

Lake Shastina Community Services District

Financial Statements
Fiscal Year Ended June 30, 2013

With Independent Auditor's Report

Prepared by:

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LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Financial Statements
June 30, 2013

Table of Contents

Board of Directors.....	1
Independent Auditor's Report.....	2
Management's Discussion and Analysis.....	4
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position.....	7
Statement of Activities.....	8
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet and Reconciliation of Total Governmental Fund Balances to the Government-wide Statement of Net Position- Governmental Activities.....	9
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	10
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Government-wide Statement of Activities – Governmental Activities.....	11
Proprietary Funds:	
Statement of Net Position – Proprietary Funds.....	12
Statement of Activities – Proprietary Funds.....	13
Statement of Cash Flows – Proprietary Funds.....	14
Notes to the Financial Statements.....	16
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedules:	
General Fund.....	32
Police Fund.....	33
Fire Fund.....	34
Combining Balance Sheet - Police Special Revenue Fund.....	35
Combining Statement of Revenues, Expenditures and Changes in Fund Balance- Police Special Revenue Fund.....	36
Pension Plan-Funded Status of Plan Pool.....	37

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
Tom Wetter, Vice President	12/3/2010 - 12/5/2014
Carol Cupp, Director	12/3/2010 - 12/5/2014
Paula Mitchell, Director	12/7/2012 - 12/2/2016
Beverly Roths, Director	12/7/2012 - 12/2/2016

General Manager

John McCarthy

Senior Accounting Clerk

Debbie Nelle

D.R. Watts Accountancy Corporation

1018 Live Oak Boulevard, Suite G

Yuba City, CA 95991

(530) 755-6402 / drwattscpa@aol.com

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, 2013, 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 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, 2013, 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.

Accounting principles in the United States of America require that the management's discussion and analysis, the schedule of funding progress for retirement plan, 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.

A handwritten signature in cursive script, appearing to read "D. A. Watts", is written over the name of the accounting firm.

January 25, 2014

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, 2013. 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 ongoing 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 a full understanding of the data provided in the District's financial statements.

Financial Analysis of the Fund Financial Statements- Governmental Funds

In FY 12/13, the District received revenues of \$660,372 for the General, Police and Fire Funds, and expended \$592,305. The net result was revenues over expenditures of \$68,067.

The Public Safety Police Division upgraded a computer and shredder in the office. California State grant assistance via the COPS program provided \$136,738 of assistance, of which \$100,000 was received in cash awards and \$36,738 was applied to the current year from cash awards received but not spent in earlier years. This program partially covers one officer and one community services person and it's continuation into future years is essential to the operations of the Public Safety Police Division. The division shows a net result of revenues over expenditures of \$29,562, which include the \$36,738 received in prior years, but recognized in the current year.

The Public Safety Fire Division purchased new handheld radios from savings and new LED firefighting flashlights from a specific donation to assist during structure fires. No major vehicle purchases were made this year. The Public Safety Department was created to streamline operational costs. Efforts are ongoing to economize efficiencies in these areas. All staffing in the department is by volunteers except the Chief of Public Safety and a limited part time Fire Captain.

There is no long term debt in the Public Safety Police and Fire Divisions, but there is a long term debt of \$534,177 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 Dignity Health, 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 increased costs for services by the Department of Public Safety. 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 jointly with 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 12/13, the District received service revenues of \$1,044,230 and \$6,510 in interest income for the Sewer and Water Enterprise Funds, and expended \$777,878 not including depreciation. The net result was revenues over expenditures of \$272,862, which was added to savings 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 savings 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 \$349,972 for the Sewer Fund and \$1,744,905 for the Water Fund. The decreased balance in the Sewer Fund is a result of the District's expenditures on upgrades and new additional State requirements at the sewer ponds and/or upgrades to sewer pump stations. 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.

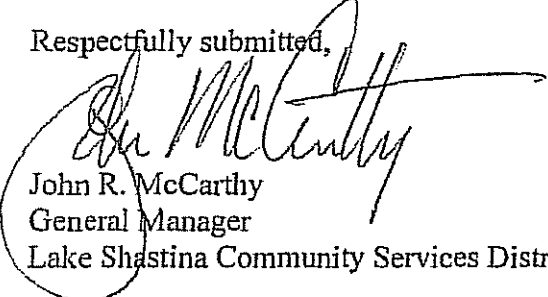
Financial Highlights

- ❖ Completion of power to sewer ponds at treatment facility and other upgrades regarding the State.
- ❖ Upgrades to four Sewer Lift Stations with electronics and mechanical upgrades.
- ❖ Researched well development at Well site off Big Spring Road and Lake Shore Drive.
- ❖ New computer and shredder purchased for the DPS Police Division.
- ❖ New handheld radios and LED flashlights purchased for the DPS Fire Division.
- ❖ Two new computers and printer purchased for Administration.
- ❖ New server installation for CSD.

