

LAKE SHASTINA
COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2015

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
 FINANCIAL STATEMENTS
 JUNE 30, 2015
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Aiello, Goodrich & Teuscher

An Accountancy Corporation

INDEPENDENT AUDITORS' 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 and each major fund, of Lake Shastina Community Services District ("District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which 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 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.

Auditor's 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, and the State Controller's *Minimum Audit Requirements and Reporting Guidelines for California Special Districts*. 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 involves 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 entity'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 entity'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 presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the District, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 i through ii, the budgetary comparison information on pages 28 through 30 and the Lake Shastina Community Service District's 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 page 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, 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lake Shastina Community Services District's basic financial statements. The accompanying combining nonmajor funds financial statements on pages 32 through 34 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor funds financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2016, on our consideration of the Lake Shastina Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake Shastina Community Services District's internal control over financial reporting and compliance.

Aiello, Goodrich & Teuscher

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
February 8, 2016



Lake Shastina Community Services District
Management's Discussion and Analysis
June 30, 2016

This discussion and analysis of the District's financial performance provides a brief overview of the District's financial activities for fiscal year ending June 30, 2015. Please read and review in addition to the audited District financial statements as prepared by independent auditor Aiello, Goodrich & Teuscher, an Accountancy Corporation in Mount Shasta, California.

Financial Reporting Policy Changes:

Please note that changes in Generally Accepted Accounting Practices (GAAP) policies as established by the General Accounting Standards Board (GASB) has impacted the way certain current and deferred financial transactions are reported. Some of these policy changes have an impact on how this year's audit was prepared. The net position at the beginning of the fiscal year was restated as a result of GASB policy change. Please review the complete audit with notes to further explain this.

Revenue and Expense:

Over last fiscal year, the District's total General Fund Revenue increased by \$29,846. General Fund expenditures increased by \$562,688. \$500,000 of the expenditures is due to the payoff of a capital lease. Please see more detail and explanation in the audit document. The balance of the expenditure increase can be mostly attributed to unexpected attorney fees.

Over last year, the District's total Enterprise Fund Revenues decreased by \$78,276. Enterprise Fund expenditures increased by \$10,869. Please see more detail and explanation in the audit document.

Reporting the District as a Whole:

One of the most important questions about the District's finances continues to be *"Is the District, as a whole, in better or worse condition financially as a result of the year's financial activities?"* The Statement of Net Position, along with the Statement of Activities helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting. Any revenues and expenses that are incurred during the fiscal year are reported here regardless of when cash is actually received or paid.

Looking at these statements, you can use the District's net position numbers (the difference between assets and liabilities) as a measurement of the District's financial health and as a future planning tool with an eye to future budgeting. Over time, increases or decreases in the District's net position is an indicator of whether the District's financial health is improving or deteriorating.

However, there are other factors involved in assessing the District's overall health; such as the need to make not yet scheduled capital improvements within the short and long term, a future increase in revenue base, etc.

General Fund Financial Statement:

Several of the District's basic services are reported in General or Governmental Funds. This focuses on how revenue is received and spent, and the balances left at the end of the financial year that are available for spending. These funds are reported using the modified accrual accounting method. This method measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term overview of the District's General Fund operations and the basic public services it provides. This General/Governmental fund information helps to determine if there are more or less financial resources that can be spent in the near future to pay for the District's General Fund programs.

Enterprise Funds – Water and Wastewater:

Enterprise Funds (or Proprietary Funds) are revenues received from goods or services the District provides, such as water sales and wastewater (sewer) disposal and treatment. Enterprise funds are reported in the same way as all other financial activities are reported in the financial statements.

Reporting and Compliance:

All matters of deficiencies or non-compliance found during this audit have been answered, and/or new more stringent procedures have been put in place to address these matters.

Lake Shastina Community Services District
Management's Discussion and Analysis
June 30, 2016

Summary:

Please read and review the independent auditor's complete report. You will find comprehensive and summary reports for all financial activities for the District for fiscal year ending June 30, 2015. You will also find comprehensive notes and explanations that further help clarify the financial statements.

BASIC FINANCIAL STATEMENTS

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Net Position
June 30, 2015

	Governmental Activities	Business- Type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 603,847	\$ 1,566,546	\$ 2,170,393
Receivables			
Assessments and accounts	34,810	19,949	54,759
Unbilled services	-	198,413	198,413
Tax roll	107,655	94,046	201,701
Intergovernmental	44,882	-	44,882
Inventory of supplies	-	30,497	30,497
Prepaid expenses	14,607	7,914	22,521
Due from Lake Shastina POA	15,052	8,612	23,664
Total current assets	820,853	1,925,977	2,746,830
Noncurrent assets:			
Advances to other funds	-	500,000	500,000
Non depreciable	37,506	142,656	180,162
Depreciable, net	817,638	4,357,915	5,175,553
Total noncurrent assets	855,144	5,000,571	5,855,715
Total assets	1,675,997	6,926,548	8,602,545
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued expenses	36,255	26,044	62,299
Accrued payroll and benefits	30,885	5,603	36,488
Compensated absences payable, due within one year	18,851	3,994	22,845
Capital lease payable, due within one year	-	33,462	33,462
Total current liabilities	85,991	69,103	155,094
Noncurrent liabilities:			
Advances from other funds	500,000	-	500,000
Compensated absences payable, due in more than one year	28,277	5,991	34,268
Net pension liability	426,361	221,391	647,752
Capital lease payable due in more than one year	-	438,027	438,027
Total noncurrent liabilities	954,638	665,409	1,620,047
Total liabilities	1,040,629	734,512	1,775,141
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred inflows from pensions	1,793	932	2,725
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	855,144	4,029,082	4,884,226
Restricted for:			
Debt service	-	471,489	471,489
Unrestricted	(221,569)	1,690,533	1,468,964
Total net position	\$ 633,575	\$ 6,191,104	\$ 6,824,679

The accompanying notes are an integral part of these financial statements.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Activities
For The Year Ended June 30, 2015

	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental activities:							
General government	\$ 181,714	\$ -	\$ -	\$ -	\$ (181,714)	\$ -	\$ (181,714)
Police	399,484	254,269	111,322	-	(33,893)	-	(33,893)
Fire	209,689	109,943	-	11,650	(88,096)	-	(88,096)
Total governmental activities	790,887	364,212	111,322	11,650	(303,703)	-	(303,703)
Business-type activities:							
Sewer	548,208	551,024	-	-	-	2,816	2,816
Water	564,453	455,297	-	-	-	(109,156)	(109,156)
Total business-type activities	1,112,661	1,006,321	-	-	-	(106,340)	(106,340)
Total	\$ 1,903,548	\$ 1,370,533	\$ 111,322	\$ 11,650	(303,703)	(106,340)	(410,043)
General revenues:							
Interest and investment earnings					1,492	4,643	6,135
Rental income					91,061	-	91,061
Gain on payoff of capital lease					34,177	-	34,177
Other					114,258	2,245	116,503
Total general revenues					240,988	6,888	247,876
Change in net position					(62,715)	(99,452)	(162,167)
Beginning of the year, as previously reported					1,136,860	6,516,984	7,653,844
Prior period adjustment (Footnote 13)					(15,283)	(5,595)	(20,878)
Implementation of new GASB pronouncement (Footnote 1)					(425,287)	(220,833)	(646,120)
Net position - beginning of year, as restated					696,290	6,290,556	6,986,846
Net position - ending					\$ 633,575	\$ 6,191,104	\$ 6,824,679

