

**LAKE SHASTINA  
COMMUNITY SERVICES DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2016**

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
 FINANCIAL STATEMENTS  
 June 30, 2016  
 TABLE OF CONTENTS

Page

FINANCIAL SECTION:

Independent Auditors' Report .....	1 - 2
Management's Discussion and Analysis (Required Supplementary Information) .....	i - iii

BASIC FINANCIAL STATEMENTS:

Government-Wide Financial Statements:	
Statement of Net Position .....	3
Statement of Activities .....	4
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet - Governmental Funds.....	5
Reconciliation of the Balance Sheet - Governmental Funds To the Government-Wide Statement of Net Position.....	6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds to the Government-Wide Statement of Activities .....	8
Proprietary Funds:	
Statement of Net Position – Proprietary Funds.....	9
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds .....	10
Statement of Cash Flows – Proprietary Funds .....	11
Notes to the Financial Statements .....	12 - 26

REQUIRED SUPPLEMENTARY INFORMATION (other than MD&A):

Budgetary Comparison Schedules (Major Funds):	
General Fund.....	27
Police Funds.....	28
Fire Funds .....	29
Schedule of the District's Proportion Share of the Net Pension Liability .....	30
Schedule of the District's Contributions .....	30

SUPPLEMENTARY INFORMATION:

Combining Balance Sheet – Police Special Revenue Funds.....	31
Combining Statement of Revenues, Expenditures and Changes in Fund Balances –Police Special Revenue Funds .....	32

GAO SECTION:

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	33 – 34
Schedule of Findings and Responses.....	35
Schedule of Prior Year Findings and Responses.....	36



## **Aiello, Goodrich & Teuscher**

An Accountancy Corporation

---

### **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Lake Shastina Community Services District  
Weed, California

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund, of Lake Shastina Community Services District ("District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements and Reporting Guidelines for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the District, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Other Matters***

##### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through iii, the budgetary comparison information on pages 27 through 29 and the Lake Shastina Community Service District's Retirement System Schedule of the District's Proportionate

Share of the Net Pension Liability and the Retirement System Schedule of the District's Contributions on page 30; be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lake Shastina Community Services District's basic financial statements. The accompanying combining nonmajor funds financial statements on pages 31 through 32 are presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor funds financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2017, on our consideration of the Lake Shastina Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake Shastina Community Services District's internal control over financial reporting and compliance.

*Aiello, Goodrich & Teuscher*

Aiello, Goodrich & Teuscher  
An Accountancy Corporation  
Mt. Shasta, California  
January 4, 2017



**LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Management's Discussion and Analysis**

This section of the District's Financial Statement presents our analysis of the District's financial performance for the Fiscal Year that ended June 30, 2016. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

**The District's Operation – an Overview**

The LSCSD is a special district formed under Government Code §61000 to operate and manage the community's wastewater treatment plant (WWTP), the drinking water system, police services and fire services. The major activities of the District include the collection and treatment of domestic wastewater for the community of Lake Shastina, operate the pumping, storage and distribution of drinking water, manage the Lake Shastina Police Department, and administer the Lake Shastina Fire Department. Lake Shastina is one of four special districts in the State that has police services as a latent power. The operation and maintenance of the WWTP and the drinking water system are funded through service fees, while the capital improvements are funded through grants and low interest loans through the State Water Resources Control Board. Loans are repaid through service fees. The operation and maintenance of the Lake Shastina Police and Fire Departments are funded through taxes and grants, including an annual COPS grant that offsets the cost of one full time officer. The District is a post Prop 13 special district and as such gets no tax money from the county or state. Capital improvements are also funded through the tax revenue and grants. Additional revenue is from the lease of a medical building the District owns, cellular antennas leases, animal control fees, and miscellaneous grants and donations.

Lake Shastina was planned as a second home recreational area in 1968, which has evolved into a community consisting of retirees and families. The District was formed in 1978, and the Water System was transferred to the District from the Lake Shastina Mutual Water Company in 2003 in an as is condition. The Wastewater Treatment Plant and the Water Distribution System have several problem areas due to aging infrastructure. The District has embarked on aggressive improvement projects in order to improve the overall water and wastewater systems and the safety of the community and the environment. We are currently in the application approval phase of Planning Grants for both the wastewater and drinking water systems. These planning grants for the upgrades and rehabilitation of the sewer system and the drinking water distribution system will lead to additional State and Federal Grants to make the necessary capital improvements for the District.