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; however, serious reduction in services may occur if Police and Fire fees are not increased.

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT

Statement of Net Position

June 30, 2013

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Current assets:			
Cash and investments (Note 2)	\$ 680,277	\$ 2,094,877	\$ 2,775,154
Assessments and accounts receivable (Note 3)	54,195	43,280	97,475
Unbilled services receivable	-	212,023	212,023
Tax roll receivable	85,779	79,876	165,655
Grant receivable	26,163	-	26,163
Prepaid expense	15,385	12,313	27,698
Inventory of supplies (Note 1 E)	-	<u>17,229</u>	<u>17,229</u>
Total current assets	<u>861,799</u>	<u>2,459,598</u>	<u>3,321,397</u>
Capital assets:			
Non depreciable	37,506	33,164	70,670
Depreciable, net of accumulated depreciation of \$1,262,490 and \$3,951,977	<u>950,038</u>	<u>4,643,321</u>	<u>5,593,359</u>
Capital assets, net (Note 4)	<u>987,544</u>	<u>4,676,485</u>	<u>5,664,029</u>
Total assets	1,849,343	7,136,083	8,985,426
DEFERRED OUTFLOWS OF RESOURCES			
	-	-	-
Assets and Deferred Outflows of Resources	<u>\$ 1,849,343</u>	<u>\$ 7,136,083</u>	<u>\$ 8,985,426</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	17,074	27,211	44,285
Compensated absences (Note 7)	20,630	44,950	65,580
Deferred lease payable (Note 5)	83,300	-	83,300
Deferred grant revenue	6,338	-	6,338
Current portion of long-term debt (Note 5)	-	29,760	29,760
Capital lease, due within one year (Note 5)	<u>16,405</u>	<u>-</u>	<u>16,405</u>
Total current liabilities	143,747	101,921	245,668
Noncurrent Liabilities:			
Capital lease due in more than one year (Note 5)	517,772	-	517,772
Long-term capital loan (Note 5)	<u>-</u>	<u>503,045</u>	<u>503,045</u>
Total liabilities	661,519	604,966	1,266,485
DEFERRED INFLOWS OF RESOURCES			
	-	-	-
NET POSITION			
Invested in capital assets, net of related debt	370,067	4,143,680	4,513,747
Restricted:			
Debt service	617,477	532,805	1,150,282
Unrestricted	<u>200,280</u>	<u>1,854,632</u>	<u>2,054,912</u>
Total net position	<u>1,187,824</u>	<u>6,531,117</u>	<u>7,718,941</u>
Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 1,849,343</u>	<u>\$ 7,136,083</u>	<u>\$ 8,985,426</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Activities
For The Year Ended June 30, 2013

FUNCTIONS/PROGRAMS	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
Governmental activities:							
General government	\$ 114,445	\$ -	\$ -	\$ -	\$ (114,445)	\$ -	\$ (114,445)
Police	404,326	266,741	136,738	-	(857)	-	(857)
Fire	<u>130,606</u>	<u>122,787</u>	<u>-</u>	<u>-</u>	<u>(7,819)</u>	<u>-</u>	<u>(7,819)</u>
Total governmental activities	<u>649,377</u>	<u>389,528</u>	<u>136,738</u>	<u>-</u>	<u>(123,111)</u>	<u>-</u>	<u>(123,111)</u>
Business-type activities:							
Sewer	570,267	548,379	-	-	-	(21,888)	(21,888)
Water	<u>468,475</u>	<u>495,851</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,376</u>	<u>27,376</u>
Total business-type activities	<u>1,038,742</u>	<u>1,044,230</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,488</u>	<u>5,488</u>
Total	<u>\$ 1,688,119</u>	<u>\$ 1,433,758</u>	<u>\$ 136,738</u>	<u>\$ -</u>	<u>\$ (123,111)</u>	<u>\$ 5,488</u>	<u>\$ (117,623)</u>
General revenues:							
Interest and investment earnings					1,924	6,510	8,434
Rental income					95,358	-	95,358
Other income					<u>28,625</u>	<u>-</u>	<u>28,625</u>
Total general revenues					125,907	6,510	132,417
Gain (loss) on sale of capital assets					<u>8,200</u>	<u>-</u>	<u>8,200</u>
Total Revenues					<u>134,107</u>	<u>6,510</u>	<u>140,617</u>
Increase (decrease) in net position					10,996	11,998	22,994
Net position – beginning of year					<u>1,176,828</u>	<u>6,519,119</u>	<u>7,695,947</u>
Net position – end of year					<u>\$ 1,187,824</u>	<u>\$ 6,531,117</u>	<u>\$ 7,718,941</u>

