Cops Fund had a negative fund balance of \$54,448.

B. Prior Period Adjustments

Prior period adjustments were made Increasing beginning fund balance in the police fund, \$24,259 and fire fund \$13,972 and increasing net position in the water fund \$9,717 and sewer fund \$11,041, to agree the reconciled account receivable balances to the prior year access database balances.

Prior period adjustments were made increasing water fund net position \$7,400 and decreasing sewer fund net position \$7,400 to reallocate vehicle #19 from all water fund to a 50/50 split.

A prior period adjustment was made increasing general fund, fund balance \$3,950 to account for federal tax and CalPERS payable adjustments related to prior year balances.

C. Budget Variances

The fire fund functional expense was \$45,744 over the legally adopted budget. The police fund functional expense was \$16,978 over the legally adopted budget.

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, 2018**

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, 2018.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Interest	\$ 950	\$ 2,400	\$ 2,421	\$ 21
Rental income	82,919	82,919	84,265	1,346
Other revenues and reimbursements	<u>3,500</u>	<u>4,400</u>	<u>11,667</u>	<u>7,267</u>
 Total Revenues	 <u>87,369</u>	 <u>89,719</u>	 <u>98,353</u>	 <u>8,634</u>
<b>Expenditures</b>				
General administration	84,869	96,594	-	98,804
Interest expense	2,500	4,175	5,112	(937)
Capital outlay	<u>          </u>	<u>57,950</u>	<u>5,602</u>	<u>52,348</u>
 Total Expenditures	 <u>87,369</u>	 <u>158,719</u>	 <u>8,504</u>	 <u>150,215</u>
 Change in Fund Balances*	 <u>\$ -</u>	 <u>\$ (69,000)</u>	 89,849	 <u>\$ 158,849</u>
 Fund Balances, July 1, 2017			 (233,204)	
Prior Period Adjustment			<u>3,950</u>	
Fund Balances, June 30, 2018			<u>\$ (139,405)</u>	

\*Difference is from capital outlay reserve

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
POLICE FUND  
June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Assessments	\$ 425,040	\$ 425,040	\$ 424,270	\$ (770)
Intergovernmental		1,275	622	(653)
Use of money and property	625	3,000	4,393	1,393
License and permits	4,200	4,800	5,450	650
Other revenues and reimbursements	<u>11,200</u>	<u>15,500</u>	<u>13,014</u>	<u>(2,486)</u>
 Total Revenues	 <u>441,065</u>	 <u>449,615</u>	 <u>447,749</u>	 <u>(1,866)</u>
<b>Expenditures</b>				
Public protection-police	425,218	459,797	475,772	(15,975)
Capital outlay	<u>35,500</u>	<u>35,500</u>	<u>7,592</u>	<u>27,908</u>
 Total Expenditures	 <u>460,718</u>	 <u>495,297</u>	 <u>483,364</u>	 <u>11,933</u>
<b>Excess (Deficit) of Revenues over Expenditures</b>				
Before Other Financing Sources (Uses)	<u>(19,653)</u>	<u>(45,682)</u>	<u>(35,615)</u>	<u>10,067</u>
<b>Other Financing Sources (Uses)</b>				
Gain on sale of assets		<u>3,500</u>	<u>3,534</u>	<u>34</u>
Total Other Financing Sources (Uses)		<u>3,500</u>	<u>3,534</u>	<u>34</u>
 Change in Fund Balances	 <u><u>\$ (19,653)</u></u>	 <u><u>\$ (42,182)</u></u>	 <u>(32,081)</u>	 <u><u>\$ 10,101</u></u>
 Fund Balances, July 1, 2017			 550,412	
 Prior Period Adjustment			 <u>24,259</u>	
 Fund Balances, June 30, 2018			 <u><u>\$ 542,590</u></u>	

