

# **Lake Shastina Community Services District**

## **Audited Financial Statements**

**Fiscal Year June 30, 2012**

Prepared by:

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LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Financial Statements  
June 30, 2012

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is intended to be a summarized analysis and interpretation of the Lake Shastina Community Services District's financial activities for the year ended June 30, 2012. An independent public accountant has audited the accompanying District financial statements, and the opinion is included in the accompanying independent auditors report. An independent audit not only provides for the confidence of the public at large regarding the on-going financial operations of the District, but also allows the District's management team to compare its financial operation with recognized standards, and develop useful data for evaluation of the District's policies and operations.

### **Overview of the Financial Statements**

The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Specifically, the District uses a special revenue governmental fund type to account for its financial activities. Unlike the District-wide financial statements, the District's fund financial statements (Balance Sheet and Statement of Revenues, Expenditure and Change in Fund Balance) focus on the near-term inflow and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

The District-wide and fund financial statements should not be considered without factoring in the financial statement notes and required supplementary information which provide additional information that is essential to full understanding of the data provided in the District's financial statements.

### **Financial Analysis of the Fund Financial Statements- Governmental Funds**

In FY 11/12, the District received revenues of \$616,872 for the General, Police and Fire Funds, and expended \$548,475. The net result was revenues over expenditures of \$68,397.

The Police Department upgraded a computer and printer in the office and completed changes to the officers' work area by expanding into part of the building that was being underutilized. Federal grant assistance via the COPS program provided \$128,370 of assistance covering one officer and one community services person. The continuation of this program is essential to the operations of the Police Department. The department shows a net result of revenues over expenditures of \$27,235.

The Fire Department purchased new wildland fire gear on a matching grant, as well as a new computer and printer. No major vehicle purchases were made this year. All staffing in the

department is by volunteers including the Chief, who receives a stipend for emergency response and training.

There is no long term debt in the Police and Fire Departments, but there is a long term debt of \$534,176 to DECO from the General fund which is payment for the Medical Center Building on District property. A balloon payment of \$500,000 is due in 2014. The District also has an option to spread this debt over another fifteen years for payment. Payment to the General fund is via rental payments from Catholic Healthcare West, dba Mercy Medical Center Mt. Shasta, which currently covers the District's payments to DECO.

The District will continue to be faced with challenges in coming years related to wages, benefits and capital costs for services by the Police and Fire Departments. Revenues are currently a fixed set fee to property owners and can only be changed by vote.

The CSD staff (public works and administrative) working for the LSPOA has greatly enhanced the workability of both the District and the Property Owners Association. In recent years, management has gone to more temporary workers being hired to help with the seasonal LSPOA work, leaving more time for permanent staff to work on CSD issues. This has resulted in benefits to both entities.

#### **Financial Analysis of the Fund Financial Statements- Enterprise Funds**

In FY 11/12, the District received revenues of \$987,785 for the Sewer and Water Enterprise Funds, and expended \$683,792, not including depreciation. The net result was revenues over expenditures of \$303,993, which was added to reserves for both funds.

The Sewer fund took on new long term debt of \$600,000 in the 2010/11 FY to expand the wastewater treatment plant. Payment on the loan is \$61,026 per year, principle and interest. The term of the debt is 15 years. The big challenge in future years is the continued maintenance and improvements on the twenty sewer pump stations in the District, and the financial needs associated with that effort, as well as continued escalation of costs associated with wastewater treatment.

The Water fund has no long term debt currently. Upgrades continue on the existing wells and associated lines, valves, fire hydrants and booster pumps primarily using water revenues from customers, with reserves used for major upgrades or improvements. Plans were prepared for future well improvements in the District. Continued increases in electrical rates mean higher operating costs in the future for the water system.

Cash and cash equivalents at the end of the year are \$369,108 for the Sewer Fund and \$1,654,890 for the Water Fund. The decreased balance in the Sewer Fund is a result of the District's expenditures on construction of new sewer ponds. Unfortunately, the slowing of the economy and housing starts has meant that the District has seen little payback for installed sewer extensions done during the 1990's and early 2000's.

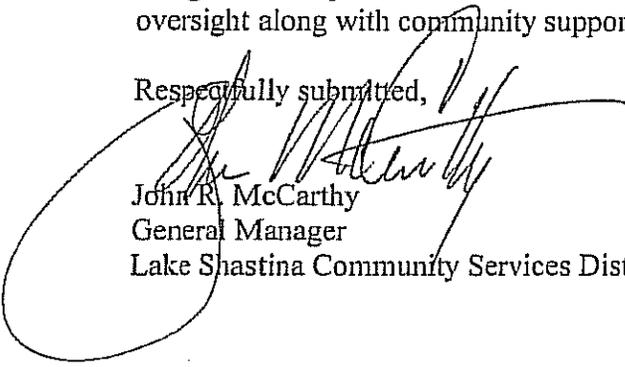
### Financial Highlights

- ❖ Completion of construction for new sewer ponds at treatment facility.
- ❖ Upgrades to four Sewer Lift Stations with electronics and mechanical upgrades.
- ❖ Repair to Fire Department bay doors.
- ❖ Researched well development at Well site off Big Spring Road and Lake Shore Drive.
- ❖ Wildland Fire Gear purchased for Fire Department with grant.
- ❖ Finished upgrade to Police Department Officers Room.
- ❖ New computer and printer purchased for the Police Department.
- ❖ New computer and printer purchased for the Fire Department.
- ❖ Two new computers and printer purchased for Administration.

The configuration of the Lake Shastina Community Services District as a "Special District" under California law has allowed this organization to be successfully managed, especially in these trying economic times. Lake Shastina CSD survives today as a healthy special district.