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, 2013

	General Fund	Police Funds	Fire Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 318,298	\$ 201,943	\$ 160,036	\$ 680,277
Assessments and accounts receivable	-	38,220	15,975	54,195
Tax roll receivable	-	61,489	24,290	85,779
Grant receivable	-	26,163		26,163
Prepaid expense	8,737	6,237	411	15,385
Total assets	327,035	334,042	200,712	861,799
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	-	-	-	-
Assets and Deferred Outflows of Resources	\$ 327,035	\$ 334,052	\$ 200,712	\$ 861,799
 <u>LIABILITIES</u>				
Accounts payable	\$ 9,690	\$ 5,158	\$ 2,226	\$ 17,074
Deferred revenue	-	6,338	-	6,338
Compensated absences (Note 7)	-	20,630	-	20,630
Deferred lease payable	83,300	-	-	83,300
Total liabilities	92,990	32,126	2,226	127,342
<u>DEFERRED INFLOWS OF RESOURCES</u>	-	-	-	-
<u>FUND BALANCE</u>				
Committed - fire equipment	-	-	83,805	83,805
Assigned - police	-	301,926	-	301,926
Assigned - fire	-	-	114,681	114,681
Unassigned - general	234,045	-	-	234,045
Total fund balances	234,045	301,926	198,486	734,457
Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 327,035	\$ 334,052	\$ 200,712	\$ 861,799
 Total Government Fund Balances				 \$ 734,457
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.				987,544
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				\$ 1,187,824

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, 2013

	<u>General Fund</u>	<u>Police Funds</u>	<u>Fire Fund</u>	<u>Total</u>
REVENUES				
Special tax assessments	\$ -	\$ 266,741	\$ 122,787	\$ 389,528
Federal and state grants	-	* 136,738	-	136,738
Other operating revenues	4,686	11,325	7,589	23,600
Interest	767	673	484	1,924
Rents - building	79,200	-	-	79,200
Rents - antenna	16,158	-	-	16,158
Other non-operating revenues	-	5,000	24	5,024
Gains (losses) on sale of capital assets	-	8,200	-	8,200
Total revenues	<u>100,811</u>	<u>428,677</u>	<u>130,884</u>	<u>660,372</u>
EXPENDITURES				
Advertising	-	1,437	-	1,437
Animal control	-	335	-	335
Auditing	-	2,800	2,800	5,600
Contingency	-	-	1,500	1,500
Contract services	-	2,900	1,232	4,132
Dues and subscriptions	-	2,741	1,667	4,408
Events	-	3,595	81	3,676
Fuel and vehicle maintenance	-	16,483	7,233	23,716
Insurance	-	10,093	6,669	16,762
Legal	-	421	-	421
License and permits	-	-	264	264
Meals	-	273	366	639
Office Supplies	-	4,747	641	5,388
Labor	-	308,571	45,293	353,864
Repairs and maintenance	-	997	3,768	4,765
Supplies and small tools	-	1,222	1,385	2,607
Travel and training	-	196	461	657
Utilities	-	10,227	5,784	16,011
Uniforms	-	936	2,322	3,258
Administrative overhead	-	19,208	19,208	38,416
Capital outlay	20,116	1,638	1,000	22,754
Debt service:				
Principal on capital lease (Note 5)	-	9,613	-	9,613
Interest on capital lease	-	682	-	682
Deferred lease payments (Note 5)	<u>71,400</u>	<u>-</u>	<u>-</u>	<u>71,400</u>
Total expenditures	<u>91,516</u>	<u>399,115</u>	<u>101,674</u>	<u>592,305</u>
Excess of revenues over (under) expenditures	9,295	* 29,562	29,210	68,067
FUND BALANCES				
Beginning of the year	225,258	271,856	169,276	666,390
Funds transfer	<u>(508)</u>	<u>508</u>	<u>-</u>	<u>-</u>
End of the year	<u>\$ 234,045</u>	<u>\$ 301,926</u>	<u>\$ 198,486</u>	<u>\$ 734,457</u>