The accompanying notes are an integral part of these financial statements.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Balance Sheet - Governmental Funds
June 30, 2015

	General Fund	Police Funds	Fire Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 220,293	\$ 192,328	\$ 191,227	\$ 603,848
Receivables				
Assessments and accounts	-	24,841	9,969	34,810
Tax roll	-	82,440	25,215	107,655
Intergovernmental		34,213	10,669	44,882
Prepaid expenses	9,376	4,796	436	14,608
Due from Lake Shastina Property Owner's Association	10,426	-	4,626	15,052
Total assets	\$ 240,095	\$ 338,618	\$ 242,142	\$ 820,855
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 21,284	\$ 7,903	\$ 11,203	\$ 40,390
Accrued expenses and deposits	19,285	5,063	2,404	26,752
Advances from other funds	500,000	-	-	500,000
Total liabilities	540,569	12,966	13,607	567,142
 Fund balances:				
Committed:				
Fire equipment	-	-	83,804	83,804
Assigned:				
Police	-	325,652	-	325,652
Fire	-	-	144,731	144,731
Unassigned	(300,474)	-	-	(300,474)
Total fund balances	(300,474)	325,652	228,535	253,713
Total liabilities and fund balances	\$ 240,095	\$ 338,618	\$ 242,142	\$ 820,855

The accompanying notes are an integral part of these financial statements.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
 Reconciliation of the Balance Sheet - Governmental Funds
 to the Government-Wide Statement of Net Position
 June 30, 2015

Total fund balances included in the Balance Sheet - Governmental Funds		\$ 253,713
Amounts reported for governmental activities in the statement of net assets are different because:		
Assets recorded within the Statement of Net Position not reported in the funds:		
Nondepreciable capital assets		37,506
Depreciable capital assets	2,268,632	
Accumulated depreciation	<u>(1,450,994)</u>	817,638
Liabilities recorded within the Statement of Net Position not reported in the funds:		
Compensated absences		(47,128)
Net pension liability		(426,361)
Deferred inflows recorded within the statement of net position not reported in the funds:		
Deferred inflows of resources relating to pensions		<u>(1,793)</u>
Net Position of Governmental Activities		<u><u>\$ 633,575</u></u>

The accompanying notes are an integral part of these financial statements.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
For The Year Ended June 30, 2015

	General Fund	Special Revenue Funds		Total
		Police Funds	Fire Fund	
REVENUES				
Special tax assessments	\$ -	\$ 254,269	\$ 109,785	\$ 364,054
Federal and state grants	-	111,322	11,650	122,972
Other operating revenues	7,066	13,186	23,448	43,700
Interest	588	484	420	1,492
Rents	91,061	-	-	91,061
Other nonoperating revenues	1,877	335	68,504	70,716
Total revenues	<u>100,592</u>	<u>379,596</u>	<u>213,807</u>	<u>693,995</u>
EXPENDITURES				
Current:				
Contract services	1,753	2,389	924	5,066
Dues and subscriptions	1,209	2,615	700	4,524
Elections	780	-	-	780
Fuel and supplies	-	8,873	6,347	15,220
Insurance	216	10,171	6,597	16,984
Labor	93,246	260,744	136,643	490,633
Licenses and permits	693	204	236	1,133
Miscellaneous	140	694	1,397	2,231
Office supplies	2,165	755	791	3,711
Professional services	21,720	3,399	840	25,959
Repairs and maintenance	2,576	5,732	10,828	19,136
Supplies and small tools	40	1,190	4,301	5,531
Travel and training	483	1,468	18,251	20,202
Uniforms	-	672	3,345	4,017
Utilities	2,206	8,632	5,370	16,208
Administrative overhead	-	20,242	20,242	40,484
Capital outlay	-	-	35,491	35,491
Debt service:				
Principal on capital lease	500,000	-	-	500,000
Total expenditures	<u>627,227</u>	<u>327,780</u>	<u>252,303</u>	<u>1,207,310</u>
Excess of revenues over (under) expenditures	(526,635)	51,816	(38,496)	(513,315)
OTHER FINANCING SOURCES				
Operating transfers out	-	28,327	-	28,327
Total other financial sources	-	28,327	-	28,327
Excess of revenues and other sources over (under) expenditures and other uses	<u>(526,635)</u>	<u>80,143</u>	<u>(38,496)</u>	<u>(484,988)</u>
FUND BALANCES				
Beginning of the year, as previously reported	234,045	251,840	268,099	753,984
Prior period adjustment	(7,884)	(6,331)	(1,068)	(15,283)
Beginning of the year, as restated	<u>226,161</u>	<u>245,509</u>	<u>267,031</u>	<u>738,701</u>
End of the year	<u>\$ (300,474)</u>	<u>\$ 325,652</u>	<u>\$ 228,535</u>	<u>\$ 253,713</u>

The accompanying notes are an integral part of these financial statements.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
 Balances - Governmental Funds to the Government-Wide Statement of Activities
 For The Year Ended June 30, 2015

Total net change in fund balance included in the Statement of Revenues,
 Expenditures, and Changes in Fund Balances - Governmental Funds \$ (484,988)

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

Governmental funds report capital outlays as expenditures. However,
 in the Statement of Activities, the cost of those assets is allocated
 over their estimated useful lives and reported as depreciation expense.

Capital outlay	35,492	
Depreciation expense	(97,401)	(61,909)

Revenues in the Statement of Activities do not provide current
 financial resources and are not reported as revenues in the funds.

Gain on payoff of capital lease	34,177
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The issuance of long-term debt (i.e. leases) provides current financial
 resources to governmental funds while the repayment of the principal
 of long-term debt consumes the current financial resources of
 governmental funds. Neither transaction, however, has any effect
 on net position. Also, governmental funds report the effect of premiums,
 discounts, and similar items when debt is first issued, whereas these
 amounts are deferred and amortized in the Statement of Activities.

Principal payments on debt	500,000
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In governmental funds, pension costs are recognized when employer
 contributions are made. In the Statement of Activities, pension costs
 are recognized on the accrual basis.

	(21,668)
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Some transactions reported in the Statement of Activities do not require
 the use of current financial resources and, therefore, are not reported
 as expenditures in governmental funds.

