

Lake Shastina Community Services District

Financial Statements
Fiscal Year Ended June 30, 2014

With Independent Auditor's Report

Prepared by:

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LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Financial Statements
June 30, 2014

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LAKE SHASTINA COMMUNITY SERVICES DISTRICT

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>TERM OF OFFICE</u>
Corinne Moller, President	12/3/2010 - 12/5/2014
Carol Cupp, Vice President	12/3/2010 - 12/5/2014
Paula Mitchell, Director	12/7/2012 - 12/2/2016
Beverly Roths, Director	12/7/2012 - 12/2/2016
Tom Wetter, Director	12/3/2010 - 12/5/2014

General Manager

John McCarthy

Senior Accounting Clerk

Debbie Nelle

D.R. Watts Accountancy Corporation
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lake Shastina Community Services District
Weed, California

We have audited the accompanying financial statements of the governmental activities of Lake Shastina Community Services District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 the 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 State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 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 financial statement 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, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Lake Shastina Community Services District as of June 30, 2014, and the changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles in the United States of America require that the schedule of funding progress for retirement plans and the budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement 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.

D.R. Watts Accountancy Corporation

January 30, 2015

LAKE SHASTINA COMMUNITY SERVICES DISTRICT

Statement of Net Position

June 30, 2014

	Governmental Activities	Business- Type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and investments (Note 2)	\$ 735,397	\$ 2,050,921	\$ 2,786,318
Assessments and accounts receivable (Note 3)	40,120	33,506	73,626
Unbilled services receivable	-	210,301	210,301
Tax roll receivable	118,911	106,852	225,763
Grant receivable	25,139	-	25,139
Receivable from LSPOA	38,519	-	38,519
Prepaid expense	2,162	478	2,640
Inventory of supplies (Note 1 E)	-	30,498	30,498
Total current assets	960,248	2,432,556	3,392,804
Capital assets:			
Non depreciable	37,506	113,667	151,173
Depreciable, net of accumulated depreciation of \$1,359,052 and \$4,224,902	879,547	4,559,214	5,438,761
Capital assets, net (Note 4)	917,053	4,672,881	5,589,934
Total assets	1,877,301	7,105,437	8,982,738
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
	-	-	-
Assets and Deferred Outflows of Resources	\$ 1,877,301	\$ 7,105,437	\$ 8,982,738
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts payable	26,771	40,045	66,816
Compensated absences (Note 6)	24,793	45,362	70,155
Capital lease payable (Note 5)	154,700	-	154,700
Current portion of long-term debt (Note 5)	-	31,557	31,557
Capital lease, due within one year (Note 5)	18,958	-	18,958
Total current liabilities	225,222	116,964	342,186
Noncurrent Liabilities:			
Capital lease due in more than one year (Note 5)	515,219	-	515,219
Long-term capital loan (Note 5)	-	471,489	471,489
Total liabilities	740,441	588,453	1,328,894
<u>DEFERRED INFLOWS OF RESOURCES</u>			
	-	-	-
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	382,876	4,169,835	4,552,711
Restricted:			
Debt service	534,177	503,046	1,037,223
Unrestricted	219,807	1,844,103	2,063,910
Total net position	1,136,860	6,516,984	7,653,844
Liabilities, Deferred Inflows of Resources and Net Position	\$ 1,877,301	\$ 7,105,437	\$ 8,982,738

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Activities
For The Year Ended June 30, 2014

	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	\$ 146,985	\$ -	\$ -	\$ -	\$ (146,985)	\$ -	\$ (146,985)
Police	429,661	257,505	106,715	-	(65,441)	-	(65,441)
Fire	138,467	117,954	2,272	-	(18,241)	-	(18,241)
Total governmental activities	715,113	375,459	108,987	-	(230,667)	-	(230,667)
Business-type activities:							
Sewer	570,830	592,514	-	-	-	21,684	21,684
Water	532,759	492,083	-	-	-	(40,676)	(40,676)
Total business-type activities	1,103,589	1,084,597	-	-	-	(18,992)	(18,992)
Total	\$ 1,818,702	\$ 1,460,056	\$ 108,987	\$ -	\$ (230,667)	\$ (18,992)	\$ (249,659)
General revenues:							
Interest and investment earnings				1,428		4,859	6,287
Rental income				100,245		-	100,245
Donations				6,721		-	6,721
Other income				71,309		-	71,309
Total general revenues				179,703		4,859	184,562
Increase (decrease) in net position				(50,964)		(14,133)	(65,097)
Net position -- beginning of year				1,187,824		6,531,117	7,718,941
Net position -- end of year				\$ 1,136,860		\$ 6,516,984	\$ 7,653,844