See accompanying notes. * Note from GM: A one time grant revenue of \$36,738 was unexpected and was left over from a previous year. If this revenue is deducted, the bottom line changes to a deficit of <\$7,176> for 2012/13 Police

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, 2013

Net Changes in Fund Balances-Total Governmental Funds \$ 68,067

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 (\$90,121) exceeds capital outlays (\$22,755)
 in the current period. (67,366)

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. 10,295

Changes in Net Position of Governmental Activities \$ 10,996

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Net Position-Proprietary Funds
June 30, 2013

	Enterprise Funds		
	Sewer	Water	Total
ASSETS			
Current assets:			
Cash and investments (Note 2)	\$ 349,972	\$ 1,744,905	\$ 2,094,877
Assessments and accounts receivable (Note 3)	15,434	27,846	43,280
Unbilled services receivable	119,270	92,753	212,023
Tax roll receivable	35,989	43,887	79,876
Prepaid expense	12,251	62	12,313
Inventory of supplies (Note 1 E)	<u>6,006</u>	<u>11,223</u>	<u>17,229</u>
Total current assets	<u>538,922</u>	<u>1,920,676</u>	<u>2,459,598</u>
Capital assets:			
Non depreciable	5,297	27,867	33,164
Depreciable, net of accumulated depreciation of \$2,812,853 and \$1,139,124 (Note 4)	<u>3,519,152</u>	<u>1,124,169</u>	<u>4,643,321</u>
Capital assets, net of accumulated depreciation	<u>3,524,449</u>	<u>1,152,036</u>	<u>4,676,485</u>
Total assets	4,063,371	3,072,712	7,136,083
DEFERRED OUTFLOWS OF RESOURCES			
	-	-	-
Assets and Deferred Outflows of Resources	<u>\$ 4,063,371</u>	<u>\$ 3,072,712</u>	<u>\$ 7,136,083</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	7,463	19,748	27,211
Compensated absences (Note 7)	44,950	-	44,950
Current portion of long-term debt (Note 5)	<u>29,760</u>	<u>-</u>	<u>29,760</u>
Total current liabilities and total liabilities	<u>82,173</u>	<u>19,748</u>	<u>101,921</u>
Noncurrent Liabilities:			
Capital loan payable in more than one year (Note 5)	<u>503,045</u>	<u>-</u>	<u>503,045</u>
Total liabilities	585,218	19,748	604,966
DEFERRED INFLOWS OF RESOURCES			
	-	-	-
NET POSITION			
Invested in capital assets, net of related debt	2,991,644	1,152,036	4,143,680
Restricted:			
Debt service	532,805	-	532,805
Unrestricted	<u>(46,296)</u>	<u>1,900,928</u>	<u>1,854,632</u>
Total Net Position	3,478,153	3,052,964	6,531,117
Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 4,063,371</u>	<u>\$ 3,072,712</u>	<u>\$ 7,136,083</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Activities-Proprietary Funds
For The Year Ended June 30, 2013

	Enterprise Funds		
	Sewer	Water	Total
<u>OPERATING REVENUES</u>			
Charges for services	\$ 548,379	\$ 495,851	\$ 1,044,230
Total revenues	<u>548,379</u>	<u>495,851</u>	<u>1,044,230</u>
<u>OPERATING EXPENSES</u>			
Auditing	2,800	2,800	5,600
Contract Services	2,210	8,760	10,970
Depreciation	151,786	109,078	260,864
Dues and subscriptions	549	1,202	1,751
Fuel and vehicle maintenance	14,649	9,190	23,839
Insurance	21,514	23,250	44,764
Licenses and permits	3,838	7,513	11,351
Miscellaneous	154	857	1,011
Labor	175,434	90,069	265,503
Repairs and Maintenance	32,759	11,702	44,461
Small tools and supplies	4,283	1,367	5,650
Travel and training	330	53	383
Utilities	25,294	100,927	126,221
Uniforms	864	864	1,728
Administrative overhead	100,843	100,843	201,686
Total operating expenses	<u>537,307</u>	<u>468,475</u>	<u>1,005,782</u>
Operating gain (loss)	11,072	27,376	38,448
<u>NONOPERATING REVENUES AND (EXPENSES)</u>			
Interest	1,091	5,419	6,510
Interest expense	(32,960)	-	(32,960)
Total non-operating revenues (losses)	<u>(31,869)</u>	<u>5,419</u>	<u>(26,450)</u>
Increase (decrease) in net assets	(20,797)	32,795	11,998
<u>NET ASSETS</u>			
Beginning of the year	<u>3,498,950</u>	<u>3,020,169</u>	<u>6,519,119</u>
End of the year	<u>\$ 3,478,153</u>	<u>\$ 3,052,964</u>	<u>\$ 6,531,117</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Cash Flows-Propriety Funds
For the Year Ended June 30, 2013