In light of the dynamic economic times we are experiencing, continued detailed management oversight along with community support, will allow the District to progress forward.

Respectfully submitted,



John R. McCarthy  
General Manager  
Lake Shastina Community Services District

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Lake Shastina Community Services District  
Weed, California

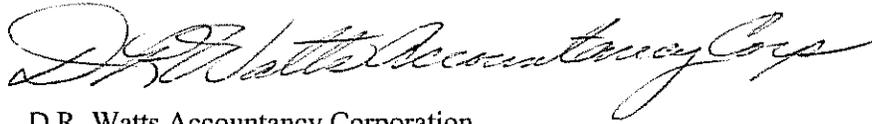
We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund, of Lake Shastina Community Services District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lake Shastina Community Services District management. 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, the *State Controller's Minimum Audit Requirements for California Special Districts* and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities and each major fund, of Lake Shastina Community Services District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, that addresses our consideration of Lake Shastina Community Services District's internal control over financial reporting. Also reported are our findings on the District's compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.

The Management Discussion and Analysis on pages 1 through 3 and the required supplementary information are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "D.R. Watts Accountancy Corp".

D.R. Watts Accountancy Corporation

December 14, 2012

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Statement of Net Assets  
June 30, 2012

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Current assets:			
Cash and investments (Note 2)	\$ 664,756	\$ 2,023,998	\$ 2,688,754
Assessments and accounts receivable (Note 3)	44,791	38,575	83,366
Unbilled services receivable	-	195,960	195,960
Tax roll receivable	70,149	63,435	133,584
Grant money receivable	10,273	-	10,273
Prepaid expense	1,328	-	1,328
Inventory of supplies (Note 1 E)	-	<u>15,553</u>	<u>15,553</u>
Total current assets	<u>791,297</u>	<u>2,337,521</u>	<u>3,128,818</u>
Capital assets:			
Non depreciable	37,506	33,164	70,670
Depreciable, net of accumulated depreciation of \$3,691,114 and \$1,234,300	<u>1,017,404</u>	<u>4,798,170</u>	<u>5,815,574</u>
Capital assets, net (Note 4)	<u>1,054,910</u>	<u>4,831,334</u>	<u>5,886,244</u>
Total assets	<u>1,846,207</u>	<u>7,168,855</u>	<u>9,015,062</u>
<b><u>LIABILITIES</u></b>			
Current Liabilities:			
Accounts payable	38,475	50,709	89,184
Compensated absences (Note 7)	20,417	38,157	58,574
Deferred grant revenue (Note 6)	54,115	-	54,115
Deferred lease payable (Note 5)	11,900	-	11,900
Current portion of long-term debt (Note 5)	-	28,065	28,065
Capital lease, due within one year (Note 5)	<u>24,435</u>	<u>-</u>	<u>24,435</u>
Total current liabilities	149,342	116,931	266,273
Noncurrent Liabilities:			
Capital lease due in more than one year (Note 5)	520,037	-	520,037
Long-term capital loan (Note 5)	<u>-</u>	<u>532,805</u>	<u>532,805</u>
Total liabilities	<u>669,379</u>	<u>649,736</u>	<u>1,319,115</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	498,538	4,270,464	4,769,002
Restricted:			
Debt service	556,372	560,870	1,117,242
Unrestricted	<u>121,918</u>	<u>1,687,785</u>	<u>1,809,703</u>
Total net assets	<u>\$ 1,176,828</u>	<u>\$ 6,519,119</u>	<u>\$ 7,695,947</u>

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, 2012

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government	\$ 88,287	\$ -	\$ -	\$ (88,287)	\$ -	\$ (88,287)
Police	383,732	128,448	-	12,151	-	12,151
Fire	111,904	-	10,273	20,584	-	20,584
Total governmental activities	583,923	128,448	10,273	(55,552)	-	(55,552)
Business-type activities:						
Sewer	542,969	-	-	-	(40,738)	(40,738)
Water	434,256	-	-	-	51,298	51,298
Total business-type activities	977,225	-	-	-	10,560	10,560
Total	1,561,148	128,448	10,273	(55,552)	10,560	(44,992)
General revenues:						
Interest and investment earnings				2,423	7,830	10,253
Rental income				65,950	-	65,950
Other income				20,125	11,042	31,167
Total general revenues				88,498	18,872	107,370
Change in net assets				32,946	29,432	62,378
Net assets – beginning of year				1,143,882	6,489,687	7,633,569
Net assets – end of year				\$ 1,176,828	\$ 6,519,119	\$ 7,695,947

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Balance Sheet-Governmental Funds and  
Reconciliation of Total Governmental Fund Balances to the  
Government-wide Statement of Net Assets-Governmental Activities  
June 30, 2012