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 Position-Governmental Activities
June 30, 2014

	General Fund	Police Funds	Fire Fund	Total
ASSETS				
Cash and cash equivalents	\$ 396,845	\$ 144,397	\$ 194,155	\$ 735,397
Assessments and accounts receivable	-	28,114	12,006	40,120
Tax roll receivable	-	85,363	33,548	118,911
Grant receivable	-	22,867	2,272	25,139
Receivable from LSPOA	8,519	-	30,000	38,519
Prepaid expense	2,162	-	-	2,162
Total assets	407,526	280,741	271,981	960,248
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-
Assets and Deferred Outflows of Resources	\$ 407,526	\$ 280,741	\$ 271,981	\$ 960,248
 LIABILITIES				
Accounts payable	\$ 18,781	\$ 4,108	\$ 3,882	\$ 26,771
Compensated absences (Note 6)	-	24,793	-	24,793
Capital lease payable	154,700	-	-	154,700
Total liabilities	173,481	28,901	3,882	206,264
DEFERRED INFLOWS OF RESOURCES	-	-	-	-
FUND BALANCE				
Committed - fire equipment	-	-	83,804	83,804
Assigned - police	-	251,840	-	251,840
Assigned - fire	-	-	184,295	184,295
Unassigned - general	234,045	-	-	234,045
Total fund balances	234,045	251,840	268,099	753,984
Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 407,526	\$ 280,741	\$ 271,981	\$ 960,248
Total Government Fund Balances				\$ 753,984
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.				917,053
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.				(534,177)
Net Position of Governmental Activities				\$ 1,136,860

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds
For The Year Ended June 30, 2014

	<u>General Fund</u>	<u>Police Funds</u>	<u>Fire Fund</u>	<u>Total</u>
<u>REVENUES</u>				
Special tax assessments	\$ -	\$ 257,505	\$ 117,954	\$ 375,459
Federal and state grants	-	106,715	2,272	108,987
Donations	-	-	6,721	6,721
Other operating revenues	3,190	9,846	6,678	19,714
Interest	558	508	362	1,428
Rents - building	79,200	-	-	79,200
Rents - antenna	21,045	-	-	21,045
Other non-operating revenues	-	3,895	47,700	51,595
Total revenues	<u>103,993</u>	<u>378,469</u>	<u>181,687</u>	<u>664,149</u>
<u>EXPENDITURES</u>				
Advertising	-	51	-	51
Animal control	-	169	-	169
Auditing	-	2,900	812	3,712
Contingency	-	-	378	378
Contract services	-	1,495	1,911	3,406
Dues and subscriptions	-	2,537	878	3,415
Events	-	2,429	255	2,684
Explorer program	-	285	-	285
Fuel and vehicle maintenance	-	16,532	11,093	27,625
Insurance	-	9,370	5,903	15,273
Legal	-	289	289	578
License and permits	-	630	366	996
Meals	-	345	1,062	1,407
Office Supplies	-	3,084	1,187	4,271
Labor	-	336,525	36,037	372,562
Repairs and maintenance	-	315	479	794
Supplies and small tools	-	60	9,280	9,340
Travel and training	-	1,577	1,755	3,332
Utilities	-	9,943	5,618	15,561
Uniforms	-	1,753	3,208	4,961
Volunteer stipends	-	-	9,948	9,948
Administrative overhead	28,173	19,115	19,115	66,403
Capital outlay	4,420	19,151	2,500	26,071
Debt service:				
Current lease payments (Note 5)	<u>71,400</u>	<u>-</u>	<u>-</u>	<u>71,400</u>
Total expenditures	<u>103,993</u>	<u>428,555</u>	<u>112,074</u>	<u>644,622</u>
Excess of revenues over (under) expenditures	-	(50,086)	69,613	19,527
<u>FUND BALANCES</u>				
Beginning of the year	<u>234,045</u>	<u>301,926</u>	<u>198,486</u>	<u>734,457</u>
End of the year	<u>\$ 234,045</u>	<u>\$ 251,840</u>	<u>\$ 268,099</u>	<u>\$ 753,984</u>

See accompanying notes.