	<u>Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<u>Cash Flows From Operating Activities</u>			
Receipts from customers	\$ 528,268	\$ 478,754	\$ 1,007,022
Payments to suppliers	(244,208)	(265,901)	(510,109)
Payments to employees	<u>(175,434)</u>	<u>(90,069)</u>	<u>(265,503)</u>
Net Cash provided (used) by operating activities	<u>108,626</u>	<u>122,784</u>	<u>231,410</u>
 <u>Cash Flows (Used) By Capital and Related Financing Activities</u>			
Purchase of property, plant and equipment	(67,828)	(38,188)	(106,016)
Payment on long-term debt	(28,065)	-	(28,065)
Interest on long-term debt	<u>(32,960)</u>	<u>-</u>	<u>(32,960)</u>
Total cash flows provided (used) by capital and financing activities	<u>(128,853)</u>	<u>(38,188)</u>	<u>(167,041)</u>
 <u>Cash Flows Provided By Investing Activities</u>			
Interest received	<u>1,091</u>	<u>5,419</u>	<u>6,510</u>
Net increase in cash and cash equivalents	(19,136)	90,015	70,879
Cash and cash equivalents at the beginning of the year	<u>369,108</u>	<u>1,654,890</u>	<u>2,023,998</u>
Cash and cash equivalents at the end of the year	<u>\$ 349,972</u>	<u>\$ 1,744,905</u>	<u>\$ 2,094,877</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Statement of Cash Flows-Propriety Funds (Continued)
For The Year Ended June 30, 2013

Reconciliation of Operating Income (Loss) to Net Cash Provided

by Operating Activities

Operating gain (loss)	\$ 11,072	\$ 27,376	\$ 38,448
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation	151,786	109,078	260,864
(Increase) decrease in:			
Accounts receivable	(174)	(4,531)	(4,705)
Unbilled services receivable	(11,029)	(5,033)	(16,062)
Tax roll receivable	(8,908)	(7,533)	(16,441)
Prepaid expense	(12,251)	(62)	(12,313)
Inventory	(1,197)	(479)	(1,676)
Increase (decrease) in:			
Accounts payable	(27,466)	3,968	(23,498)
Compensated absences	<u>6,793</u>	<u>-</u>	<u>6,793</u>
Net cash provided (used) by operating activities	<u>\$ 108,626</u>	<u>\$ 122,784</u>	<u>\$ 231,410</u>

See accompanying notes..

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Notes to the Financial Statements
June 30, 2013

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, 2013

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, 2013

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, 2013

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, 2013

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, 2013

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, 2013

Note 2. Cash and Investments (continued)

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Governmental activities/governmental funds	\$ 680,277
Business-type activities/proprietary funds	<u>2,094,877</u>
Total cash and investments	<u>\$ 2,775,154</u>
Consisting of the following:	
Cash on hand	\$ 375
Deposits with financial institutions	238,307
Investments (LAIF)	<u>2,536,472</u>
Total cash and investments	<u>\$ 2,775,154</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	\$ 2,536,472	\$ 2,536,472	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, 2013

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, 2013

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, 2013 was as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</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	504,260	22,754	-	527,014
Vehicles and rolling stock	706,729	-	61,930	644,799
	<u>2,251,704</u>	<u>22,754</u>	<u>61,930</u>	<u>2,212,528</u>
Less accumulated depreciation:				
Buildings and improvements	281,436	34,690	-	316,126
Plant and equipment	374,703	29,927	-	404,630
Vehicles and rolling stock	578,161	25,503	61,930	541,734
	<u>1,234,300</u>	<u>90,120</u>	<u>61,930</u>	<u>1,262,490</u>
Net Capital assets being				
Depreciated	<u>1,017,404</u>	<u>(67,366)</u>	<u>-</u>	<u>950,038</u>
Net Capital assets used in				
Governmental activities	<u>\$ 1,054,910</u>	<u>\$ (67,366)</u>	<u>\$ -</u>	<u>\$ 987,544</u>