Compensated absences expense	(28,327)
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Change in Net Assets of Governmental Activities	\$ (62,715)
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The accompanying notes are an integral
 part of these financial statements.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Net Position - Proprietary Funds
June 30, 2015

	Enterprise Funds		
	Sewer	Water	Total
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 440,295	\$ 1,126,251	\$ 1,566,546
Assessments and accounts receivable	4,442	15,507	19,949
Unbilled services receivable	117,348	81,065	198,413
Tax roll receivable	39,711	54,335	94,046
Prepaid expense	7,914	-	7,914
Inventory of supplies	3,807	26,690	30,497
Due from Lake Shastina POA	7,785	827	8,612
Total current assets	621,302	1,304,675	1,925,977
Noncurrent assets:			
Advances to other funds	-	500,000	500,000
Non-depreciable capital assets	83,155	59,501	142,656
Depreciable capital assets, net	3,291,286	1,066,629	4,357,915
Total noncurrent assets	3,374,441	1,626,130	5,000,571
Total assets	3,995,743	2,930,805	6,926,548
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued expense	8,870	17,174	26,044
Accrued payroll and benefits	4,528	1,075	5,603
Compensated absences payable - current	3,994	-	3,994
Financing leases payable - current	33,462	-	33,462
Total current liabilities	50,854	18,249	69,103
Noncurrent liabilities:			
Compensated absences payable - noncurrent	5,991	-	5,991
Net pension liability	221,391	-	221,391
Financing leases payable - noncurrent	438,027	-	438,027
Total noncurrent liabilities	665,409	-	665,409
Total liabilities	716,263	18,249	734,512
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred inflows from pensions	932	-	932
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	2,902,952	1,626,130	4,529,082
Unrestricted	375,596	1,286,426	1,662,022
Total net position	\$ 3,278,548	\$ 2,912,556	\$ 6,191,104

The accompanying notes are an integral part of these financial statements.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Change in Net Position - Proprietary Funds
For The Year Ended June 30, 2015

	Enterprise Funds		
	Sewer	Water	Total
<u>OPERATING REVENUES</u>			
Charges for services	\$ 540,828	\$ 455,032	\$ 995,860
Other operating revenues	10,196	265	10,461
Total revenues	<u>551,024</u>	<u>455,297</u>	<u>1,006,321</u>
<u>OPERATING EXPENSES</u>			
Contract services	25,931	7,730	33,661
Depreciation	157,676	129,155	286,831
Dues and subscriptions	405	1,068	1,473
Fuel and supplies	6,432	6,092	12,524
Insurance	21,361	23,326	44,687
Labor	118,622	141,178	259,800
Licenses and permits	5,009	9,612	14,621
Meals	-	196	196
Miscellaneous	323	1,331	1,654
Professional services	9,473	3,960	13,433
Repairs and maintenance	16,724	38,414	55,138
Small tools and supplies	3,516	3,360	6,876
Travel and training	153	995	1,148
Uniforms	883	883	1,766
Utilities	45,958	90,880	136,838
Administrative overhead	106,273	106,273	212,546
Total operating expenses	<u>518,739</u>	<u>564,453</u>	<u>1,083,192</u>
Operating gain (loss)	<u>32,285</u>	<u>(109,156)</u>	<u>(76,871)</u>
<u>NONOPERATING REVENUES AND (LOSSES)</u>			
Investment income	773	3,870	4,643
Interest expense	(29,469)	-	(29,469)
Other nonoperating revenues	-	2,245	2,245
Total nonoperating revenues (losses)	<u>(28,696)</u>	<u>6,115</u>	<u>(22,581)</u>
Change in net assets	<u>3,589</u>	<u>(103,041)</u>	<u>(99,452)</u>
<u>NET POSITION</u>			
Beginning of the year, as previously reported	3,500,506	3,016,478	6,516,984
Prior period adjustment	(4,714)	(881)	(5,595)
Implementation of new GASB pronouncement	(220,833)	-	(220,833)
Beginning of the year, as restated	<u>3,274,959</u>	<u>3,015,597</u>	<u>6,290,556</u>
End of the year	<u>\$ 3,278,548</u>	<u>\$ 2,912,556</u>	<u>\$ 6,191,104</u>

The accompanying notes are an integral part of these financial statements.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Cash Flows-Proprietary Funds
For The Year Ended June 30, 2015

	Enterprise Funds		
	Sewer	Water	Total
<u>Cash Flows From Operating Activities</u>			
Receipts from customers	\$ 566,590	\$ 477,982	\$ 1,044,572
Payments to suppliers	(253,996)	(304,001)	(557,997)
Payments to employees	(152,695)	(140,984)	(293,679)
Net cash provided by operating activities	<u>159,899</u>	<u>32,997</u>	<u>192,896</u>
<u>Cash Flows From Non-Capital Financing Activities</u>			
Interfund advances	-	(500,000)	(500,000)
Cash received from (paid to) Lake Shastina Property Owner's Association	(7,785)	(827)	(8,612)
Other nonoperating income received	-	2,245	2,245
Net cash used by operating activities	<u>(7,785)</u>	<u>(498,582)</u>	<u>(506,367)</u>
<u>Cash Flows (Used) By Capital and Related Financing Activities</u>			
Purchase of capital assets	(21,832)	(92,689)	(114,521)
Debt principal paid	(31,557)	-	(31,557)
Debt interest paid	(29,469)	-	(29,469)
Net cash (used) by capital and related financing activities	<u>(82,858)</u>	<u>(92,689)</u>	<u>(175,547)</u>
<u>Cash Flows Provided By Investing Activities</u>			
Interest received	<u>773</u>	<u>3,870</u>	<u>4,643</u>
Net increase (decrease) in cash and cash equivalents	70,029	(554,404)	(484,375)
Cash and cash equivalents at the beginning of the year	<u>370,266</u>	<u>1,680,655</u>	<u>2,050,921</u>
Cash and cash equivalents at the end of the year	<u>\$ 440,295</u>	<u>\$ 1,126,251</u>	<u>\$ 1,566,546</u>
<u>Reconciliation Of Operating Income (Loss) To Net Cash Provided</u>			
<u>By Operating Activities</u>			
Operating gain (loss)	\$ 32,285	\$ (109,156)	\$ (76,871)
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation	157,676	129,155	286,831
(Increase) decrease in:			
Accounts receivable	7,486	6,071	13,557
Unbilled services receivable	610	11,278	11,888
Tax roll receivable	7,470	5,336	12,806
Prepays	(7,914)	478	(7,436)
Inventory	1	-	1
Increase (decrease) in:			
Accounts payable and accrued expenses	(3,642)	(10,359)	(14,001)
Accrued payroll and benefits	(186)	194	8
Compensated absences	(35,377)	-	(35,377)
Net pension liability	558	-	558
Deferred inflow from pension	932	-	932
Net cash (used) by operating activities	<u>\$ 159,899</u>	<u>\$ 32,997</u>	<u>\$ 192,896</u>

The accompanying notes are an integral part of these financial statements.

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations and Reporting Entity:

Lake Shastina Community Services District ("District") is a California Special District located in Siskiyou County, California. While a community services district is similar to counties and cities, one distinct power not generally available to a community services district is land use planning. The District provides residents of the District with police and fire protection, the collection and treatment of wastewater, and provides water.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental entities. The following is a summary of the more significant policies.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the District are discussed below.

The accompanying basic financial statements include only the operations of the District, since management has determined that there are no other organizations that meet the criteria for inclusion in the reporting entity of the District.

B. Basis of Presentation:

The financial statement presentation required by GASB Statements Nos. 34, 37, 38, and 39 provides a comprehensive, entity-wide perspective of the District's overall financial position and results of operations while maintaining the presentation of the financial position, results of operations and cash flows, as applicable, of the District's major funds.

Government-wide Financial Statements:

The statement of net position and statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities (such as police and fire) are reported separately from business-type activities (such as sewer and water).

The statement of activities presents a comparison between direct expenses and program revenues for each different identifiable activity of the District's business-type activities and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore are clearly identifiable to a particular function. Program revenues include charges paid by recipients of goods and services offered by the program, and 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 are presented instead as general revenues.