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, 2014

Net Changes in Fund Balances-Total Governmental Funds	\$ 19,527
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. This is the amount by which depreciation expense (\$96,562) exceeds capital outlays (\$26,071) in the current period.	<u>(70,491)</u>
Changes in Net Position of Governmental Activities	<u>\$ (50,964)</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Net Position-Proprietary Funds
June 30, 2014

	Enterprise Funds		
	Sewer	Water	Total
ASSETS			
Current assets:			
Cash and investments (Note 2)	\$ 370,266	\$ 1,680,655	\$ 2,050,921
Assessments and accounts receivable (Note 3)	11,928	21,578	33,506
Unbilled services receivable	117,958	92,343	210,301
Tax roll receivable	47,181	59,671	106,852
Prepaid expense	-	478	478
Inventory of supplies (Note 1 E)	<u>3,808</u>	<u>26,690</u>	<u>30,498</u>
Total current assets	<u>551,141</u>	<u>1,881,415</u>	<u>2,432,556</u>
Capital assets:			
Non depreciable	62,656	51,011	113,667
Depreciable, net of accumulated depreciation of \$2,972,069 and \$1,252,833 (Note 4)	<u>3,447,629</u>	<u>1,111,585</u>	<u>4,559,214</u>
Capital assets, net of accumulated depreciation	<u>3,510,285</u>	<u>1,162,596</u>	<u>4,672,881</u>
Total assets	4,061,426	3,044,011	7,105,437
DEFERRED OUTFLOWS OF RESOURCES			
	-	-	-
Assets and Deferred Outflows of Resources	<u>\$ 4,061,426</u>	<u>\$ 3,044,011</u>	<u>\$ 7,105,437</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	12,512	27,533	40,045
Compensated absences (Note 6)	45,362	-	45,362
Current portion of long-term debt (Note 5)	<u>31,557</u>	<u>-</u>	<u>31,557</u>
Total current liabilities and total liabilities	<u>89,431</u>	<u>27,533</u>	<u>116,964</u>
Noncurrent Liabilities:			
Capital loan payable in more than one year (Note 5)	<u>471,489</u>	<u>-</u>	<u>471,489</u>
Total liabilities	560,920	27,533	588,453
DEFERRED INFLOWS OF RESOURCES			
	-	-	-
NET POSITION			
Invested in capital assets, net of related debt	3,007,239	1,162,596	4,169,835
Restricted:			
Debt service	503,046	-	503,046
Unrestricted	<u>(9,779)</u>	<u>1,853,882</u>	<u>1,844,103</u>
Total Net Position	3,500,506	3,016,478	6,516,984
Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 4,061,426</u>	<u>\$ 3,044,011</u>	<u>\$ 7,105,437</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Activities-Proprietary Funds
For The Year Ended June 30, 2014

	Enterprise Funds		
	Sewer	Water	Total
<u>OPERATING REVENUES</u>			
Charges for services	\$ 592,514	\$ 492,083	\$ 1,084,597
Total revenues	<u>592,514</u>	<u>492,083</u>	<u>1,084,597</u>
<u>OPERATING EXPENSES</u>			
Auditing	4,060	3,828	7,888
Contract Services	15,839	10,507	26,346
Depreciation	159,216	113,709	272,925
Dues and subscriptions	396	1,073	1,469
Fuel and vehicle maintenance	11,410	11,429	22,839
Insurance	19,164	20,668	39,832
Licenses and permits	4,879	7,448	12,327
Miscellaneous	140	986	1,126
Labor	141,185	135,699	276,884
Legal fees	16,076	136	16,212
Repairs and Maintenance	16,722	32,554	49,276
Small tools and supplies	3,902	-	3,902
Travel and training	370	548	918
Utilities	45,436	93,405	138,841
Uniforms	415	415	830
Administrative overhead	<u>100,354</u>	<u>100,354</u>	<u>200,708</u>
Total operating expenses	<u>539,564</u>	<u>532,759</u>	<u>1,072,323</u>
Operating gain (loss)	52,950	(40,676)	12,274
<u>NONOPERATING REVENUES AND (EXPENSES)</u>			
Interest	669	4,190	4,859
Interest expense	<u>(31,266)</u>	<u>-</u>	<u>(31,266)</u>
Total non-operating revenues (losses)	<u>(30,597)</u>	<u>4,190</u>	<u>(26,407)</u>
Increase (decrease) in net assets	22,353	(36,486)	(14,133)
<u>NET ASSETS</u>			
Beginning of the year	<u>3,478,153</u>	<u>3,052,964</u>	<u>6,531,117</u>
End of the year	<u>\$ 3,500,506</u>	<u>\$ 3,016,478</u>	<u>\$ 6,516,984</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Cash Flows-Propriety Funds
For the Year Ended June 30, 2014