	General Fund	Police Funds	Fire Fund	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 244,512	\$ 269,662	\$ 150,583	\$ 664,757
Assessments and accounts receivable	-	32,245	12,546	44,791
Tax roll receivable	-	50,194	19,955	70,149
Grant money receivable	-	-	10,273	10,273
Prepaid expense	<u>1,328</u>	<u>-</u>	<u>-</u>	<u>1,328</u>
Total assets	<u>\$ 245,840</u>	<u>\$ 352,101</u>	<u>\$ 193,357</u>	<u>\$ 791,298</u>
<b>LIABILITY AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 8,682	\$ 5,713	\$ 24,081	\$ 38,476
Compensated absences (Note 7)	-	20,417	-	20,417
Deferred lease payable	11,900	-	-	11,900
Deferred grant revenue ( Note 6)	<u>-</u>	<u>54,115</u>	<u>-</u>	<u>54,115</u>
Total liabilities	<u>20,582</u>	<u>80,245</u>	<u>24,081</u>	<u>124,908</u>
Equity:				
Fund Balance:				
Reserved, fire equipment	-	-	83,805	83,805
Unreserved, reported in:				
General fund, undesignated	225,258	-	-	225,258
Special revenue funds:				
Designated for police	-	272,507	-	272,507
Designated for fire	-	-	85,471	85,471
Undesignated	<u>-</u>	<u>(651)</u>	<u>-</u>	<u>(651)</u>
Total fund balances	<u>225,258</u>	<u>271,856</u>	<u>169,276</u>	<u>666,390</u>
Total liabilities and fund balances	<u>\$ 245,840</u>	<u>\$ 352,101</u>	<u>\$ 193,357</u>	<u>\$ 791,298</u>

Total Government Fund Balances \$ 666,390

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

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the funds. 1,054,910

Long-term liabilities are not due and payable in the  
current period and therefore, are not reported in the funds. (544,472)

Net Assets of Governmental Activities \$ 1,176,828

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, 2012

	General Fund	Police Funds	Fire Fund	Total
<b><u>REVENUES</u></b>				
Special tax assessments	\$ -	\$ 267,435	\$ 122,215	\$ 389,650
Federal and state grants	-	128,448	10,273	138,721
Other operating revenues	4,649	7,423	6,208	18,280
Interest	1,204	784	435	2,423
Rents	65,950	-	-	65,950
Other non-operating revenues	-	1,706	142	1,848
<b>Total revenues</b>	<b>71,803</b>	<b>405,796</b>	<b>139,273</b>	<b>616,872</b>
<b><u>EXPENDITURES</u></b>				
Auditing	-	2,700	2,700	5,400
Contract services	-	3,246	502	3,748
Dues and subscriptions	-	2,657	435	3,092
Events	-	1,985	-	1,985
Fuel and supplies	-	16,753	7,383	24,136
Insurance	-	9,195	6,139	15,334
License and permits	-	-	27	27
Office Supplies	-	5,940	750	6,690
Labor	-	293,721	17,968	311,689
Public safety supplies	-	-	5,471	5,471
Repairs and maintenance	-	1,471	936	2,407
Supplies and small tools	-	1,975	862	2,837
Travel and training	-	172	17,512	17,684
Utilities	-	10,265	5,856	16,121
Uniforms	-	115	1,917	2,032
Administrative overhead	-	16,437	16,437	32,874
Capital outlay	2,509	1,633	28,610	32,752
Debt service:				
Principal on capital lease ( Note 5)	10,936	8,976	-	19,912
Interest on capital lease	31,064	1,320	-	32,384
Deferred lease payments (Note 5)	11,900	-	-	11,900
<b>Total expenditures</b>	<b>56,409</b>	<b>378,561</b>	<b>113,505</b>	<b>548,475</b>
<b>Excess of revenues over (under) expenditures</b>	<b>15,394</b>	<b>27,235</b>	<b>25,768</b>	<b>68,397</b>
<b><u>FUND BALANCES</u></b>				
Beginning of the year	209,864	244,621	143,508	597,993
End of the year	\$ 225,258	\$ 271,856	\$ 169,276	\$ 666,390

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
 Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds  
 to the Government-wide Statement of Activities-Governmental Activities  
 For the Year Ended June 30, 2012

Net Changes in Fund Balances-Total Governmental Funds	\$	68,397
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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. This is the amount by which depreciation expense (\$89,434) exceeds capital outlays (\$32,752) in the current period.</p>		(56,682)
<p>Governmental funds report repayment of capital lease obligations as an expenditure, but the repayment reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.</p>		<u>21,231</u>
Changes in Net Assets of Governmental Activities	\$	<u>32,946</u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Statement of Net Assets-Proprietary Funds  
June 30, 2012

	Enterprise Funds		
	Sewer	Water	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments (Note 2)	\$ 369,108	\$ 1,654,890	\$ 2,023,998
Assessments and accounts receivable (Note 3)	15,260	23,315	38,575
Unbilled services receivable	108,241	87,719	195,960
Tax roll receivable	27,081	36,354	63,435
Inventory of supplies (Note 1 E)	4,809	10,744	15,553
Total current assets	<u>524,499</u>	<u>1,813,022</u>	<u>2,337,521</u>
Capital assets:			
Non depreciable	5,297	27,867	33,164
Depreciable, net of accumulated depreciation of \$2,661,069 and \$1,030,045 (Note 4)	<u>3,603,110</u>	<u>1,195,060</u>	<u>4,798,170</u>
Capital assets, net of accumulated depreciation	<u>3,608,407</u>	<u>1,222,927</u>	<u>4,831,334</u>
 Total assets	 4,132,906	 3,035,949	 7,168,855
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	34,929	15,780	50,709
Compensated absences (Note 7)	38,157	-	38,157
Current portion of long-term debt (Note 5)	<u>28,065</u>	<u>-</u>	<u>28,065</u>
Total current liabilities and total liabilities	<u>101,151</u>	<u>15,780</u>	<u>116,931</u>
Noncurrent Liabilities:			
Capital loan payable in more than one year (Note 5)	<u>532,805</u>	<u>-</u>	<u>532,805</u>
 Total liabilities	 633,956	 15,780	 649,736
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,047,537	1,222,927	4,270,464
Restricted:			
Debt service	560,870	-	560,870
Unrestricted	<u>(109,457)</u>	<u>1,797,242</u>	<u>1,687,785</u>
Total Net Assets	<u>\$ 3,498,950</u>	<u>\$ 3,020,169</u>	<u>\$ 6,519,119</u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Statement of Activities-Proprietary Funds  
For The Year Ended June 30, 2012