LAKE SHASTINA COMMUNITY SERVICES DISTRICT

Notes to the Financial Statements

June 30, 2013

Note 4. Capital Assets and Depreciation (continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$	43,045
Police		17,145
Fire		<u>29,930</u>
	\$	<u>90,120</u>

	<u>Balance</u>		<u>Balance</u>
	<u>June 30, 2012</u>	<u>Additions</u>	<u>June 30, 2013</u>
Business-type Activities:			
Capital assets not depreciated:			
Land	\$ 31,433	\$ -	\$ 31,433
Construction in progress	<u>1,731</u>	<u>50,331</u>	<u>50,331</u>
	<u>33,164</u>	<u>50,331</u>	<u>83,495</u>
Capital assets being			
Depreciated:			
Buildings and improvements	276,937	-	276,937
Plant and equipment	8,002,260	55,685	8,057,945
Vehicles and rolling stock	<u>210,085</u>	<u>-</u>	<u>210,085</u>
	<u>8,489,282</u>	<u>55,685</u>	<u>8,544,967</u>
Less Accumulated			
Depreciation:			
Buildings and improvements	126,463	7,664	134,127
Plant and equipment	3,398,221	241,215	3,639,436
Vehicles and rolling stock	<u>166,429</u>	<u>11,985</u>	<u>178,414</u>
	<u>3,691,113</u>	<u>260,864</u>	<u>3,951,977</u>
Net Capital assets being			
Depreciated	<u>4,798,169</u>	<u>(205,179)</u>	<u>4,592,990</u>
Net Capital assets used in			
Business-type activities	<u>\$ 4,831,333</u>	<u>\$ 154,848</u>	<u>\$ 4,676,485</u>

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

Sewer	\$	151,786
Water		<u>109,078</u>
	\$	<u>260,864</u>

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Notes to the Financial Statements
June 30, 2013

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>(184,388)</u>
Total	<u>\$ 430,237</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 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 deferred lease payable at June 30, 2013 was \$83,300.

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 due in three equal installments of \$10,296, including interest at 7.10%. During the year ended June 30, 2013 the final lease payment of \$10,296 was made and there was a zero balance due at June 30, 2013.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Notes to the Financial Statements
June 30, 2013

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, 2013, is shown below:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
Governmental Funds:				
Building capital lease	\$ 534,177	\$ -	\$ -	\$ 534,177
Vehicle lease	<u>10,296</u>	<u>-</u>	<u>10,296</u>	<u>-</u>
Total	<u>\$ 544,473</u>	<u>\$ -</u>	<u>\$ 10,296</u>	534,177
Less amount due within one year				<u>(16,405)</u>
Long-term debt, net of current portion				<u>\$ 517,772</u>

The annual debt service requirements to maturity are as follows:

Governmental Funds:

Year ending June 30,	<u>Total</u>		
	<u>Payment</u>	<u>Interest</u>	<u>Principle</u>
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
2018-2030	<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>

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, 2013, is shown below:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
Proprietary Funds:				
Sewer pond loan	\$ 560,870	\$ -	\$ 28,065	\$ 532,805
Total	<u>\$ 560,870</u>	<u>\$ -</u>	<u>\$ 28,065</u>	532,805
Less amount due within one year				<u>(29,760)</u>
Long-term debt, net of current portion				<u>\$ 503,045</u>

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Notes to the Financial Statements
June 30, 2013

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
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	61,025	23,390	37,635
2019- 2026	<u>457,694</u>	<u>92,786</u>	<u>364,908</u>
Totals	<u>\$ 762,819</u>	<u>\$ 230,014</u>	<u>\$ 532,805</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 position and balance sheet is \$20,630 and \$44,950 for the police fund and sewer fund, respectively. Included in the sewer fund amount is \$ 23,970 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, 2013

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, 2013

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, 2013 were \$8,305. 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, 2013 was 16.632%. 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, 2013

Note 10. Employee Pension Plans (continued)

Defined Benefit Pension Plan (continued):