	Enterprise Funds		
	Sewer	Water	Total
<u>Cash Flows From Operating Activities</u>			
Receipts from customers	\$ 600,590	\$ 467,095	\$ 1,067,685
Payments to suppliers	(233,703)	(275,566)	(509,269)
Payments to employees	(141,185)	(135,699)	(276,884)
Net cash provided (used) by operating activities	<u>225,702</u>	<u>55,830</u>	<u>281,532</u>
<u>Cash Flows (Used) By Capital and Related Financing Activities</u>			
Purchase of property, plant and equipment	(145,051)	(124,270)	(269,321)
Payment on long-term debt	(29,760)	-	(29,760)
Interest on long-term debt	(31,266)	-	(31,266)
Total cash flows provided (used) by capital and financing activities	<u>(206,077)</u>	<u>(124,270)</u>	<u>(330,347)</u>
<u>Cash Flows Provided By Investing Activities</u>			
Interest received	<u>669</u>	<u>4,190</u>	<u>4,859</u>
Net increase in cash and cash equivalents	20,294	(64,250)	(43,956)
Cash and cash equivalents at the beginning of the year	<u>349,972</u>	<u>1,744,905</u>	<u>2,094,877</u>
Cash and cash equivalents at the end of the year	<u>\$ 370,266</u>	<u>\$ 1,680,655</u>	<u>\$ 2,050,921</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Cash Flows-Propriety Funds (Continued)
For The Year Ended June 30, 2014

Reconciliation of Operating Income (Loss) to Net Cash Provided

by Operating Activities

Operating gain (loss)	\$ 52,950	\$ (40,676)	\$ 12,274
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation	159,216	113,709	272,925
(Increase) decrease in:			
Accounts receivable	3,504	6,268	9,772
Unbilled services receivable	1,311	410	1,721
Tax roll receivable	(11,192)	(15,784)	(26,976)
Prepaid expense	12,251	(416)	11,835
Inventory	2,199	(15,467)	(13,268)
Increase (decrease) in:			
Accounts payable	5,049	7,786	12,835
Compensated absences	414	-	414
Net cash provided (used) by operating activities	<u>\$ 225,702</u>	<u>\$ 55,830</u>	<u>\$ 281,532</u>

See accompanying notes..

LAKE SHASTINA COMMUNITY SERVICES DISTRICT

Notes to the Financial Statements

June 30, 2014

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, and 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 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 the business-type activities (such as sewer and water).

LAKE SHASTINA COMMUNITY SERVICES DISTRICT

Notes to the Financial Statements

June 30, 2014

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.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT

Notes to the Financial Statements

June 30, 2014

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 a 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 position.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Notes to the Financial Statements
June 30, 2014

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 of 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, 2014

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 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 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 position 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, 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, which consists of all other equity that does 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, 2014

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:

Restricted fund balance, which includes amounts that can be spent only for specific purposes as stipulated by law, external resource providers, contract, or through enabling legislation.

Committed fund balance, which includes amounts that can be spent only for specific purposes determined by a formal action of the district's governing body.

Assigned fund balance, which includes amounts that are intended to be spent by the District for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned fund balance, which is the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

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, 2014

Note 2. Cash and Investments (continued)

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Governmental activities/governmental funds	\$ 735,397
Business-type activities/proprietary funds	<u>2,050,921</u>
Total cash and investments	<u>\$ 2,786,318</u>
Consisting of the following:	
Cash on hand	\$ 377
Deposits with financial institutions	359,385
Investments (LAIF)	<u>2,426,556</u>
Total cash and investments	<u>\$ 2,786,318</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	\$ 2,426,556	\$ 2,426,556	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, 2014

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, 2014

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, 2014 was as follows:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
Government Activities:				
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	527,014	20,657	-	547,671
Vehicles and rolling stock	644,799	5,414	-	650,213
	<u>2,212,528</u>	<u>26,071</u>	<u>-</u>	<u>2,238,599</u>
Less accumulated depreciation:				
Buildings and improvements	316,126	34,690	-	350,816
Plant and equipment	404,630	35,286	-	439,916
Vehicles and rolling stock	541,734	26,586	-	568,320
	<u>1,262,490</u>	<u>96,562</u>	<u>-</u>	<u>1,359,052</u>
Net Capital assets being				
Depreciated	<u>950,038</u>	<u>(70,491)</u>	<u>-</u>	<u>879,547</u>
Net Capital assets used in				
Governmental activities	<u>\$ 987,544</u>	<u>\$ (70,491)</u>	<u>\$ -</u>	<u>\$ 917,053</u>