	Enterprise Funds		
	Sewer	Water	Total
<u>OPERATING REVENUES</u>			
Charges for services	\$ 486,107	\$ 483,629	\$ 969,736
Other operating revenues	<u>16,124</u>	<u>1,925</u>	<u>18,049</u>
Total revenues	<u>502,231</u>	<u>485,554</u>	<u>987,785</u>
<u>OPERATING EXPENSES</u>			
Auditing	2,700	2,700	5,400
Contract Services	28,592	4,474	33,066
Depreciation	149,442	109,432	258,874
Dues and subscriptions	875	1,219	2,094
Fuel and supplies	24,901	12,743	37,644
Insurance	18,966	20,825	39,791
Legal	18,157	166	18,323
Licenses and permits	11,244	6,243	17,487
Miscellaneous	121	1,368	1,489
Labor	117,394	78,962	196,356
Repairs and Maintenance	18,779	13,147	31,926
Small tools and supplies	10,707	3,694	14,401
Travel and training	1,001	557	1,558
Utilities	18,348	91,543	109,891
Uniforms	887	887	1,774
Administrative overhead	<u>86,296</u>	<u>86,296</u>	<u>172,592</u>
Total operating expenses	<u>508,410</u>	<u>434,256</u>	<u>942,666</u>
Operating gain (loss)	(6,179)	51,298	45,119
<u>NONOPERATING REVENUES AND (EXPENSES)</u>			
Interest	1,845	5,985	7,830
Other non-operating revenues	11,042	-	11,042
Interest expense	<u>(34,559)</u>	<u>-</u>	<u>(34,559)</u>
Total non-operating revenues (losses)	<u>(21,672)</u>	<u>5,985</u>	<u>(15,687)</u>
Increase (decrease) in net assets	(27,851)	57,283	29,432
<u>NET ASSETS</u>			
Beginning of the year	<u>3,526,801</u>	<u>2,962,886</u>	<u>6,489,687</u>
End of the year	<u>\$ 3,498,950</u>	<u>\$ 3,020,169</u>	<u>\$ 6,519,119</u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Statement of Cash Flows-Propriety Funds  
For The Year Ended June 30, 2012

	Enterprise Funds		
	Sewer	Water	Total
<u>Cash Flows From Operating Activities</u>			
Receipts from customers	\$ 490,735	\$ 482,962	\$ 973,697
Payments to suppliers	(222,101)	(238,650)	(460,751)
Payments to employees	(117,394)	(78,962)	(196,356)
Net Cash provided (used) by operating activities	<u>151,240</u>	<u>165,350</u>	<u>316,590</u>
<u>Cash Flows from Non-Capital Financing Activities</u>			
Other non-operating income received	<u>11,042</u>	<u>-</u>	<u>11,042</u>
<u>Cash Flows (Used) By Capital and Related Financing Activities</u>			
Purchase of property, plant and equipment	(536,867)	(4,294)	(541,161)
Payment on long-term debt	(26,467)	-	(26,467)
Interest on long-term debt	(34,559)	-	(34,559)
Total cash flows provided (used) by capital and financing activities	<u>(597,893)</u>	<u>(4,294)</u>	<u>(602,187)</u>
<u>Cash Flows Provided By Investing Activities</u>			
Interest received	<u>1,845</u>	<u>5,985</u>	<u>7,830</u>
Net increase in cash and cash equivalents	(433,766)	167,041	(266,725)
Cash and cash equivalents at the beginning of the year	<u>802,874</u>	<u>1,487,849</u>	<u>2,290,723</u>
Cash and cash equivalents at the end of the year	<u>\$ 369,108</u>	<u>\$ 1,654,890</u>	<u>\$ 2,023,998</u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Statement of Cash Flows-Propriety Funds (Continued)  
For The Year Ended June 30, 2012

Reconciliation of Operating Income (Loss) to Net Cash Provided

by Operating Activities

Operating gain (loss)	\$ (6,179)	\$ 51,298	\$ 45,119
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation	149,442	109,432	258,874
(Increase) decrease in:			
Accounts receivable	3,143	(1,533)	1,610
Unbilled services receivable	(10,068)	179	(9,889)
Tax roll receivable	(10,282)	(13,298)	(23,580)
Inventory	5,711	(924)	4,787
Due from other funds	-	12,984	12,984
Increase (decrease) in:			
Accounts payable	27,191	10,812	38,003
Payable to other funds	(12,982)	(3,600)	(16,582)
Compensated absences	5,264	-	5,264
Net cash provided (used) by operating activities	<u>\$ 151,240</u>	<u>\$ 165,350</u>	<u>\$ 316,590</u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Notes to the Financial Statements  
June 30, 2012

**Note 1. Summary of Significant Accounting Policies**

**A. Nature of Operations and Reporting Entity:**

Lake Shastina Community Services District ("District") is a legal subdivision of the state of California, similar to counties and cities, and is governed by Section 61000 through Section 61934 of the California Government Code. While a community services district is similar to counties and cities, one district power not generally available to a community services district is land use planning. The District provides residents with police and fire protection, provides water and wastewater collection and treatment.