Annual Pension Cost-For the year ended June 30, 2013, the District's annual pension cost was \$85,485 which is also the amount the District contributed. The required contribution for the year ended June 30, 2013 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>
6/30/10	35,261	100%	-0-
6/30/11	54,859	100%	-0-
6/30/12	64,287	100%	-0-
6/30/13	85,485	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, 2013 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, 2013.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance Favorable (Unfavorable)
<u>REVENUES</u>				
Interest	\$ 1,450	\$ 1,450	\$ 767	\$ (683)
Rents - building	79,200	79,200	79,200	-
Rents - antenna	14,400	14,400	16,158	1,758
Other operating revenues	<u>3,000</u>	<u>3,000</u>	<u>4,686</u>	<u>1,686</u>
Total revenues	<u>98,050</u>	<u>98,050</u>	<u>100,811</u>	<u>2,761</u>
<u>EXPENDITURES</u>				
Current:				
Capital Outlay	-	-	20,116	(20,116)
Debt service:				
Deferred lease payments	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>	<u>-</u>
Total expenditures	<u>71,400</u>	<u>71,400</u>	<u>91,516</u>	<u>(20,116)</u>
Excess of revenues Over expenditures	26,650	26,650	9,295	(17,355)
<u>FUND BALANCES</u>				
Beginning of the year	<u>225,258</u>	<u>225,258</u>	<u>225,258</u>	<u>-</u>
End of the year	<u>\$ 251,908</u>	<u>\$ 251,908</u>	<u>\$ 234,553</u>	<u>\$ (17,355)</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
 Budgetary Comparison Schedule
 Police Funds
 For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance Favorable (Unfavorable)
REVENUES				
Special tax assessments	\$ 266,130	\$ 266,130	\$ 266,741	\$ 611
Federal and state grants	100,000	100,000	*136,738	36,738
Other operating revenues	13,900	13,900	19,525	5,625
Non-operating revenues	500	500	5,000	4,500
Interest	1,100	1,100	673	(427)
Total revenues	<u>381,630</u>	<u>381,630</u>	<u>428,677</u>	<u>47,047</u>
EXPENDITURES				
Advertising	200	200	1,437	(1,237)
Animal control	-	-	335	(335)
Auditing	3,500	3,500	2,800	700
Contract services	3,000	3,000	2,900	100
Dues and subscriptions	2,600	2,600	2,741	(141)
Events	2,500	2,500	3,595	(1,095)
Fuel and vehicle maintenance	13,000	13,000	16,483	(3,483)
Insurance	9,300	9,300	10,093	(793)
Legal	1,000	1,000	421	579
Meals	100	100	273	(173)
Office supplies	4,800	4,800	4,747	53
Labor	312,327	312,327	308,571	3,756
Repairs and maintenance	1,500	1,500	997	503
Supplies and small tools	1,500	1,500	1,222	278
Travel and training	1,500	1,500	196	1,304
Utilities	10,200	10,200	10,227	(27)
Uniforms	1,000	1,000	936	64
Administrative overhead	16,256	16,256	19,208	(2,952)
Debt service	-	-	10,295	(10,295)
Capital Outlay	10,296	10,296	1,638	8,658
Total expenditures	<u>394,579</u>	<u>394,579</u>	<u>399,115</u>	<u>(4,536)</u>
Excess of revenues over expenditures	(12,949)	(12,949)	*29,562	42,511
FUND BALANCES				
Beginning of the year	<u>271,856</u>	<u>271,856</u>	<u>271,856</u>	<u>-</u>
End of the year	<u>\$ 258,907</u>	<u>\$ 258,907</u>	<u>\$ 301,418</u>	<u>\$ 42,511</u>

See accompanying notes.

* Note from GM: A one time grant revenue of \$36,738 was unexpected and was left over from a previous year. If this revenue is deducted, the bottom line changes to a deficit of <\$7,176> for 2012/13 Police