LAKE SHASTINA COMMUNITY SERVICES DISTRICT

Notes to the Financial Statements

June 30, 2014

Note 4. Capital Assets and Depreciation (continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$	47,412
Police		20,257
Fire		<u>28,893</u>
	\$	<u>96,562</u>

	<u>Balance</u>		<u>Additions</u>		<u>Retirements</u>		<u>Balance</u>
	<u>June 30, 2013</u>						<u>June 30, 2014</u>
Business-type Activities:							
Capital assets not depreciated:							
Land	\$ 31,433	\$	-	\$	-	\$	31,433
Construction in progress	<u>52,061</u>		<u>30,173</u>		-		<u>82,234</u>
	<u>83,494</u>		<u>30,173</u>		-		<u>113,667</u>
Capital assets being							
Depreciated:							
Buildings and improvements	276,937		3,701		-		280,638
Plant and equipment	8,057,945		171,208		-		8,229,153
Vehicles and rolling stock	<u>210,085</u>		<u>64,240</u>		-		<u>274,325</u>
	<u>8,544,967</u>		<u>239,149</u>		-		<u>8,784,116</u>
Less Accumulated							
Depreciation:							
Buildings and improvements	134,127		7,664		-		141,791
Plant and equipment	3,639,436		250,205		-		3,889,641
Vehicles and rolling stock	<u>178,414</u>		<u>15,056</u>		-		<u>193,470</u>
	<u>3,951,977</u>		<u>272,925</u>		-		<u>4,224,902</u>
Net Capital assets being							
Depreciated	<u>4,592,990</u>		<u>(33,776)</u>		-		<u>4,559,214</u>
Net Capital assets used in							
Business-type activities	<u>\$ 4,676,484</u>	\$	<u>(3,603)</u>	\$	-	\$	<u>4,672,881</u>

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

Sewer	\$	159,216
Water		<u>113,709</u>
	\$	<u>272,925</u>

LAKE SHASTINA COMMUNITY SERVICES DISTRICT

Notes to the Financial Statements

June 30, 2014

Note 5. Capital Leases and Long-term Debt

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 building was constructed on land already owned by the District. The asset acquired through the capital lease is as follows:

Governmental Activities:

Building	\$ 614,625
Less accumulated depreciation	<u>(204,875)</u>
Total	<u>\$ 409,750</u>

The future debt service requirements of the lease will be provided by the General Fund. The Purchase Agreement calls for 10 years of lease payments at \$4,200 per month with a \$500,000 balloon payment on September 1, 2014, payable in full or over 180 installments at 6.9% interest.

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 increased by \$1,750 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.

On May 1, 2012, based on the increased monthly lease charged to the tenant by the District, the lessor of the building, under the terms of the purchase agreement, increased the monthly lease payments due from the District by \$1,750, from \$4,200 per month to \$5,950 per month. The District has attempted to renegotiate the increased lease amount and the terms of the lease in general with the lessor and has withheld the lease payments beginning in May, 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 the current capital lease payable at June 30, 2014 was \$154,700 based on 26 months of lease payments at \$5,950 per month.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Notes to the Financial Statements
June 30, 2014

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

A. Government Activities (continued):

Under the provisions of the Purchase Agreement, if the District pays the \$500,000 balloon payment in 180 installments at 6.9% interest, the total payments for the building would be:

Principal	\$614,625
Interest	693,296
Increased lease payments (28 months at \$1,750)	<u>49,000</u>
Total payments required by contract	<u>\$1,356,921</u>

On April 12, 2013 the builder/lessor filed a complaint against the District seeking compensation based on the original agreement. The complaint includes causes of action for breach of contract, specific performance and other claims. The District's principle defenses to the complaint is that the contract is unconscionable, that the builder/lessor was not a licensed contractor when the building was constructed nor when the contract was signed, and the builder/lessor did not submit a competitive bid which was required under the California Public Contract Code. The District's legal counsels have expressed the opinion that an outcome favorable to the District is more likely than not. A trial date has been set for June 2, 2015.