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
FIRE FUND  
June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Assessments	\$ 115,440	\$ 115,440	\$ 115,359	\$ (81)
Intergovernmental revenues	77,882	223,135	251,631	28,496
Use of money and property	400	1,100	1,127	27
Other revenues and reimbursements	<u>8,816</u>	<u>12,816</u>	<u>13,700</u>	<u>884</u>
Total Revenues	<u>202,538</u>	<u>352,491</u>	<u>381,817</u>	<u>29,326</u>
<b>Expenditures</b>				
Public protection-fire	220,595	308,935	349,415	(40,480)
Capital outlay	<u>3,000</u>	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total Expenditures	<u>223,595</u>	<u>311,935</u>	<u>349,415</u>	<u>(37,480)</u>
<b>Excess (Deficit) of Revenues over Expenditures</b>				
Before Other Financing Sources (Uses)	<u>(21,057)</u>	<u>40,556</u>	<u>32,402</u>	<u>(8,154)</u>
<b>Other Financing Sources (Uses)</b>				
Gain on sale of assets	<u>25,000</u>	<u>95,000</u>	<u>94,988</u>	<u>(12)</u>
Total Other Financing Sources (Uses)	<u>25,000</u>	<u>95,000</u>	<u>94,988</u>	<u>(12)</u>
Change in Fund Balances*	<u>\$ 3,943</u>	<u>\$ 135,556</u>	127,390	<u>\$ (8,166)</u>
Fund Balances, July 1, 2017			131,699	
Prior Period Adjustment			<u>13,972</u>	
Fund Balances, June 30, 2018			<u>\$ 273,061</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, 2018**

<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%
6/30/2017	0.02180%	\$859,560	\$345,984	248.44%	65.04%

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, 2018**

<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%
6/30/2017	\$81,082	(\$81,082)	\$0	\$345,984	23.44%

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, 2018**

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, 2018, 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 January 16, 2019.

## **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 18-1 through FS 18-3 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 18-4 through FS 18-6 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*  
January 16, 2019

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
FINDINGS and RECOMMENDATIONS  
JUNE 30, 2018**

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

**Finding 18-1:** 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. We have noted this condition in the prior audit.

**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.

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

**Finding 18-2:** During our testing of accrued expense we tested \$52,572 that was recorded as accrued expense offset to capital outlay that did not meet the definition of an accrued expense. The items were accrued because the budget for the capital outlay was in the 2017/18 fiscal year.

**Recommendation:** We recommend only recording items to accrued expense or accounts payable when the service is performed or the item is received prior to fiscal year end , to properly reflect the full accrual basis of accounting for enterprise funds and the modified accrual basis of accounting for governmental funds in accordance with generally accepted accounting principles (GAAP). An accrual is not appropriate if only to satisfy when the item was budgeted. We also recommend the District amend the budget to reflect the period when the actual expenditure is incurred.

**Response:** The District agrees with this recommendation and will follow through with appropriate accruals of expenditures. The budget will be amended as necessary to adjust expenditures to the appropriate fiscal year of occurrence.

**Finding 18-3: (Prior Year 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.

**Current Year Follow Up:** During the current fiscal year the District printed the accounts receivable aged trial balance at fiscal year-end and we were able to determine and test the balances as of June 30, 2018. The accounts, however, were not reconciled prior to starting the audit. We proposed prior period adjustments to correctly report the accounts receivables per fund as of June 30, 2018.

**Recommendation:** We recommend reconciling accounts receivables prior to the auditor starting field work.

**Response:** The District agrees with this recommendation and will attempt to reconcile accounts receivables prior to the next auditor starting field work.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
FINDINGS and RECOMMENDATIONS  
JUNE 30, 2018**

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

**Finding 18-4:** During our audit we noted \$21,388 recorded to capital improvement accounts in the water fund that did not meet the definition of a capital asset. We proposed an adjustment to reclassify this to a service and supply account. We also noted several vehicles that were sold where the bill of sale was not retained.

**Recommendation:** We recommend only recording items meeting the definition of a capital asset to the capital improvement account. We also recommend retaining a copy of the completed bill of sale (attached to the pink slip) when selling vehicles.

**Response:** The District agrees with this recommendation and will follow the described process.

**Finding 18-5:** We noted the fire department overbilled OES for the Lane Fire strike team reimbursement. Furthermore strike team invoices are prepared by the fire chief and sent directly by the fire chief to OES with a return address, for checks to be mailed, to the fire department. The invoices are not entered into the general ledger as an accounts receivable when they are billed. This provides a lack of review for accuracy and a lack of segregation of duties for billing and collecting funds. This also increases the risk of material misstatement in the financial statements for misappropriation of assets.