The basic financial statements of Lake Shastina Community Services District have been prepared in conformity with generally accepted accounting principles (GAAP) generally accepted in the United States of America. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The sewer and water funds (enterprise/proprietary fund types) apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The District reports related organizations under the guidance of Statement No. 14 of the Governmental Accounting Standards Board. Statement No. 14 defines the primary government, and establishes the criteria for which potential component units are included in the reporting entity. Statement No. 14 defines financial accountability of the primary government as being determined on the basis of fiscal dependency, appointment of a voting majority of a governing board, ability to impose its will or potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

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:**

**Government-wide Financial Statements:**

The statement of net assets 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 the business-type activities (such as sewer and water).

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Notes to the Financial Statements  
June 30, 2012

**Note 1. Summary of Significant Accounting Policies (continued)**

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:**

Fund financial statements 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 expenditures/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 line corresponding total for all governmental and enterprise funds combined.

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.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Notes to the Financial Statements  
June 30, 2012

**Note 1. Summary of Significant Accounting Policies (continued)**

**Major Proprietary Funds:**

The Enterprise Funds (sewer and water) are used to account for operations that are financed and operated in manner similar to a private business enterprise where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. In addition, operating revenues and expenses are distinguished from non-operating items.

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 recover), 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.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Notes to the Financial Statements  
June 30, 2012

**Note 1. Summary of Significant Accounting Policies (continued)**

**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.

In the fund financial statements, governmental and agency 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. Inventory of Supplies**

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

**F. 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 as 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, 2012

**Note 1. Summary of Significant Accounting Policies (continued)**

**F. Capital Assets (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 Assets. 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 assets 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.

**G. Equity Classifications**

In the government-wide financial statements, equity is classified as net assets and displayed as follows:

Invested in capital assets, net of related debt, which consist of capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets, which consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or by law through constitutional provisions or enabling legislation.

Unrestricted net assets, which consists of all other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Notes to the Financial Statements  
June 30, 2012

**Note 1. Summary of Significant Accounting Policies (continued)**

**G. Equity Classifications (continued)**

In the fund financial statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Proprietary fund equity is classified the same as in the government-wide financial statements.

**H. 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.

**I. 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.

**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, 2012

**Note 2. Cash and Investments (continued)**

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:

Governmental activities/governmental funds	\$ 664,756
Business-type activities/proprietary funds	<u>\$ 2,023,998</u>
Total cash and investments	<u>\$ 2,688,754</u>

Consisting of the following:

Cash on hand	\$ 375
Deposits with financial institutions	205,092
Investments (LAIF)	<u>2,483,287</u>
Total cash and investments	<u>\$ 2,688,754</u>

**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 agency 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.

	<u>Cost</u>	<u>Fair Value</u>	<u>Maturity Date</u>
Local Agency Investment Fund	\$ 2,483,287	\$ 2,483,287	203 day average

**Disclosure Relating to Credit Risk:**

Generally, credit risk is the risk that an issuer of 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.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Notes to the Financial Statements  
June 30, 2012

**Note 2. Cash and Investments (continued)**

**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.

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 Governmental 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 Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Local Agency Investment Board and the Treasurer of the State of California. LAIF is an external investment pool through which local governments may pool investments. 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 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. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without the loss of interest.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Notes to the Financial Statements  
June 30, 2012

**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 4. Capital Assets and Depreciation**

Capital assets activity for the year ended June 30, 2012 was as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>
<b>Government Activities:</b>				
Capital assets not depreciated:				
Land	\$ 37,506	\$ -	\$ -	\$ 37,506
Capital assets being				
Depreciated:				
Buildings and improvements	1,040,715	-	-	1,040,715
Plant and equipment	471,508	32,752	-	504,260
Vehicles and rolling stock	706,729	-	-	706,729
	<u>2,218,952</u>	<u>32,752</u>	<u>-</u>	<u>2,251,704</u>
Less accumulated depreciation:				
Buildings and improvements	246,746	34,690	-	281,746
Plant and equipment	345,462	29,241	-	374,703
Vehicles and rolling stock	552,658	25,503	-	578,161
	<u>1,144,866</u>	<u>89,434</u>	<u>-</u>	<u>1,234,300</u>
Net Capital assets being				
Depreciated	<u>1,074,086</u>	<u>(56,682)</u>	<u>-</u>	<u>1,017,404</u>
Net Capital assets used in				
Governmental activities	<u>\$ 1,111,592</u>	<u>\$ (56,682)</u>	<u>\$ -</u>	<u>\$ 1,054,910</u>

LAKE SHASTINA COMMUNITY SERVICES DISTRICT

Notes to the Financial Statements

June 30, 2012

**Note 4. Capital Assets and Depreciation (continued)**

Depreciation expense was charged to governmental functions as follows:

General government	\$	45,323
Police		17,102
Fire		<u>27,009</u>
	\$	<u>89,434</u>

	<u>Balance</u>		<u>Additions</u>		<u>Retirements</u>	<u>Balance</u>
	<u>June 30,2011</u>					<u>June 30,2012</u>
<b>Business-type Activities:</b>						
Capital assets not depreciated:						
Land	\$ 31,433	\$ -	\$ -			\$ 31,433
Construction in progress	<u>57,021</u>	<u>1,731</u>	<u>(57,021)</u>			<u>1,731</u>
	<u>88,454</u>	<u>1,731</u>	<u>(57,021)</u>			<u>33,164</u>
Capital assets being						
Depreciated:						
Buildings and improvements	436,374	-	-			436,374
Plant and equipment	7,283,977	593,888	-			7,877,865
Vehicles and rolling stock	<u>172,481</u>	<u>2,564</u>	<u>-</u>			<u>175,045</u>
	<u>7,892,832</u>	<u>596,452</u>	<u>-</u>			<u>8,489,284</u>
Less Accumulated						
Depreciation:						
Buildings and improvements	183,085	7,664	-			190,749
Plant and equipment	3,133,265	232,427	-			3,365,692
Vehicles and rolling stock	<u>115,890</u>	<u>18,783</u>	<u>-</u>			<u>134,673</u>
	<u>3,432,240</u>	<u>258,874</u>	<u>-</u>			<u>3,691,114</u>
Net Capital assets being						
Depreciated	<u>4,460,592</u>	<u>337,578</u>	<u>-</u>			<u>4,798,170</u>
Net Capital assets used in						
Business-type activities	<u>\$ 4,549,046</u>	<u>\$ 339,309</u>	<u>\$ (57,021)</u>			<u>\$ 4,831,334</u>