LAKE SHASTINA COMMUNITY SERVICES DISTRICT

Budgetary Comparison Schedule

Fire Fund

For The Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance Favorable (Unfavorable)
<u>REVENUES</u>				
Special tax assessments	\$ 120,770	\$ 120,770	\$ 122,787	\$ 2,017
Other operating revenues	6,132	6,132	7,589	1,457
Interest	400	400	484	84
Other non-operating revenues	-	-	24	24
Total revenues	<u>127,302</u>	<u>127,302</u>	<u>130,884</u>	<u>3,582</u>
<u>EXPENDITURES</u>				
Auditing	3,500	3,500	2,800	700
Contingency	8,000	8,000	1,500	6,500
Contract services	1,000	1,000	1,232	(232)
Dues and subscriptions	500	500	1,667	(1,167)
Events	500	500	81	419
Fuel and vehicle maintenance	10,000	10,000	7,233	2,767
Insurance	6,300	6,300	6,669	(369)
Licenses and permits	75	75	264	(189)
Meals	1,800	1,800	366	1,434
Office supplies	1,200	1,200	641	559
Labor	55,130	55,130	45,293	9,837
Public safety	6,000	6,000	-	6,000
Repairs and maintenance	4,000	4,000	3,768	232
Supplies and small tools	1,000	1,000	1,385	(385)
Travel and training	4,000	4,000	461	3,539
Utilities	5,600	5,600	5,784	(184)
Uniforms	2,000	2,000	2,322	(322)
Administrative overhead	16,256	16,256	19,208	(2,952)
Capital outlay	-	-	1,000	(1,000)
Total expenditures	<u>128,861</u>	<u>126,861</u>	<u>101,674</u>	<u>25,187</u>
Excess of revenues over expenditures	441	441	29,210	28,769
<u>FUND BALANCES</u>				
Beginning of the year	<u>169,276</u>	<u>169,276</u>	<u>169,276</u>	<u>-</u>
End of the year	<u>\$ 169,717</u>	<u>\$ 169,717</u>	<u>\$ 198,486</u>	<u>\$ 28,769</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Combining Balance Sheet-Police Special Revenue Funds
June 30, 2013

	<u>Police</u>	<u>COPS Program Fund</u>	<u>Combined Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 225,706	\$ (23,763)	\$ 201,943
Assessments and accounts receivable	38,220	-	38,220
Tax roll receivable	61,489	-	61,489
Grant receivable	-	26,163	26,163
Prepaid expense	<u>2,950</u>	<u>3,287</u>	<u>6,237</u>
 Total assets	 <u>\$ 328,365</u>	 <u>\$ 5,687</u>	 <u>\$ 334,052</u>
 <u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Accounts payable	\$ 5,158	\$ -	\$ 5,158
Compensated absences	20,630	-	20,630
Deferred grant revenue	<u>-</u>	<u>6,338</u>	<u>6,338</u>
Total Liabilities	<u>25,788</u>	<u>6,338</u>	<u>32,126</u>
 Equity:			
Fund balance (deficit):			
Unreserved, designated for police	302,577	-	302,577
Unreserved, undesignated	<u>-</u>	<u>(651)</u>	<u>(651)</u>
	<u>302,577</u>	<u>(651)</u>	<u>301,926</u>
 Total liabilities and fund equity	 <u>\$ 328,365</u>	 <u>\$ 5,687</u>	 <u>\$ 334,052</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Police Special Revenue Funds

June 30, 2013

	Police	COPS Program Fund	Combined Total
<u>REVENUES</u>			
Special tax assessments	\$ 266,741	\$ -	\$ 266,741
Federal and state grants	-	136,738	136,738
Other operating revenues	11,325	-	11,325
Interest	673	-	673
Other non-operating revenues	5,000	-	5,000
Gain (loss) on sale of capital assets	<u>8,200</u>	<u>-</u>	<u>8,200</u>
Total revenues	291,939	136,738	428,677
<u>EXPENDITURES</u>			
Advertising	1,437	-	1,437
Animal control	335	-	335
Auditing	2,800	-	2,800
Contract services	2,900	-	2,900
Dues and subscriptions	2,741	-	2,741
Events	3,595	-	3,595
Fuel and vehicle maintenance	16,483	-	16,483
Insurance	10,093	-	10,093
Legal	421	-	421
Meals	273	-	273
Office supplies	4,747	-	4,747
Labor	171,833	136,738	308,571
Repairs and maintenance	997	-	997
Supplies and small tools	1,222	-	1,222
Travel and training	196	-	196
Utilities	10,227	-	10,227
Uniforms	936	-	936
Administrative overhead	19,208	-	19,208
Capital outlay	1,638	-	1,638
Debt service:			
Principal on capital lease (Note 5)	9,613	-	9,613
Interest on capital lease	<u>682</u>	<u>-</u>	<u>682</u>
Total expenditures	<u>262,377</u>	<u>136,738</u>	<u>399,115</u>
Excess of revenues over expenditures	29,562	-	29,562
<u>FUND BALANCES</u>			
Beginning of the year	272,507	(651)	271,856
Fund transfer	<u>508</u>	<u>-</u>	<u>508</u>
End of year	<u>\$ 302,577</u>	<u>\$ (651)</u>	<u>\$ 301,926</u>

See accompanying notes.

LAKE SHASTINA COMMUNITY SERVICES DISTRICT
Notes to the Financial Statements
June 30, 2013

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%