The Wastewater Capital Improvement Projects include the upgrade and rehabilitation of the aging Wastewater System for the safety of the community and the environment including 15 lift station sump and pump upgrades improving the safety of the stations and reducing the energy usage, develop sludge drying beds and head works containment as mandated by the Regional Board, line evaporation pond, start rehabilitation on manholes and collection lines as recommended by the SWRCB SSO program. Additional Improvements include a SCADA System for automatic alarms and remote operation, Photovoltaic solar system for energy reduction, and general upgrades to plant infrastructure.

The Drinking Water pumping, storage and distribution system include rehabilitate, upgrade and expand an aging Drinking Water System for the community of Lake Shastina including developing two new wells for the long term and drought protection of the water supply for the community, reline 4 storage tanks, refurbish two booster stations, rehabilitate 3 wells, replace meters, upgrade telemetry and SCADA

system, Cathodic Protection Replacement, and rehabilitate fire hydrant system for the benefit and safety of the community and the environment.

The Lake Shastina Police Department is in the process of interviewing for two additional full time officers, including the Chief of Police. The District also approved a ballot measure to be placed on the November ballot that would increase the tax revenue for police services of \$110 per year per property. This is the first increase in the Police tax in 20 years and amounts to an increase of just \$3.75 per month per property owner. We are confident the tax increase will pass with the required 2/3rds vote in November.

The Lake Shastina Fire Department is a volunteer Department with one part-time Fire Chief. The Department is one of the best trained volunteer Departments in the County and has been used as strike teams throughout Northern California during this year's fire season. The Strike Teams have brought in revenue from the State and Federal governments for manpower and the use of our equipment. It is anticipated the revenue generated this year will be \$115,000, with approximately \$35,000 of that amount for equipment only.

### **Basic Financial Statements**

In accordance with the Government Accounting Standards Board (GASB) Statement No. 34, the District's basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The statement of net assets includes the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The difference between the assets and liabilities is shown as net assets. This statement also provides the basis of evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenues, expenses and changes in net assets accounts for the current year's revenues and expenses. This statement measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The final required statement is the statement of cash flows. This statement reports cash receipts, cash disbursements, and net changes in cash resulting from operations and investments during the reporting period.

The notes to the basic financial statements provide a description of the accounting policies used to prepare the financial statements and present disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

### **Financial Highlights**

- Current Assets increased over the last year by \$49,718 in cash and cash equivalents
- Fixed Assets decreased by \$684,017 over the same period reflecting the depreciation of the assets and the addition of a Type 3 Fire Engine and the reclassification of the medical clinic to an asset held for investment.
- Change in Total Assets over the last year amounts to a decrease of \$99,834.

- Total Liabilities were reduced by \$226,705 reflecting the principal payments to the Water Department loan for the Medical Building and \$30,423 for the principal payment to City Bank for the Sewer Pond Improvement Project
- The District's Net Loss for the year was \$59,535, and the LAIF reserves were increased by \$211,072.

### **Future Projections**

The District has applied for a Planning Grant from the State Water Resource Control Board Clean Water SRF for \$500,000 for the planning and design, engineering report and CEQA documents for a major Improvement and Rehabilitation Project. We have also applied for a \$500,000 Planning Grant from the State Water Resources Control Board Drinking Water SRF for the planning and design for a major Improvement and Rehabilitation Project for the drinking water system.

The District continues to pay down the Water Department loan for the Medical Building and the loan for the Sewer Pond Improvements. The main priorities of the District Board are to make the necessary improvements to the Water and Wastewater systems with grant funding order to develop safe, reliable and environmentally friendly systems, building District Reserves, strengthening the Police Department, fully equip the Fire Department, add additional leases for cellular towers, and establish uniform and effective rate structures

### **Contacting the District Administrator**

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact the General Manager, Lake Shastina Community Services District, 16320 Everhart Dr., Weed CA 96094.