Depreciation expense was charged to business-type functions as follows:

Sewer	\$	149,442
Water		<u>109,432</u>
	\$	<u>258,874</u>

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Notes to the Financial Statements  
June 30, 2012

**Note 5. Capital Leases and Long-term Debt**

**A. Government Activities:**

The District has entered into a capital lease agreement for financing the acquisition of a building. 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 building is leased out by the District for use as a medical center to Dignity Health Care, Inc. under the following terms: \$4,850 per month for the period September 1, 2007 through August 31, 2014. On May 1, 2012, the monthly rent was increased to \$6,600 due to additional square footage added to the area occupied by the tenant. There is an option to renew this lease for an additional 10-year period, with an adjustment to the monthly lease payment.

The asset acquired through the capital lease is as follows:

Governmental Activities:	
Building	\$ 614,625
Less accumulated depreciation	<u>(163,900)</u>
Total	<u>\$ 450,725</u>

The future debt service requirements of the lease will be provided by the General Fund. Ten years after the commencement of this Purchase Agreement beginning September 1, 2004, the District shall be obligated to pay the additional sum of \$500,000 in cash or in 180 equal monthly installments bearing interest at 6.9% per annum.

On May 1, 2012, based on the increased monthly lease charged to the tenant by the District, the lessor of the building increased the monthly lease payments receivable from the District from \$4,200 per month to \$5,950 per month. The District is currently renegotiating the increased lease amount and the terms of the lease in general with the lessor and has withheld the increased lease payments for the months of May and June, 2012, and through the date of this audit report. These funds have been moved to a savings account, and have been reserved for future lease payments. The total amount of deferred lease payable at June 30, 2012 was \$11,900.

During the year ended June 30, 2011, the District entered into a capital lease agreement to purchase a new vehicle for the police department. The total lease payments are \$30,887 and are paid in three equal installments of \$10,296, including interest at 7.10%. The balance due on the lease at June 30, 2012 was \$10,296 and is reported on the government-wide Statement of Net Assets.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Notes to the Financial Statements  
June 30, 2012

**Note 5. Capital Leases and Long-term Debt (continued)**

**A. Government Activities (continued):**

The changes in long-term debt, governmental funds, for the year ended June 30, 2012, is shown below:

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2012</u>
<b>Governmental Funds:</b>				
Building capital lease	\$ 545,112	\$ -	\$ 10,936	\$ 534,176
Vehicle lease	<u>20,591</u>	<u>-</u>	<u>10,295</u>	<u>10,296</u>
Total	<u>\$ 565,703</u>	<u>\$ -</u>	<u>\$ 21,231</u>	544,472
Less amount due within one year				<u>(24,435)</u>
Long-term debt, net of current portion				<u>\$ 520,037</u>

The annual debt service requirements to maturity are as follows:

**Governmental Funds:**

Year ending	Total		
June 30,	<u>Payment</u>	<u>Interest</u>	<u>Principle</u>
2013	\$ 69,096	\$ 42,396	\$ 26,700
2014	50,400	35,253	15,147
2015	53,062	34,104	18,958
2016	53,595	32,721	20,874
2017	53,595	31,235	22,360
2018-2030	<u>652,072</u>	<u>211,639</u>	<u>440,433</u>
Totals	<u>\$ 931,820</u>	<u>\$ 387,348</u>	<u>\$ 544,472</u>

**B. Business-type Activities:**

On August 18, 2010, the sewer fund obtained a \$600,000 loan to finance the sewer pond construction. The loan, with interest calculated at 5.95%, is to be repaid in thirty semi-annual payments of \$30,513 over fifteen years. The changes in long-term debt, proprietary funds, for the year ended June 30, 2012, is shown below:

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2012</u>
<b>Proprietary Funds:</b>				
Sewer pond loan	<u>\$ 587,337</u>	<u>\$ -</u>	<u>\$ 26,467</u>	<u>\$ 560,870</u>
Total	<u>\$ 587,337</u>	<u>\$ -</u>	<u>\$ 26,467</u>	560,870
Less amount due within one year				<u>(28,065)</u>
Long-term debt, net of current portion				<u>\$ 532,085</u>

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Notes to the Financial Statements  
June 30, 2012

**Note 5. Capital Leases and Long-term Debt (continued)**

**B. Business-type Activities (continued):**

The annual debt service requirements to maturity are as follows:

**Proprietary Funds:**

Year ending June 30,	Total Payment	Interest	Principle
2013	61,025	32,960	28,065
2014	61,025	31,265	29,760
2015	61,025	29,468	31,557
2016	61,025	27,563	33,462
2017	61,025	25,542	35,483
2018- 2026	518,719	116,176	402,543
Totals	<u>\$ 823,844</u>	<u>\$ 262,974</u>	<u>\$ 560,870</u>

**Note 6. Deferred Grant Revenue**

Deferred revenue in the Police Fund represents grant funds not yet expended and thus not yet earned as revenues. Amounts will be recognized as revenue when spent in accordance with grant provisions.