The changes in long-term debt, governmental funds, for the year ended June 30, 2014, is shown below:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Funds:				
Building capital lease	\$ 534,177	\$ -	\$ -	\$ 534,177
Total	<u>\$ 534,177</u>	<u>\$ -</u>	<u>\$ -</u>	534,177
Less amount due within one year				<u>(18,958)</u>
Long-term debt, net of current portion				<u>\$ 515,219</u>

The annual debt service requirements to maturity are as follows:

Governmental Funds:

Year ending	Total		
June 30,	Payment	Interest	Principal
2013	\$ 58,800	\$ 42,395	\$ 16,405
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
2018-2029	<u>652,072</u>	<u>211,639</u>	<u>440,433</u>
Totals	<u>\$ 921,524</u>	<u>\$ 387,347</u>	<u>\$ 534,177</u>

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Notes to the Financial Statements
June 30, 2014

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

B. Business-type Activities (continued):

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, 2014, is shown below:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
Proprietary Funds:				
Sewer pond loan	\$ 532,805	\$ -	\$ 29,759	\$ 503,046
Total	<u>\$ 532,805</u>	<u>\$ -</u>	<u>\$ 29,759</u>	503,046
Less amount due within one year				<u>(31,557)</u>
Long-term debt, net of current portion				<u>\$ 471,489</u>

The annual debt service requirements to maturity are as follows:

Proprietary Funds:

Year ending	<u>Total</u>		
June 30,	<u>Payment</u>	<u>Interest</u>	<u>Principal</u>
2015	61,025	29,468	31,557
2016	61,025	27,563	33,462
2017	61,025	25,542	35,483
2018	61,025	23,390	37,635
2019	61,025	21, 128	39,897
2020- 2026	<u>396,670</u>	<u>71,658</u>	<u>325,012</u>
Totals	<u>\$ 701,795</u>	<u>\$ 198,749</u>	<u>\$ 503,046</u>

Note 6. 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 position and balance sheet is \$24,793 and \$45,362 for the police fund and sewer fund, respectively. Included in the sewer fund amount is \$29,059 for administrative employees, which is allocated to all other funds at the same ratio as general administrative overhead.

Note 7. 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.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT

Notes to the Financial Statements

June 30, 2014

Note 7. Revenues, Expenditures, and Expenses (continued)

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 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 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.

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. 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, 2014

Note 9. 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, 2014 were \$4,993. 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, 2014 was 16.778%. 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, 2014

Note 9. Employee Pension Plans (continued)

Defined Benefit Pension Plan (continued):

Annual Pension Cost-For the year ended June 30, 2014, the Districts annual pension cost was \$80,827 which is also the amount the District contributed. The required contribution for the year ended June 30, 2014 was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.30% to 14.20%, and; (c) 3.00% cost-of-living adjustment. Both (a) and (b) include an inflation component of 2.75%. 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, 2011 was 16 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>
6/30/11	54,859	100%	-0-
6/30/12	64,287	100%	-0-
6/30/13	85,485	100%	-0-
6/30/14	80,827	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 37, which shows the funded status of the plan pool.