When both restricted and unrestricted resources are available for use, restricted resources are depleted first before the unrestricted resources are used.

Fund Financial Statements:

The accounts of the District are organized into funds, each of which is considered to be a separate account entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

Total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category type; and

Total assets, liabilities, revenues, or expenditures/expenses for the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

The funds of the District are described below:

Major Governmental Funds:

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District has two special revenue funds; the police fund and the fire fund. The police fund has several funds that are used to account for various grants and contracts.

Major Proprietary Funds:

The Water Fund accounts for the operation and maintenance of the District's water utility.

The Sewer Fund accounts for the operation and maintenance of the District's water utility.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are assessments to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administration expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District has elected to report all of the above as major funds, and therefore it has no non-major funds.

C. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

In the government-wide statements, both governmental and business-type activities are presented using the economic resources measurement focus as defined below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is used as appropriate:

All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present resources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the year.

All proprietary (enterprise) funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as a net asset.

Basis of Accounting:

In the government-wide statements, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

In the fund financial statements, governmental and District funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days after year-end. Expenditures (including capital outlays) are recorded when the related fund liability is incurred.

All proprietary funds utilize the accrual basis of accounting, as described above.

D. Cash and Cash Equivalents:

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity at the date of purchase of three months or less and all local government investment pools to be cash equivalents, as well as cash on hand and demand deposits.

E. Local District Investment Fund:

The District participates in the California Local District Investment Fund ("LAIF"). LAIF is an external investment pool through which local governments may pool investments. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without the loss of interest. The fair value of the District's portion of LAIF is the same as its value of the pool shares. The regulatory oversight of LAIF rests with the Local District Investment Board.

F. Receivables:

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based on historical trends, periodic aging of accounts receivable, and management's detailed analysis of the composition of accounts receivable. Major receivable balances for both governmental and business-type activities include assessments for services and assessments for services placed on the County tax rolls.

In the fund financial statements, material receivables in governmental funds are the same as those in the government-wide statements, since they are both measurable and available. Interest earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end but not yet received. Allowances for uncollectible accounts receivable are based on historical trends, periodic aging of accounts receivable, and management's detailed analysis of the composition of accounts receivable.

Sewer and water charges for services revenue is recorded when earned. The estimated value of services provided but unbilled at year-end has been included in the accompanying financial statements.

G. Inventory of Supplies:

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

H. Prepaid Expenses:

Prepaid expenses are certain payments to vendors that reflect costs applicable to future accounting periods.

I. Capital Assets:

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, property, plant and equipment are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual historical cost is not available, except donated capital assets are recorded at their estimated fair market value at the date of donation. The District capitalizes those items that have an initial cost of \$1,000 or more.

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

The cost of normal maintenance and repairs that do not add to the value or materially extend the useful life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Subsurface sewer lines	40 to 50 years
Sewage collection facilities	10 to 40 years
Sewage disposal facilities	40 years
Water system	5 to 35 years
Buildings	20 to 40 years
Equipment	5 to 12 years
Vehicles	2 to 10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

J. Compensated Absences:

The District's policy regarding vacation and sick leave is to permit employees to accumulate earned but unused vacation and leave, up to certain limits. This amount is included as a liability in the proprietary fund and government-wide financial statements.

K. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources is defined as the current consumption of net assets that is applicable to a future reporting period while deferred inflows of resources is defined as the current acquisition of net assets that is applicable to a future reporting period.

GASB 68 took effect for fiscal years beginning after June 15, 2014 but ending on or before June 30, 2015. The purpose of this statement is to improve accounting and financial reporting by public agencies for pensions.

The implementation of GASB 68 created the District's first deferred outflow of resources – the employee pension contribution. This is the same as the current year's employer pension contribution, but deferred for future consumption.

The implementation of GASB 68 also created the District's first deferred inflow of resources – employee pension actuarial.

L. Fund Balance / Net Position

In the government-wide financial statement, equity is classified as net position. Net position comprises various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified into the following three components.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balance 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 constraints imposed by creditors (such as through bond covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that does not meet the definition of restricted net position or invested in capital assets, net of related debt.

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Executive Board. These amounts cannot be used for any other purpose unless the Executive Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Executive Board or through the Executive Board delegating this responsibility to the Executive Director through the budgetary process.

Unassigned: This classification includes the residual fund balance for the General Fund.

M. Estimates

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

N. Revenues, Expenditures and Expenses

Special Tax Assessments: Special tax assessments revenue represent periodic assessments, levied against property owners within the District, for providing police and fire services. The revenues are recognized when billed to, and due from, the property owner.

Operating Revenues and Expenses: Operating revenues and expenses for proprietary funds (sewer and water) are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses: In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified by character (current, debt service or capital outlay) for governmental funds, and by operating or nonoperating classifications for proprietary funds.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

O. Budgets

The District prepares annual budgets for the general fund and the special revenue funds on a basis consistent with accounting principles generally accepted in the United States of America. Prior to June 1, the General Manager submits a proposed operating budget for the fiscal year commencing the following July 1 to the Board of Directors. The operating budget includes proposed expenditures and the means of financing them. Prior to July 1, the budget is legally enacted by action of the Board of Directors. The Board of Directors must approve any revisions that alter the total expenditures of any fund.

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

P. Implementation of New Pronouncement

The District adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71, Pension Transitions for Contributions Made Subsequent to the Measurement Date, for the fiscal year ended June 30, 2015. This statement improves financial reporting for pensions and the information provided about financial support for pensions that are provided by other entities. GASB Statement No. 68, as amended by GASB Statement No. 71, also establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, as amended by GASB Statement No. 71:

	Governmental Activities
Net Position – as previously reported	\$ 1,136,860
Prior period adjustment, per Note 13	(15,283)
Net Position – as restated per Note 13	1,121,577
Cumulative Effect of Change in Accounting Principles	
Net pension liability (measurement date as of June 30, 2013)	(480,571)
Deferred Outflows	
Pension contributions made during fiscal year 2013-14	55,284
Cumulative Effect of Change in Accounting Principles	(425,287)
Net Position – as restated	\$ 696,290

	Sewer Fund	Water Fund	Total Business- Type Activities
Net Position – as previously reported	\$ 3,500,506	\$ 3,016,478	\$ 6,516,984
Prior period adjustment, per Note 13	(4,714)	(881)	(5,595)
Net Position – as restated per Note 13	3,495,792	3,015,597	6,511,389
Cumulative Effect of Change in Accounting Principles			
Net pension liability (measurement date as of June 30, 2013)	(249,540)	-	(249,540)
Deferred Outflows			
Pension contributions made during fiscal year 2013-14	28,707	-	28,707
Cumulative Effect of Change in Accounting Principles	(220,833)	-	(220,833)
Net Position – as restated	\$ 3,274,959	\$ 3,015,597	\$ 6,290,556

The effect of this change on the Statement of Activities and Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds for the prior year could not be determined. The effect on the current year was immaterial.

Note 2. Cash and Investments

The District follows the practice of pooling cash of all funds, unless the funds are required by law, debt covenant or other instrument to be held in a separate account. Interest income on pooled cash invested is allocated monthly to the various funds based on the same proportion that such funds bear to the total monies invested.