## BASIC FINANCIAL STATEMENTS



LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Statement of Net Position  
June 30, 2016

	Governmental Activities	Business- Type Activities	Total
<b><u>ASSETS</u></b>			
Current assets:			
Cash and investments	\$ 600,432	\$ 1,645,249	\$ 2,245,681
Receivables			
Assessments and accounts	25,491	26,531	52,022
Unbilled services	-	199,763	199,763
Tax roll	135,518	100,879	236,397
Intergovernmental	18,621	-	18,621
Inventory of supplies	-	20,023	20,023
Prepaid expenses	11,952	5,603	17,555
Due from Lake Shastina POA	5,715	771	6,486
Total current assets	<u>797,729</u>	<u>1,998,819</u>	<u>2,796,548</u>
Noncurrent assets:			
Advances to other funds	-	458,196	458,196
Asset held for investment	576,269	-	576,269
Non depreciable	37,506	150,029	187,535
Depreciable, net	249,168	4,234,995	4,484,163
Total noncurrent assets	<u>862,943</u>	<u>4,843,220</u>	<u>5,706,163</u>
Total assets	1,660,672	6,842,039	8,502,711
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred outflows from pensions	99,934	71,189	171,123
Total assets and deferred outflows	<u>1,760,606</u>	<u>6,913,228</u>	<u>8,673,834</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable and accrued expenses	18,079	25,644	43,723
Accrued payroll and benefits	15,278	5,132	20,410
Compensated absences payable, due within one year	16,194	4,590	20,784
Capital lease payable, due within one year	-	35,483	35,483
Total current liabilities	<u>49,551</u>	<u>70,849</u>	<u>120,400</u>
Noncurrent liabilities:			
Advances from other funds	458,196	-	458,196
Compensated absences payable, due in more than one year	24,290	6,885	31,175
Net pension liability	429,123	224,859	653,982
Capital lease payable due in more than one year	-	402,543	402,543
Total noncurrent liabilities	<u>911,609</u>	<u>634,287</u>	<u>1,545,896</u>
Total liabilities	<u>961,160</u>	<u>705,136</u>	<u>1,666,296</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Deferred inflows from pensions	150,302	133,136	283,438
<b><u>NET POSITION</u></b>			
Invested in capital assets, net of related debt	286,674	3,946,998	4,233,672
Restricted for:			
Debt service	-	438,026	438,026
Unrestricted	362,470	1,689,932	2,052,402
Total net position	<u>\$ 649,144</u>	<u>\$ 6,074,956</u>	<u>\$ 6,724,100</u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Statement of Activities  
For The Year Ended June 30, 2016

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	\$ 83,014	\$ -	\$ -	\$ -	\$ (83,014)	\$ -	\$ (83,014)
Police	323,225	257,760	100,000	-	34,535	-	34,535
Fire	338,438	118,190	-	7,368	(212,880)	-	(212,880)
Total governmental activities	<u>744,677</u>	<u>375,950</u>	<u>100,000</u>	<u>7,368</u>	<u>(261,359)</u>	<u>-</u>	<u>(261,359)</u>
Business-type activities:							
Sewer	575,814	579,572	-	-	-	3,758	3,758
Water	591,367	456,098	-	-	-	(135,269)	(135,269)
Total business-type activities	<u>1,167,181</u>	<u>1,035,670</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(131,511)</u>	<u>(131,511)</u>
Total	<u>\$ 1,911,858</u>	<u>\$ 1,411,620</u>	<u>\$ 100,000</u>	<u>\$ 7,368</u>	<u>(261,359)</u>	<u>(131,511)</u>	<u>(392,870)</u>
General revenues:							
Interest and investment earnings					2,567	9,624	12,191
Rental income					80,134	-	80,134
Loss on disposal of capital assets					(392)	-	(392)
Other					194,619	5,739	200,358
Total general revenues					<u>276,928</u>	<u>15,363</u>	<u>292,291</u>
Change in net position					15,569	(116,148)	(100,579)
Beginning of the year					<u>633,575</u>	<u>6,191,104</u>	<u>6,824,679</u>
Net position - ending					<u>\$ 649,144</u>	<u>\$ 6,074,956</u>	<u>\$ 6,724,100</u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Balance Sheet - Governmental Funds  
June 30, 2016

	General Fund	Police Funds	Fire Fund	Total
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 232,373	\$ 250,888	\$ 117,171	\$ 600,432
Receivables				
Assessments and accounts	4,572	21,221	5,133	30,926
Tax roll	-	97,679	37,839	135,518
Intergovernmental		11,253	7,368	18,621
Prepaid expenses	8,045	3,832	75	11,952
Due from Lake Shastina Property Owner's Association	5,715	-	-	5,715
Total assets	<u>\$ 250,705</u>	<u>\$ 384,873</u>	<u>\$ 167,586</u>	<u>\$ 803,164</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Accounts payable	\$ 14,194	\$ 1,499	\$ 7,821	\$ 23,514
Accrued expenses and deposits	7,432	7,122	724	15,278
Advances from other funds	458,196	-	-	458,196
Total liabilities	479,822	8,621	8,545	496,988
Fund balances:				
Assigned:				
Police	-	376,252	-	376,252
Fire	-	-	159,041	159,041
Unassigned	(229,117)	-	-	(229,117)
Total fund balances	(229,117)	376,252	159,041	306,176
Total liabilities and fund balances	<u>\$ 250,705</u>	<u>\$ 384,873</u>	<u>\$ 167,586</u>	<u>\$ 803,164</u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
 Reconciliation of the Balance Sheet - Governmental Funds  
 to the Government-Wide Statement of Net Position  
 June 30, 2016