Note 11. Subsequent Events

No events have occurred subsequent to June 30, 2014 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, 2014.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance Favorable (Unfavorable)
<u>REVENUES</u>				
Interest	\$ 975	\$ 975	\$ 558	\$ (417)
Rents - building	79,200	79,200	79,200	-
Rents - antenna	18,604	18,604	21,045	2,441
Other operating revenues	<u>3,000</u>	<u>3,000</u>	<u>3,190</u>	<u>190</u>
Total revenues	<u>101,779</u>	<u>101,779</u>	<u>103,993</u>	<u>2,214</u>
<u>EXPENDITURES</u>				
Current:				
Administrative expense	29,804	29,804	28,173	1,631
Capital Outlay	10,500	10,500	4,420	6,080
Debt service:				
Deferred lease payments	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>	<u>-</u>
Total expenditures	<u>111,704</u>	<u>111,704</u>	<u>103,993</u>	<u>7,711</u>
Excess of revenues over expenditures	(9,925)	(9,925)	-	9,925
<u>FUND BALANCES</u>				
Beginning of the year	<u>234,045</u>	<u>234,045</u>	<u>234,045</u>	<u>-</u>
End of the year	<u>\$ 224,120</u>	<u>\$ 224,120</u>	<u>\$ 234,045</u>	<u>\$ 9,925</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
 Budgetary Comparison Schedule
 Police Funds
 For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts	Variance Favorable (Unfavorable)
<u>REVENUES</u>				
Special tax assessments	\$ 266,435	\$ 266,435	\$ 257,505	\$ (8,930)
Federal and state grants	100,000	100,000	106,715	6,715
Other operating revenues	11,900	11,900	9,846	(2,054)
Non-operating revenues	1,000	1,000	3,895	2,895
Interest	750	750	508	(242)
Total revenues	<u>380,085</u>	<u>380,085</u>	<u>378,469</u>	<u>(1,616)</u>
<u>EXPENDITURES</u>				
Advertising	200	200	51	149
Animal control	600	600	169	431
Auditing	2,900	2,900	2,900	-
Contract services	3,500	3,500	1,495	2,005
Dues and subscriptions	2,600	2,600	2,537	63
Events	2,500	2,500	2,429	71
Explorer program	-	-	285	(285)
Fuel and vehicle maintenance	14,000	14,000	16,532	(2,532)
Insurance	10,000	10,000	9,370	630
Legal	500	500	289	211
License and permits	-	-	630	(630)
Meals	150	150	345	(195)
Office supplies	4,710	4,710	3,084	1,626
Labor	285,561	285,561	336,525	(50,964)
Repairs and maintenance	1,300	1,300	315	985
Supplies and small tools	1,750	1,750	60	1,690
Travel and training	2,100	2,100	1,577	523
Utilities	9,850	9,850	9,943	(93)
Uniforms	1,200	1,200	1,753	(553)
Administrative overhead	16,626	16,626	19,115	(2,489)
Capital Outlay	<u>20,000</u>	<u>20,000</u>	<u>19,151</u>	<u>849</u>
Total expenditures	<u>380,047</u>	<u>380,047</u>	<u>428,555</u>	<u>(48,508)</u>
Excess of revenues over expenditures	38	38	(50,086)	(50,124)
<u>FUND BALANCES</u>				
Beginning of the year	<u>301,926</u>	<u>301,926</u>	<u>301,926</u>	<u>-</u>
End of the year	<u>\$ 301,964</u>	<u>\$ 301,964</u>	<u>\$ 251,840</u>	<u>\$ (50,124)</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
 Budgetary Comparison Schedule
 Fire Fund
 For The Year Ended June 30, 2014

	<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	\$ 121,060	\$ 121,060	\$ 117,954	\$ (3,106)
Federal and state grants	-	-	2,272	2,272
Donations	-	-	6,721	6,721
Other operating revenues	6,332	6,332	6,678	346
Interest	450	450	362	(88)
Other non-operating revenues	<u>2,000</u>	<u>2,000</u>	<u>47,700</u>	<u>45,700</u>
Total revenues	<u>129,842</u>	<u>129,842</u>	<u>181,687</u>	<u>51,845</u>
<u>EXPENDITURES</u>				
Auditing	812	812	812	-
Contingency	8,000	8,000	378	7,622
Contract services	1,200	1,200	1,911	(711)
Dues and subscriptions	600	600	878	(278)
Events	500	500	255	245
Fuel and vehicle maintenance	10,000	10,000	11,093	(1,093)
Insurance	6,700	6,700	5,903	797
Legal	-	-	289	(289)
Licenses and permits	75	75	366	(291)
Meals	1,800	1,800	1,062	738
Office supplies	815	815	1,187	(372)
Labor	44,175	44,175	36,037	8,139
Public safety	6,000	6,000	-	6,000
Repairs and maintenance	4,000	4,000	479	3,721
Supplies and small tools	1,000	1,000	9,280	(8,280)
Travel and training	4,000	4,000	1,755	2,245
Utilities	6,500	6,500	5,618	882
Uniforms	3,000	3,000	3,208	(208)
Volunteer stipends	10,000	10,000	9,948	52
Administrative overhead	16,626	16,626	19,115	(2,489)
Capital outlay	<u>10,000</u>	<u>10,000</u>	<u>2,500</u>	<u>7,500</u>
Total expenditures	<u>136,004</u>	<u>136,004</u>	<u>112,074</u>	<u>23,930</u>
Excess of revenues over expenditures	(6,162)	(6,162)	69,613	75,775
<u>FUND BALANCES</u>				
Beginning of the year	<u>198,486</u>	<u>198,486</u>	<u>198,486</u>	<u>-</u>
End of the year	<u>\$ 192,324</u>	<u>\$ 192,324</u>	<u>\$ 268,099</u>	<u>\$ 75,775</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Combining Balance Sheet-Police Special Revenue Funds
June 30, 2014