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 2. Cash and Investments (continued)

Cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Statement of net position:	
Governmental activities / governmental funds	\$ 603,847
Business-type activities / proprietary funds	1,566,546
Total cash and investments	\$ 2,170,393

Consisting of the following:	
Cash on hand	\$ 377
Deposits with financial institutions	303,506
Investments (LAIF)	1,866,510
Total cash and investments	\$ 2,170,393

Investments Authorized:

The District manages its pooled idle cash investments under the guidelines of the State of California Government Code Section 53601, which specifically authorizes investments in the following instruments: treasury bills, treasury notes, federal District securities, bankers' acceptances, nonnegotiable certificates of deposit, commercial paper, negotiable certificates of deposit, and repurchase agreements. All investments activities are conducted with financial institutions approved by the Board of Directors.

Disclosure Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to market interest rates. As of year-end, the weighted average maturity, as well as the estimated fair value of each investment is shown in the table, below.

	Cost	Fair Value	Maturity Date
Local District Investment Fund	\$ 1,866,510	\$ 1,866,510	239 day average

Disclosure Relating to Credit Risk:

Generally, credit risk is the risk that an issuer if an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have such a rating.

Concentration of Credit Risk:

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5 percent or more of total District investments.

Custodial Credit Risk:

Custodial credit risk of 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 deposits or will not be able to recover collateral securities that are in the possession of an outside 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, other than the following provisions for deposits: The California Government Code requires that a financial institution secure 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 governmental unit). The market value of the pledged securities in the collateral pool must equal 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 2. Cash and Investments (continued)

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 or collateral securities that are in 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 investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool (LAIF):

The District is a voluntary participant in the Local District Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by LAIF, which are recorded on an amortized cost basis.

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 allowance for uncollectible accounts as management feels all amounts are collectible.

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

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Nondepreciable capital assets				
Land	\$ 37,506	\$ -	\$ -	\$ 37,506
Depreciable capital assets				
Buildings and improvements	1,040,715	-	-	1,040,715
Plant and equipment	547,671	21,339	5,459	563,551
Vehicles and rolling stock	650,213	14,153	-	664,366
Total capital assets, being depreciated	2,238,599	35,492	5,459	2,268,632
Less accumulated depreciation for:				
Buildings and improvements	350,816	34,691	-	385,507
Plant and equipment	439,916	35,375	5,459	469,832
Vehicles and rolling stock	568,320	27,335	-	595,655
Total accumulated depreciation	1,359,052	97,401	5,459	1,450,994
Depreciable capital assets, net	879,547	(61,909)	-	817,638
Governmental capital assets, net	\$ 917,053	\$ (61,909)	\$ -	\$ 855,144

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 5. Capital Assets (continued)

	Beginning Balance	Additions	Retirements	Ending Balance
Business-type Activities:				
Nondepreciable capital assets				
Land	\$ 31,433	\$ -	\$ -	\$ 31,433
Construction in progress	82,234	28,989	-	111,223
Total nondepreciable capital assets	113,667	28,989	-	142,656
Depreciable capital assets				
Buildings and improvements	280,638	-	-	260,638
Plant and equipment	8,229,153	59,534	-	8,288,687
Vehicles and rolling stock	274,325	25,998	-	300,323
Total capital assets, being depreciated	8,784,116	85,532	-	8,869,648
Less accumulated depreciation for:				
Buildings and improvements	141,791	11,391	-	152,930
Plant and equipment	3,889,641	252,382	-	4,142,023
Vehicles and rolling stock	193,470	23,310	-	216,780
Total accumulated depreciation	4,224,902	286,831	-	4,511,733
Depreciable capital assets, net	4,559,214	(201,299)	-	4,357,915
Business-type capital assets, net	\$ 4,672,881	\$ (172,310)	\$ -	\$ 4,500,571

Depreciation expense was charged to functions/programs as follows:

General government	\$ 44,100
Police	20,560
Fire	32,741
Total depreciation expense – governmental activities	\$ 97,401
Sewer	\$ 157,676
Water	129,155
Total depreciation expense – business-type activities	\$ 286,831

Note 6. Capital Leases and Long Term Debt

Following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2015:

	Beginning Balance	Additions	Deletions	Ending Balance
Business-Type Activities:				
Financial Lease:				
Installment Sale Note - Municipal Finance Corporation	\$ 503,046	\$ -	\$ 31,557	\$ 471,489
Less amount due within one year				(33,462)
Long-term debt, net of current portion				\$ 438,027

On August 18, 2010, the sewer fund obtained a \$600,000 loan to finance the sewer pond construction. The loan, with interest calculated at 5.795%, is to be repaid in thirty semi-annual payments of \$30,513 over fifteen years. Principal and interest paid for the current year was \$61,025, while total pledged revenues were \$192,223. Total principal and interest remaining on the loan is \$640,767, which is the amount of the remaining dedicated source of pledged revenues.

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 6. Capital Leases and Long Term Debt (continued)

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

Year Ending June 30,	Total Payment	Interest	Principal
2016	61,025	27,563	33,462
2017	61,025	25,543	35,483
2018	61,025	23,400	37,625
2019	61,025	21,128	39,898
2020	61,025	18,719	42,307
2021-2025	305,127	52,044	253,083
2026-2030	30,515	881	29,631
Totals	\$ 640,767	\$ 169,278	\$ 471,489

A. Government Activities

The District entered into a capital lease agreement for financing the purchase of a building from the builder on September 1, 2004 and signed a revised contract as of August 31, 2005. The lease agreement is treated as a capital lease for accounting purposes and, therefore, has been reported at the present value of the future minimum lease payments as of the inception date of the lease in the basic financial statements.

The asset acquired through the capital lease is as follows:

Governmental Activities:	
Building	\$ 614,625
Less accumulated depreciation	(225,363)
Total	\$ 389,262

During the past fiscal years, the District has been involved in litigation related to the capital lease of the building noted above. In the current fiscal year, all litigation related to the building was settled and the District was able to pay the lease off.

Activity on the capital lease payable for the fiscal year ended June 30, 2015:

Balance, June 30, 2014	\$ 534,177
Payments	(500,000)
Gain on settlement of the capital lease	(34,177)
Balance, June 30, 2015	\$ -

Note 7. Compensated Absences

The District has accrued vacation and sick leave that is payable to employees upon separation from employment. The balance included in accrued expenses and deposits on the Statements of Net Position is as follows:

Function/Program:	
Police Employees	\$ 28,602
Sewer Employees	9,985
Administrative Employees	18,526
Total	\$ 57,113

Note 8. Risk Management

The District participates in a joint powers agreement with the Special District Risk Management Authority ("SDRMA"), which arranges for and provides property and liability insurance to its member special districts. SDRMA provides liability coverage of \$10,000,000 per occurrence through liability self-funded layers. The District also participates in the Special Districts Workers' Compensation Authority ("SDWCA"), which provides workers' compensation insurance to the participating districts.

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 8. Risk Management (continued)

The District pays premiums commensurate with the levels of coverage requested. The joint powers authorities are governed by boards consisting of members elected from the participating districts, which control the operations of the joint powers authorities independent of any influence by the District beyond the District's representation on the governing boards. The joint powers authorities are independently accountable for their fiscal matters, and thus are not component units of the District for financial reporting purposes. Condensed financial information, as well as the District's share of assets, liabilities and fund balance of the joint powers authorities, was not available for disclosure as of the date of this financial statement.