Total fund balances included in the Balance Sheet - Governmental Funds		\$ 306,176
Amounts reported for governmental activities in the statement of net assets are different because:		
Assets recorded within the Statement of Net Position not reported in the funds:		
Investment in medical clinic building		576,269
Nondepreciable capital assets		37,506
Depreciable capital assets	1,368,923	
Accumulated depreciation	<u>(1,119,755)</u>	249,168
Liabilities recorded within the Statement of Net Position not reported in the funds:		
Compensated absences		(40,484)
Net pension liability		(429,123)
Deferred outflows and inflows recorded within the statement of net position not reported in the funds:		
Deferred outflows of resources relating to pensions		99,934
Deferred inflows of resources relating to pensions		<u>(150,302)</u>
Net Position of Governmental Activities		<u>\$ 649,144</u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Statement of Revenues, Expenditures and Changes  
in Fund Balances - Governmental Funds  
For The Year Ended June 30, 2016

	General Fund	Special Revenue Funds		Total
		Police Funds	Fire Fund	
<b>REVENUES</b>				
Special tax assessments	\$ -	\$ 257,760	\$ 118,190	\$ 375,950
Federal and state grants	-	100,000	7,368	107,368
Other operating revenues	6,785	7,656	11,377	25,818
Interest	910	954	703	2,567
Rents	80,134	-	-	80,134
Other nonoperating revenues	-	3,352	165,449	168,801
<b>Total revenues</b>	<b>87,829</b>	<b>369,722</b>	<b>303,087</b>	<b>760,638</b>
<b>EXPENDITURES</b>				
Current:				
Contract services	996	3,232	1,794	6,022
Dues and subscriptions	149	2,410	755	3,314
Elections	-	-	-	-
Fuel and supplies	-	5,885	13,787	19,672
Insurance	37	8,805	6,884	15,726
Labor	8,693	249,349	173,476	431,518
Licenses and permits	151	466	273	890
Miscellaneous	1	543	85	629
Office supplies	274	1,031	583	1,888
Professional services	2,979	4,258	1,170	8,407
Repairs and maintenance	666	940	40,972	42,578
Supplies and small tools	24	132	1,362	1,518
Travel and training	18	3,838	6,959	10,815
Uniforms	-	819	3,485	4,304
Utilities	288	9,422	7,623	17,333
Administrative overhead	-	27,992	27,992	55,984
Capital outlay	-	-	85,381	85,381
Debt service:				
Interest	2,196	-	-	2,196
<b>Total expenditures</b>	<b>16,472</b>	<b>319,122</b>	<b>372,581</b>	<b>708,175</b>
Excess of revenues over (under) expenditures	71,357	50,600	(69,494)	52,463
<b>FUND BALANCES</b>				
Beginning of the year	(300,474)	325,652	228,535	253,713
End of the year	\$ (229,117)	\$ 376,252	\$ 159,041	\$ 306,176

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
 Balances - Governmental Funds to the Government-Wide Statement of Activities  
 For The Year Ended June 30, 2016

Total net change in fund balance included in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds		\$ 52,463
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay	70,645	
Depreciation expense	<u>(62,454)</u>	8,191
<p>Expenses in the Statement of Activities do not provide current financial resources and are not reported as expenses in the funds.</p>		
Loss on disposal of assets		(392)
<p>In governmental funds, pension costs are recognized when employer contributions are made. In the Statement of Activities, pension costs are recognized on the accrual basis.</p>		
		(51,337)
<p>Some transactions reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences expense		<u>6,644</u>
Change in Net Assets of Governmental Activities		<u><u>\$ 15,569</u></u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Statement of Net Position - Proprietary Funds  
June 30, 2016