	Police	COPS Program Fund	Combined Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 208,693	\$ (64,296)	\$ 144,397
Assessments and accounts receivable	28,114	-	28,114
Tax roll receivable	85,363	-	85,363
Grant receivable	-	22,867	22,867
	-	22,867	22,867
Total assets	\$ 322,170	\$ (41,429)	\$ 280,741
 <u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Accounts payable	\$ 4,108	\$ -	\$ 4,108
Compensated absences	24,793	-	24,793
	24,793	-	24,793
Total Liabilities	28,901	-	28,901
 Equity:			
Fund balance (deficit):			
Unreserved, designated for police	293,269	(41,429)	251,840
Unreserved, undesignated	-	-	-
	293,269	(41,429)	251,840
Total liabilities and fund equity	\$ 322,170	\$ (41,429)	\$ 280,741

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Police Special Revenue Funds
June 30, 2014

	<u>Police</u>	<u>COPS Program Fund</u>	<u>Combined Total</u>
<u>REVENUES</u>			
Special tax assessments	\$ 257,505	\$ -	\$ 257,505
Federal and state grants	-	106,715	106,715
Other operating revenues	9,846	-	9,846
Interest	508	-	508
Other non-operating revenues	<u>3,895</u>	<u>-</u>	<u>3,895</u>
Total revenues	271,754	106,715	378,469
<u>EXPENDITURES</u>			
Advertising	51	-	51
Animal control	169	-	169
Auditing	2,900	-	2,900
Contract services	1,495	-	1,495
Dues and subscriptions	2,537	-	2,537
Events	2,429	-	2,429
Explorer program	285	-	285
Fuel and vehicle maintenance	16,532	-	16,532
Insurance	9,370	-	9,370
Legal	289	-	289
Licenses and permits	630	-	630
Meals	345	-	345
Office supplies	3,084	-	3,084
Labor	189,032	147,493	336,525
Repairs and maintenance	315	-	315
Supplies and small tools	60	-	60
Travel and training	1,577	-	1,577
Utilities	9,943	-	9,943
Uniforms	1,753	-	1,753
Administrative overhead	19,115	-	19,115
Capital outlay	<u>19,151</u>	<u>-</u>	<u>19,151</u>
Total expenditures	<u>281,062</u>	<u>147,493</u>	<u>428,555</u>
Excess of revenues over expenditures	(9,308)	(40,778)	(50,086)
<u>FUND BALANCES</u>			
Beginning of the year	<u>302,577</u>	<u>(651)</u>	<u>301,926</u>
End of year	<u>\$ 293,269</u>	<u>\$ (41,429)</u>	<u>\$ 251,840</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Notes to the Financial Statements
June 30, 2014

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
6/30/09	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%
6/30/11	3,619,836	3,203,215	416,621	88.5%	759,264	54.8%

D.R. Watts Accountancy Corporation
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January 30, 2015

To the Board of Directors and Management
Lake Shastina Community Services District

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lake Shastina Community Services District (the District) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Lake Shastina Community Services District's internal control over financial reporting (internal control) as a basis for designing 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 Lake Shastina Community Services District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in 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 a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 following deficiencies in Lake Shastina Community Services District's internal control to be significant deficiencies:

Accounting Training and Expertise

The District's accounting staff is limited in size, training and expertise. As a result, the District is not able to ensure that year-end balances are free from material misstatement. In addition, the District is not able to prepare year-end financial statements in accordance with accounting principles generally accepted in the United States of America. We recommend that the District enhance the expertise of accounting staff through training, or seek professional assistance from outside services.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

D.R. Watts Accountancy Corporation

D.R. Watts Accountancy Corporation
Yuba City, CA

January 30, 2015

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January 30, 2015

To the Board of Directors
Lake Shastina Community Services District

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Lake Shastina Community Services District for the year ended June 30, 2014, and have issued our report thereon dated January 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 30, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lake Shastina Community Services District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate effecting the District's financial statements was:

Management's estimate of accrued compensated absences is based on accumulated leave totals multiplied by expected compensation rates. We evaluated the key factors and assumptions used to develop the amount of accrued compensated absences and determined that it is reasonable in relation the financial statements taken as whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of capital leases and long-term debt, governmental activities, (Note 5.A) to the financial statements provides information about a disputed capital lease agreement to purchase the building that the District leases out for use as a medical center.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 30, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United

States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Lake Shastina Community Services District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

D.R. Watts Accountancy Corporation

D.R. Watts Accountancy Corporation