**Note 7. 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. The District has accrued vacation and sick leave that is payable to employees upon separation from employment. Included in compensated absences on the statement of net assets/ balance sheet is \$20,417 and \$38,157 for the police fund and sewer fund, respectively. Included in the sewer fund amount is \$ 25,374 for administrative employees, which is allocated to all other funds at the same ratio as general administrative overhead.

**Note 8. Revenues, Expenditures, and Expenses**

**Special Tax Assessments:**

Special tax assessment 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.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Notes to the Financial Statements  
June 30, 2012

**Note 8. Revenues, Expenditures, and Expenses (continued)**

**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 non-operating 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.

**Note 9. 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.

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 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.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Notes to the Financial Statements  
June 30, 2012

**Note 10. Employee Pension Plans (continued)**

**Money Purchase Pension Plan (continued):**

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, 2012 were \$ 4,426. Police department eligible employees are also covered by Social Security.

**Defined Benefit Pension Plan:**

**Plan Description-**The District’s defined benefit pension plan, Lake Shastina Community Services District Pension Plan (“the plan”) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All employees except public safety employees participate in this plan; however, plan participants do not participate in Social Security.

The Plan is part of the Public Agency portion of the California Public Retirement System (CalPERS), a cost-sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions are established by State Statutes within the Public Employees’ Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local resolutions. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95814.

**Funding Policy** – Active plan members of the Plan are required to contribute 7.00% of their annual covered salary. 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 Administrative. The required employer contribution rate for the year ended June 30, 2012 was 14.668%. 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.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Notes to the Financial Statements  
June 30, 2012

**Note 10. Employee Pension Plans (continued)**

**Defined Benefit Pension Plan (continued):**

Annual Pension Cost-For the year ended June 30, 2012, the Districts annual pension cost was \$64,287 which is also the amount the District contributed. The required contribution for the year ended June 30, 2012 was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.55% to 14.45%, and; (c) 3.00% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.00%. The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a fifteen-year period depending on the size of investment gains and/or losses. The Plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010 was 14 years.

**Four-Year trend Information for PERS**

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/08	44,991	100%	-0-
6/30/09	45,022	100%	-0-
6/30/10	35,261	100%	-0-
6/30/11	54,859	100%	-0-
6/30/12	64,287	100%	-0-

During the year ended June 30, 2003, CalPERS grouped all small employers (defined as those with less than 100 members in the plan) into a risk pool. See the required supplementary information for the risk pool as a whole on page 35, which shows the funded status of the plan pool.

**Note 11. Subsequent Events**

No events have occurred subsequent to June 30, 2012 and through the date of this audit report that would require adjustments to or disclosure in the financial statements for the year ended June 30, 2012.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
 Budgetary Comparison Schedule  
 General Fund  
 For The Year Ended June 30, 2012

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u> <u>Amounts</u>	Variance Favorable (Unfavorable)
<u>REVENUES</u>				
Interest	\$ 1,400	\$ 1,400	\$ 1,204	\$ (196)
Rents	60,000	60,000	65,950	5,950
Other operating revenues	<u>3,000</u>	<u>3,000</u>	<u>4,649</u>	<u>1,649</u>
Total revenues	<u>64,400</u>	<u>64,400</u>	<u>71,803</u>	<u>7,403</u>
<u>EXPENDITURES</u>				
Current:				
Capital Outlay	14,000	14,000	2,509	11,491
Debt service:				
Deferred lease payments	-	-	11,900	(11,900)
Principle on capital lease	13,199	13,199	10,936	2,263
Interest on capital lease	<u>37,201</u>	<u>37,201</u>	<u>31,064</u>	<u>6,137</u>
Total expenditures	<u>64,400</u>	<u>64,400</u>	<u>56,409</u>	<u>7,991</u>
Excess of revenues Over expenditures	-	-	15,394	15,394
<u>FUND BALANCES</u>				
Beginning of the year	<u>209,863</u>	<u>209,863</u>	<u>209,863</u>	<u>-</u>
End of the year	<u>\$ 209,863</u>	<u>\$ 209,863</u>	<u>\$ 225,258</u>	<u>\$ 15,394</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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance Favorable (Unfavorable)
<u>REVENUES</u>				
Special tax assessments	\$ 263,760	\$ 263,760	\$ 267,435	\$ 3,675
Federal and state grants	100,000	100,000	128,448	28,448
Other operating revenues	18,128	18,128	7,423	(10,705)
Non-operating revenues	500	500	1,706	1,206
Interest	<u>1,000</u>	<u>1,000</u>	<u>784</u>	<u>(216)</u>
Total revenues	<u>383,388</u>	<u>383,388</u>	<u>405,796</u>	<u>22,408</u>
<u>EXPENDITURES</u>				
Current:				
Advertising	400	400	159	241
Auditing	3,300	3,300	2,700	600
Contract services	3,000	3,000	3,246	(246)
Dues and subscriptions	2,600	2,600	2,657	(57)
Events	3,500	3,500	1,985	1,515
Fuel and supplies	17,300	17,300	16,753	547
Insurance	8,500	8,500	9,195	(695)
Legal	1,000	1,000	220	780
Meals	220	220	100	120
Office supplies	4,900	4,900	5,561	(661)
Labor	305,493	305,493	293,721	11,772
Repairs and maintenance	1,400	1,400	1,471	(71)
Supplies and small tools	2,000	2,000	1,976	24
Travel and training	2,500	2,500	72	2,428
Utilities	9,300	9,300	10,265	(965)
Uniforms	1,500	1,500	114	1,386
Administrative overhead	15,475	15,475	16,437	(962)
Debt service	-	-	10,296	(10,296)
Capital Outlay	<u>10,296</u>	<u>10,296</u>	<u>1,633</u>	<u>8,663</u>
Total expenditures	<u>392,684</u>	<u>392,684</u>	<u>378,561</u>	<u>14,123</u>
Excess of revenues				
Over expenditures	(9,296)	(9,296)	27,235	36,531
<u>FUND BALANCES</u>				
Beginning of the year	<u>244,621</u>	<u>244,621</u>	<u>244,621</u>	<u>-</u>
End of the year	<u>\$ 235,325</u>	<u>\$ 235,325</u>	<u>\$ 271,856</u>	<u>\$ 36,531</u>