Note 9. Interfund Receivables, Payable, and Transfers

The following is a summary of interfund balances as of June 30, 2015:

	Advances to Other Funds	Advances from Other Funds	Internal Balances
General Fund	\$ -	\$ 500,000	\$ (500,000)
Water Fund	500,000	-	500,000
Total Government-Wide Statement	\$ 500,000	\$ 500,000	\$ -

The following is a summary of transfers balances as of June 30, 2015:

	Operating Transfers In	Operating Transfers Out	Transfers
Governmental Activities			
Government-Wide	\$ -	\$ 28,327	\$ (28,327)
Police Fund	-	11,536	(11,536)
Fire Fund	39,863	-	39,863
Total Government-Wide Statement	\$ 39,863	\$ 39,863	\$ -

Note 10. Employee Pension Plans

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 to Police Officer employees additional financial security at retirement. Incidental benefits are provided in the case of disability, death or other termination of employment. This 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 the 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, 2015 were \$9,880. Police department eligible employees are also covered by Social Security.

Defined Benefit Pension Plan:

Plan Description

All qualified permanent and probationary employees, except public safety employees, are eligible to participate in the District's Miscellaneous Employee Pension Plan, 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 Local Government 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.

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 10. Employee Pension Plans

After the CalPERS GASB No. 68 valuation date of June 30, 2013, the District added one new pension plan under the California Public Employees' Pension Reform Act (PEPRA). Due to the fact that this plan started after the valuation date the related pension information was not included in the CalPERS GASB No. 68 actuarial calculations and is not included in the GASB 68 Pension footnote. Employer pension contributions made on behalf of the Miscellaneous PEPRA for the year ended June 30, 2015 was \$7,402.

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 at age 50 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.

Funding Policy

The passage of California State Assembly Bill 340 created the Public Employees' Pension Reform Act (PEPRA). PEPRA implemented new benefit formulas and final compensation period, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of a new member as per PEPRA. Employees enrolled in the Plan prior to January 1, 2013, are now referred to as Classic Plan members. Under PEPRA formula the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous
Hire date	Prior to January 1, 2013
Benefit formula	2% at 55
Benefit vesting formula	5 years of service
Benefit payments	Monthly for life
Retirement age	50-57
Monthly benefits (as a % of eligible compensation)	2.0% (**)
Required employee contribution rates 2014-15	7.0%
Required employer contribution rates 2014-15	17.130%

(**) Varies dependent on age and years of service

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 both 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 Local Government is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for the Plan was as follows:

	Miscellaneous Plan
Contributions – employer	\$ 77,544

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 10. Employee Pension Plans (continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources

As of June 30, 2015, the District reported a net pension liability of \$647,752 for its proportionate share of the net pension liability of the Miscellaneous Plan. The District's net pension asset for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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 for the Plan as of June 30, 2014 was 0.01041%

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the District recognized pension expense of \$77,544. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement	\$ 77,544	\$ -
Difference between actual and expected experience	-	-
Change in assumptions	-	-
Change in employer's proportion	-	-
Difference between employer's actual contributions and employer's proportionate share of contributions	34,493	-
Net differences between projected and actual earnings on plan investments	-	114,762
Total	\$ 112,037	114,762
Net deferred inflows		\$ 2,725

\$2,725 reported as deferred inflows 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ending June 30	
2016	\$ 30,868
2017	29,418
2018	23,608
2019	-
2020	-
Thereafter	-
Total	\$ 83,894

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 10. Employee Pension Plans (continued)

Actuarial Assumptions

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

June 30, 2015	
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Projected Salary Increase	Varies by age and service
Investment Rate of Return	7.50%, net of pension plan investment and administrative expenses; includes inflation
Mortality	20

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.50% 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 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% 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

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

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 we have changed our 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.

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.

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 10. Employee Pension Plans (continued)

Asset Class	Target Allocation	Years 1-10*	Rate of Return Years 11+ **
Global equity	47%	5.25%	5.71%
Global fixed income	19%	0.99%	2.43%
Inflation sensitive	6%	0.45%	3.36%
Private equity	12%	6.83%	6.95%
Real estate	11%	4.50%	5.13%
Infrastructure and forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

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

(**) 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 the Plan, calculated using the discount rate for the 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:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Plan's Net Pension Liability - Miscellaneous	\$ 916,079	\$ 647,752	\$ 425,065

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Note 11. Contingent Liabilities

The District is involved in various litigation; however, in the District's opinion, the potential claims against the District resulting from such litigation would not materially affect the accompanying financial statements.

Note 12. Excess Expenditures Over Appropriations

The excess expenditures over appropriations, describes a budgetary violation that occurred for the year under audit. For the year ended June 30, 2015, expenditures exceeded appropriations in the following funds:

General Fund	\$ 512,763
Fire Fund	96,947

Expenditures in the General Fund exceeded budgeted amounts as the final debt service payment for the Medical Clinic lease was not budgeted. The excess expenditures in the General Fund were funded by an advance from the Water Fund.

Expenditures in the Fire Fund exceeded budgeted amounts due to an increase in labor for additional mutual aid calls that the District assisted on and more time spent by the Chief within this department. The excess expenditures for the Fire Fund were funded by additional unbudgeted revenues and resources from within the District.

Lake Shastina Community Services District
Notes to the Financial Statements
June 30, 2015

Note 13. Prior Period Adjustment

During the current year, payroll expenses were understated due to the lack of reporting of accrued payroll in the audited financial statements issued for the fiscal year ended June 30, 2014. As such, beginning fund balances in each of the major funds, Government-Wide Governmental Funds, and the Government-Wide Business-Type Activities was decreased to include these expenses. The effect of the adjustment had no effect on operations of the current year.

	General Fund	Police Funds	Fire Fund	Government- Wide Governmental Activities
GOVERNMENTAL ACTIVITIES				
Net Position – July 1, 2014 – as previously report	\$ 234,045	\$251,840	\$268,099	\$ 1,136,860
Prior Period Adjustment	(7,884)	(6,331)	(1,068)	(15,283)
Net Position – July 1, 2014 – as restated	\$ 226,161	\$245,509	\$267,031	\$ 1,121,577

	Sewer Fund	Water Fund	Government- Wide Business-Type Activities
BUSINESS-TYPE ACTIVITIES			
Net Position – July 1, 2014 – as previously report	\$ 3,500,506	\$ 3,016,478	\$ 6,516,984
Prior Period Adjustment	(4,714)	(881)	(5,595)
Net Position – July 1, 2014 – as restated	\$ 3,495,792	\$ 3,015,597	\$ 6,511,389

NOTE 14. Future GASB Implementation

In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application. This statement will improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measure fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established by GASB Concepts Statement No. 6, Measurement of Elements of Financial Statements, and other relative literature. The District's management has not yet determined the impact that implementation of these standards, which is required on July 1, 2015, will have on the District's financial statements, if any.

In June 2015, GASB issued Statement No 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to OPEB. GASB Statement No. 75 replaces the requirements of GASB Statement No. 45. The District's management has not yet determined the impact that implementation of these standards, which is required on July 1, 2017, will have on the District's financial statements, if any.