During our testing of strike team activity we noted relatives of fire department management who were working as strike team members, and it appeared that a fire department management employee was involved in their hiring.

**Recommendation:** We recommend the District follow up on the overbilling for the Lane fire strike team receipt and determine if a reimbursement is owed. We also recommend the fire chief prepare the invoice to OES for strike team reimbursements and then provide the invoice with the backup documentation to the finance department. The finance department would then reconcile the invoice to the underlying documentation for accuracy, send the invoice to the appropriate agency and record an accounts receivable in the general ledger so the district can track the billing and collection of the funds.

We recommend the District review the nepotism policy of the District involving management level employees hiring relatives and communicate the proper hiring procedures for management employee relatives.

**Response:** The District agrees with this recommendation and is in the process of determining if a reimbursement is owed to OES for overbilling of the Lane Fire and other California Major Fires the Fire Department responded. The District also agrees with the second recommendation and has reviewed the nepotism policy with the fire chief and will continue to insure no violation of the policy occurs.

**Finding 18-6: (Prior Year Finding 17-7):** During our audit we noted the Cops Grant Fund had a negative cash balance of \$91,168 which was reclassified as a due to/from the Cops Grant Fund to the Police Department fund. The Cops Grant fund also had a negative fund balance of \$92,530 at June 30, 2017.

**Current Year Follow Up:** During the current year we noted the Cops Grant fund had a negative fund balance of \$54,448 and a due to the police department fund of \$91,168. The Cops Grant fund had a positive \$32,833 cash balance.

**Recommendation:** Because the Cops Grant fund operates with a restricted allocation each year, any shortage should be made up from either the general fund or the Police department fund. We recommend the District review the activity in the Cops Grant fund and cure the due to other fund (negative cash) liability and the negative fund balance.

**Response:** The District agrees with this recommendation, however not being a city, the District does not have a general fund, but will made the adjustment from the Police department fund.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
FOLLOW UP ON PRIOR YEAR  
FINDINGS and RECOMMENDATIONS  
JUNE 30, 2017**

**Prior Year 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 of 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.

**Current Year Follow Up:** During the current year we noted the administration building was properly included in the capital asset schedule.

Recommendation: None

**Prior Year 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).

**Current Year Follow Up:** During the current fiscal year the District administrative staff tracked their time separately to the different functions and as a result new allocation percentages of 35% to sewer, 45% to water, 12% to police and 8% to fire were used for the 2017/18 administrative overhead allocation.

Recommendation: None.

**Prior Year Finding 17-2:** 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 recommended 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.

**Current Year Follow Up:** We noted the District did not record medical clinic related expenditures in the general overhead allocation accounts. We noted staff performed a study to determine each department's functional use of the general fund overhead and the Board approved the allocation percentages.

Current Year Recommendation: None.

**Prior Year Finding 17-3:** See current year finding 18-3 for continuing finding.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
FOLLOW UP ON PRIOR YEAR  
FINDINGS and RECOMMENDATIONS  
JUNE 30, 2017**

**Prior Year Finding 17-5:** During our testing of Fire Department strike teams we noted the District is paying the strike team members at a higher rate than what the District is being reimbursed from Cal 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 Cal 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 from Cal OES.

**Current Year Follow Up:** During the current year audit we noted the District submitted the salary survey on time and that the strike team personnel were paid at the correct rate. We noted the District was paying the strike team firefighters \$25.50 per hour and company officers 32.50 in accordance with the approved strike team agreement. The difference between the amount paid to strike team personnel and what was reimbursed is used to cover backfill at the District fire station.

**Recommendation:** None.

**Prior Year 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.

**Current Year Follow Up:** During the current year audit we noted the District allocated the net pension liability and related deferred inflows and outflows based on a consistent allocation method to each fund.

**Recommendation:** None

**Prior Year Finding 17-7:** See current year finding 18-6 for continuing finding.

**Prior Year 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.

**Current Year Follow Up:** The prior General Manager who was treated as an independent contract is no longer with the District.

**Recommendation:** None