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, 2012

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u> <u>Amounts</u>	Variance Favorable (Unfavorable)
<u>REVENUES</u>				
Special tax assessments	\$ 120,835	\$ 120,835	\$ 122,215	\$ 1,380
Federal and state grants	-	-	10,273	10,273
Other operating revenues	6,132	6,132	6,208	76
Interest	400	400	435	35
Other non-operating revenues	-	-	142	142
Total revenues	<u>127,367</u>	<u>127,367</u>	<u>139,273</u>	<u>11,906</u>
<u>EXPENDITURES</u>				
Current:				
Auditing	3,300	3,300	2,700	600
Contract services	6,100	6,100	502	5,598
Dues and subscriptions	500	500	435	65
Events	1,000	1,000	-	1,000
Fuel and supplies	12,000	12,000	7,383	4,617
Insurance	9,100	9,100	6,139	2,961
Licenses and permits	50	50	27	23
Meals	2,250	2,250	386	1,864
Office supplies	1,000	1,000	750	248
Labor	25,140	25,140	17,968	7,172
Public safety	10,000	10,000	5,471	4,529
Repairs and maintenance	4,000	4,000	936	3,064
Supplies and small tools	1,000	1,000	862	138
Travel and training	16,000	16,000	17,126	(1,126)
Utilities	5,550	5,550	5,856	(306)
Uniforms	2,000	2,000	1,917	83
Administrative overhead	15,476	15,475	16,437	(962)
Capital outlay	<u>3,500</u>	<u>3,500</u>	<u>28,610</u>	<u>(25,110)</u>
Total expenditures	<u>117,965</u>	<u>117,965</u>	<u>113,505</u>	<u>4,460</u>
Excess of revenues				
Over expenditures	9,402	9,402	25,768	16,366
<u>FUND BALANCES</u>				
Beginning of the year	<u>143,508</u>	<u>143,508</u>	<u>143,508</u>	<u>-</u>
End of the year	<u>\$ 152,910</u>	<u>\$ 152,910</u>	<u>\$ 169,276</u>	<u>\$ 16,366</u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Combining Balance Sheet-Police Special Revenue Funds  
June 30, 2012

	Police	COPS More Grants	Combined Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 216,198	\$ 53,464	\$ 269,662
Assessments and accounts receivable	32,245	-	32,245
Tax roll receivable	50,194	-	50,194
Total assets	\$ 298,637	\$ 53,464	\$ 352,101
 <u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Accounts payable	\$ 5,713	\$ -	\$ 5,713
Compensated absences	20,417	-	20,417
Deferred grant revenue	-	54,115	54,115
Total Liabilities	26,130	54,115	80,245
 Equity:			
Fund balance (deficit):			
Unreserved, designated for police	272,507	-	272,507
Unreserved, undesignated	-	(651)	(651)
	272,507	(651)	271,856
 Total liabilities and fund equity	 \$ 298,637	 \$ 53,464	 \$ 352,101

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Notes to the Financial Statements  
June 30, 2012

PENSION PLAN – Required supplementary information required by GASB 27 for a cost-sharing multiple-employer defined benefit plan:

Required Supplementary Information  
Funded Status of Plan Pool – CalPERS

Valuation Date	Normal Accrued Liability (Per \$1,000)	Actuarial Value of Assets (Per \$1,000)	Unfunded Liability/ (Excess Assets) (Per \$1,000)	Funded Status	Annual Covered Payroll (Per \$1,000)	UAAL As a % of Payroll
6/30/06	2,754,396	2,492,226	262,170	90.5%	699,898	37.5%
6/30/07	2,611,747	2,391,434	220,312	91.6%	665,523	33.1%
6/30/08	2,780,281	2,547,323	232,957	91.6%	688,607	33.8%
6/30/09	3,104,798	2,758,511	346,287	88.9%	742,941	46.6%
6/30/10	3,309,065	2,945,408	362,657	89.0%	748,401	48.5%

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Lake Shastina Community Services District

We have audited the financial statements of the governmental activities, the business-type activities and each major fund, of Lake Shastina Community Services District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In our report on the financial statements, our opinion on the Lake Shastina Community Services District was unqualified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake Shastina Community Services District's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, 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 that is required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Lake Shastina Community Services District's internal control over financial reporting as a basis for designing our auditing procedures 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 Lake Shastina Community Services District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lake Shastina Community Services District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in the internal control that we consider to be significant deficiencies.

*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 material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule to be material weaknesses (2012-1).

*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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (2012-1).

Lake Shastina Community Services District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Lake Shastina community Services district's responses and, accordingly, we express no opinion on them.

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

*D.R. Watts Accountancy Corporation*

December 14, 2012

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Schedule of Findings and Responses  
for the Year Ended June 30, 2012

**2012-1**

**Personnel are not knowledgeable about 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 staff 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.

**Response:** Due to the size of the District and budget constraints, it is not feasible to hire such a person at this time.