REQUIRED SUPPLEMENTARY INFORMATION

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For The Year Ended June 30, 2015

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
<u>REVENUES</u>				
Interest	\$ 625	\$ 625	\$ 588	\$ (37)
Rents	57,600	57,600	91,061	33,461
Other operating revenues	3,000	3,000	7,066	4,066
Other nonoperating revenues	-	-	1,877	1,877
Total revenues	<u>61,225</u>	<u>61,225</u>	<u>100,592</u>	<u>39,367</u>
<u>EXPENDITURES</u>				
Current:				
Contract services	5,000	5,000	1,753	3,247
Dues and subscriptions	3,200	3,200	1,209	1,991
Elections	1,000	1,000	780	220
Events	1,000	1,000	-	1,000
Fuel and supplies	-	-	-	-
Insurance	600	600	216	384
Labor	207,081	207,081	93,246	113,835
Licenses and permits	-	-	693	(693)
Miscellaneous	-	-	140	(140)
Office supplies	8,650	8,650	2,165	6,485
Professional services	77,400	77,400	21,720	55,680
Repairs and maintenance	5,700	5,700	2,576	3,124
Supplies and small tools	250	250	40	210
Travel and training	3,000	3,000	483	2,517
Uniforms	-	-	-	-
Utilities	6,700	6,700	2,206	4,494
Administrative overhead	(217,617)	(217,617)	-	(217,617)
Capital outlay	12,500	12,500	-	12,500
Debt service:				
Principal on capital lease	-	-	500,000	(500,000)
Total expenditures	<u>114,464</u>	<u>114,464</u>	<u>627,227</u>	<u>(512,763)</u>
Excess of revenues under expenditures	(53,239)	(53,239)	(526,635)	(473,396)
<u>FUND BALANCES</u>				
Beginning of the year, as restated	<u>226,161</u>	<u>226,161</u>	<u>226,161</u>	<u>-</u>
End of the year	<u>\$ 172,922</u>	<u>\$ 172,922</u>	<u>\$ (300,474)</u>	<u>\$ (473,396)</u>

The accompanying notes are an integral part of these financial statements.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
 Budgetary Comparison Schedule
 Police Funds
 For The Year Ended June 30, 2015

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
<u>REVENUES</u>				
Special tax assessments	\$ 258,635	\$ 258,635	\$ 254,269	\$ (4,366)
Federal and state grants	100,000	100,000	111,322	11,322
Other operating revenues	11,100	11,100	13,186	2,086
Interest	525	525	484	(41)
Other nonoperating revenues	3,600	3,600	335	(3,265)
Total revenues	373,860	373,860	379,596	5,736
<u>EXPENDITURES</u>				
Current:				
Contract services	5,900	6,500	2,389	4,111
Dues and subscriptions	2,600	600	2,615	(2,015)
Elections	-	4,000	-	4,000
Fuel and supplies	13,000	14,000	8,873	5,127
Insurance	10,500	8,500	10,171	(1,671)
Labor	178,736	264,077	260,744	3,333
Licenses and permits	112,173	4,000	204	3,796
Miscellaneous	2,800	200	694	(494)
Office supplies	2,450	-	755	(755)
Professional services	200	2,865	3,399	(534)
Repairs and maintenance	7,100	10,000	5,732	4,268
Supplies and small tools	2,650	6,000	1,190	4,810
Travel and training	2,700	3,500	1,468	2,032
Uniforms	10,850	1,500	672	828
Utilities	1,650	14,000	8,632	5,368
Administrative overhead	17,409	17,222	20,242	(3,020)
Capital outlay	4,000	4,000	-	4,000
Total expenditures	374,718	360,964	327,780	33,184
Excess of revenues over expenditures	(858)	12,896	51,816	38,920
<u>OTHER FINANCING SOURCES</u>				
Operating transfers out	-	-	28,327	28,327
Excess of revenues and other sources over (under) expenditures and other financing sources	(858)	12,896	80,143	67,247
<u>FUND BALANCES</u>				
Beginning of the year, as restated	245,509	245,509	245,509	-
End of the year	\$ 244,651	\$ 258,405	\$ 325,652	\$ 67,247

The accompanying notes are an integral part of these financial statements.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
 Budgetary Comparison Schedule
 Fire Fund
 For The Year Ended June 30, 2015

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
<u>REVENUES</u>				
Special tax assessments	\$ 118,255	\$ 118,255	\$ 109,785	\$ (8,470)
Federal and state grants	-	-	11,650	11,650
Other operating revenues	5,432	5,432	23,448	18,016
Interest	300	300	420	120
Other nonoperating revenues	250	250	68,504	68,254
Total revenues	124,237	124,237	213,807	89,570
<u>EXPENDITURES</u>				
Current:				
Contract services	3,300	3,300	924	2,376
Dues and subscriptions	900	900	700	200
Fuel and supplies	10,000	10,000	6,347	3,653
Insurance	6,850	6,850	6,597	253
Labor	41,962	41,962	136,643	(94,681)
Licenses and permits	250	250	236	14
Miscellaneous	500	500	1,397	(897)
Office supplies	485	485	791	(306)
Professional services	2,840	2,840	840	2,000
Repairs and maintenance	10,500	10,500	10,828	(328)
Supplies and small tools	1,500	1,500	4,301	(2,801)
Travel and training	21,500	21,500	18,251	3,249
Uniforms	6,360	6,360	3,345	3,015
Utilities	4,000	4,000	5,370	(1,370)
Administrative overhead	17,409	17,409	20,242	(2,833)
Capital outlay	27,000	27,000	35,491	(8,491)
Total expenditures	155,356	155,356	252,303	(96,947)
Excess of revenues and other sources over (under) expenditures and other financing sources	(31,119)	(31,119)	(38,496)	(7,377)
<u>FUND BALANCES</u>				
Beginning of the year, as restated	267,031	267,031	267,031	-
End of the year	\$ 235,912	\$ 235,912	\$ 228,535	\$ (7,377)

The accompanying notes are an integral part of these financial statements.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
A Cost Sharing Defined Benefit Pension Plan
As of June 30, 2015

Lake Shastina Community Services District Employee's Retirement System - Schedule of the District's Proportionate Share of the Net Pension Liability		6/30/2015 (1)
District's proportion of the net pension liability (asset)		0.01041%
District's proportion share of the net pension liability (asset)	\$	647,752
District's covered payroll	\$	531,976
District's proportionate share of the net pension liability (asset) as a percentage of covered-employee payroll		121.76%
District's proportionate share of the fiduciary net pension liability as a percentage of the plan's total pension liability		67.9700%
District's proportionate share of aggregate employer contributions (2)	\$	37,179

Lake Shastina Community Services District Employee's Retirement System - Schedule of the Districts Contributions		6/30/2015 (1)
Actuarially determined contribution	\$	83,991
Contributions in relation to the actuarially determined contributions		83,991
Contribution deficiency (excess)	\$	-
District's covered-employee payroll (3)	\$	531,976
Contributions as a percentage of covered-employee payroll		15.79%

Notes to the Schedules

Valuation Date: 6/30/2013

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the tables above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

(3) Payroll from prior year was assumed to increase by 3.00% payroll growth assumptions.

Change in Benefit Terms: None

Change in Assumptions: None

SUPPLEMENTARY INFORMATION

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Combining Balance Sheet - Police Special Revenue Funds
June 30, 2015

	<u>Police</u>	<u>COPS More Grants</u>	<u>Combined Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 192,328	\$ -	\$ 192,328
Receivables			
Assessments and accounts	24,841	-	24,841
Tax roll	82,440	-	82,440
Intergovernmental	-	34,213	34,213
Prepaid expenses	3,053	1,743	4,796
Due from other funds	64,577	-	64,577
	<u>64,577</u>	<u>-</u>	<u>64,577</u>
Total assets	<u>\$ 367,239</u>	<u>\$ 35,956</u>	<u>\$ 403,195</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 7,903	\$ -	\$ 7,903
Accrued expenses and deposits	4,120	943	5,063
Due to other funds	-	64,577	64,577
Total liabilities	<u>12,023</u>	<u>65,520</u>	<u>77,543</u>
 Fund balances (deficit):			
Committed	-	-	-
Assigned	355,216	-	355,216
Unassigned, designated for police	-	(29,564)	(29,564)
	<u>355,216</u>	<u>(29,564)</u>	<u>325,652</u>
Total liabilities and fund balances	<u>\$ 367,239</u>	<u>\$ 35,956</u>	<u>\$ 403,195</u>

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Combining Statement of Revenues, Expenditures and Changes
in Fund Balances - Police Special Revenue Funds
For The Year Ended June 30, 2015

	<u>Police</u>	<u>COPS More Grants</u>	<u>Total</u>
<u>REVENUES</u>			
Special tax assessments	\$ 254,269	\$ -	\$ 254,269
Federal and state grants	-	111,322	111,322
Other operating revenues	13,186	-	13,186
Interest	484	-	484
Other nonoperating revenues	335	-	335
Total revenues	<u>268,274</u>	<u>111,322</u>	<u>379,596</u>
<u>EXPENDITURES</u>			
Current:			
Contract services	2,389	-	2,389
Dues and subscriptions	2,615	-	2,615
Elections	-	-	-
Fuel and supplies	8,873	-	8,873
Insurance	10,171	-	10,171
Labor	163,764	96,980	260,744
Licenses and permits	204	-	204
Miscellaneous	694	-	694
Office supplies	755	-	755
Professional services	3,399	-	3,399
Repairs and maintenance	5,732	-	5,732
Supplies and small tools	1,190	-	1,190
Travel and training	1,468	-	1,468
Uniforms	672	-	672
Utilities	8,632	-	8,632
Administrative overhead	20,242	-	20,242
Total expenditures	<u>230,800</u>	<u>96,980</u>	<u>327,780</u>
Excess of revenues over (under) expenditures	37,474	14,342	51,816
<u>OTHER FINANCING SOURCES</u>			
Operating transfers out	<u>28,327</u>	<u>-</u>	<u>28,327</u>
Excess of revenues and other sources over expenditures and other uses	<u>65,801</u>	<u>14,342</u>	<u>80,143</u>
<u>FUND BALANCES</u>			
Beginning of the year, as previously reported	293,269	(41,429)	251,840
Prior period adjustment (Footnote 13)	(3,854)	(2,477)	(6,331)
Beginning of the year, as restated	<u>289,415</u>	<u>(43,906)</u>	<u>245,509</u>
End of the year	<u>\$ 355,216</u>	<u>\$ (29,564)</u>	<u>\$ 325,652</u>

The accompanying notes are an integral part of these financial statements.

GAO SECTION



Aiello, Goodrich & Teuscher

An Accountancy Corporation

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

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 and each major fund, of Lake Shastina Community Services District (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2015-1 and 2015-2 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

The District's Response to Findings

The District's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's responses was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Aiello, Goodrich & Teuscher

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
February 8, 2016



LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Schedule of Findings and Responses
For the Year Ended June 30, 2015

2015 - 1

Personnel are not knowledgeable about Generally Accepted Accounting Principles (GAAP)

Condition: The District's accounting staff is limited in size, training, and expertise. Management relies upon the auditor to recommend footnote disclosures for financial statements and to prepare for approval and record adjusting entries to convert the District's financial statements from the cash basis of accounting to the accrual basis of accounting.

Criteria: Statement of Auditing Standards No. 112, states that the auditor may not be part of the District's internal control system. Someone in the District should be knowledgeable in generally accepted accounting principles and capable of preparing financial statements in conformity with generally accepted accounting principles.

Cause: The District does not have either an employee educated in generally accepted accounting principles or an accounting firm engaged to prepare financial statements in conformity with generally accepted accounting principles.

Recommendation: We recommend that the District should consider the cost benefit of seeking professional assistance from an accountant familiar with generally accepted accounting principles or enhance the expertise of the staff through training/educating in generally accepted accounting principles.

Response: The District accounting staff is very limited in size as noted. This coupled with extra work for staff assisting with management duties and changes made personnel more limited most of the fiscal year ended June 30, 2015. The accounting staff is familiar with GAAP and has applied it as directed by management. More education is always welcome by staff as time and budgeting allows. The District may be able to consider hiring a Certified Public Accountant (CPA) to provide training to staff or review monthly entries if funds are available in the budget to do so.

2015 - 2

Audit Adjustments

Condition: During our audit of the current year, we identified several audit adjustments that were material to the financial statements and which were required in order for the financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles. While other year-end adjustments were identified by the District's internal control, these adjustments were not identified through internal controls

Criteria: All adjustments necessary for financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles should be identified and posted by the District.

Effect: Financial statements which are not in conformity with generally accepted accounting principles could have been prepared and distributed

Recommendation: We recommend that management take steps to ensure that all adjustments necessary to prepare financial statements in accordance with generally accepted accounting principles be identified and posted prior to the start of the audit.

Response: Year-end adjustments for recommended items are typically posted by staff within 90 days following fiscal year-end. Unfortunately, this year the accounting staff had a key employee leave and the remaining staff had to compensate to accomplish many crucial required job duties (payroll and accounts payable). This took time away from staffs' other job duties and not all of the adjusting entries normally made were completed before submission to the auditors. There was also a change in management near the same time period. Accounting staff lacked direction for posting of certain year-end adjustments due to management change and how they should be handled. There were also other events that occurred during the fiscal year that needed special attention as they were significant financial events. The accounting staff did not want to make these assumptions without direction and has worked with auditor to assist with making the correct adjustments.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Schedule of Prior Year Findings and Responses
For the Year Ended June 30, 2015

2014 - 1

Personnel are not knowledgeable about GAAP (Generally Accepted Accounting Principles)

Condition: Management relies upon the auditor to recommend footnote disclosures for financial statements and to prepare for approval and record adjusting entries to convert the District's financial statements from the cash basis of accounting to the accrual basis of accounting.

Criteria: Statement of Auditing Standards No. 112, states that the auditor may not be part of the District's internal control system. Someone in the District should be knowledgeable in generally accepted accounting principles and capable of preparing financial statements in conformity with generally accepted accounting principles.

Cause: The District does not have either an employee educated in generally accepted accounting principles or an accounting firm engaged to prepare financial statements in conformity with generally accepted accounting principles.

Recommendation: The District should consider the cost benefit of hiring an accountant familiar with generally accepted accounting principles or educating an employee in generally accepted accounting principles.

Current Status: See current year finding 2015-1