	Enterprise Funds		
	Sewer	Water	Total
<b><u>ASSETS</u></b>			
Current assets:			
Cash and investments	\$ 502,965	\$ 1,142,284	\$ 1,645,249
Assessments and accounts receivable	9,631	16,900	26,531
Unbilled services receivable	117,671	82,092	199,763
Tax roll receivable	40,608	60,271	100,879
Prepaid expense	5,603	-	5,603
Inventory of supplies	5,171	14,852	20,023
Due from Lake Shastina POA	771	-	771
Total current assets	<u>682,420</u>	<u>1,316,399</u>	<u>1,998,819</u>
Noncurrent assets:			
Advances to other funds	-	458,196	458,196
Non-depreciable capital assets	87,896	62,133	150,029
Depreciable capital assets, net	3,261,807	973,188	4,234,995
Total noncurrent assets	<u>3,349,703</u>	<u>1,493,517</u>	<u>4,843,220</u>
Total assets	4,032,123	2,809,916	6,842,039
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred outflows from pensions	<u>71,189</u>	<u>-</u>	<u>71,189</u>
Total assets and deferred outflows	<u>4,103,312</u>	<u>2,809,916</u>	<u>6,913,228</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable and accrued expense	8,105	17,539	25,644
Accrued payroll and benefits	3,394	1,738	5,132
Compensated absences payable - current	4,590	-	4,590
Financing leases payable - current	35,483	-	35,483
Total current liabilities	<u>51,572</u>	<u>19,277</u>	<u>70,849</u>
Noncurrent liabilities:			
Compensated absences payable - noncurrent	6,885	-	6,885
Net pension liability	224,859	-	224,859
Financing leases payable - noncurrent	402,543	-	402,543
Total noncurrent liabilities	<u>634,287</u>	<u>-</u>	<u>634,287</u>
Total liabilities	<u>685,859</u>	<u>19,277</u>	<u>705,136</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Deferred inflows from pensions	<u>133,136</u>	<u>-</u>	<u>133,136</u>
<b><u>NET POSITION</u></b>			
Invested in capital assets, net of related debt	2,911,677	1,035,321	3,946,998
Unrestricted	<u>372,640</u>	<u>1,755,318</u>	<u>2,127,958</u>
Total net position	<u>\$ 3,284,317</u>	<u>\$ 2,790,639</u>	<u>\$ 6,074,956</u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Change in Net Position - Proprietary Funds  
For The Year Ended June 30, 2016

	Enterprise Funds		
	Sewer	Water	Total
<b><u>OPERATING REVENUES</u></b>			
Charges for services	\$ 577,276	\$ 455,458	\$ 1,032,734
Other operating revenues	2,296	640	2,936
Total revenues	<u>579,572</u>	<u>456,098</u>	<u>1,035,670</u>
<b><u>OPERATING EXPENSES</u></b>			
Contract services	7,452	7,381	14,833
Depreciation	60,138	121,477	181,615
Dues and subscriptions	423	1,093	1,516
Fuel and supplies	5,738	5,609	11,347
Insurance	19,366	21,056	40,422
Labor	197,597	138,958	336,555
Licenses and permits	17,349	-	17,349
Miscellaneous	1,023	1,024	2,047
Office Expense	303	1,657	1,960
Professional services	4,215	6,584	10,799
Repairs and maintenance	37,218	28,761	65,979
Small tools and supplies	3,499	13,245	16,744
Travel and training	32	106	138
Uniforms	427	427	854
Utilities	46,511	97,029	143,540
Administrative overhead	146,960	146,960	293,920
Total operating expenses	<u>548,251</u>	<u>591,367</u>	<u>1,139,618</u>
Operating gain (loss)	<u>31,321</u>	<u>(135,269)</u>	<u>(103,948)</u>
<b><u>NONOPERATING REVENUES AND (LOSSES)</u></b>			
Investment income	2,011	7,613	9,624
Interest expense	(27,563)	-	(27,563)
Other non operating income	-	5,739	5,739
Total nonoperating revenues (losses)	<u>(25,552)</u>	<u>13,352</u>	<u>(12,200)</u>
Change in net assets	<u>5,769</u>	<u>(121,917)</u>	<u>(116,148)</u>
<b><u>NET POSITION</u></b>			
Beginning of the year	<u>3,278,548</u>	<u>2,912,556</u>	<u>6,191,104</u>
End of the year	<u><u>\$ 3,284,317</u></u>	<u><u>\$ 2,790,639</u></u>	<u><u>\$ 6,074,956</u></u>

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



LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Statement of Cash Flows-Proprietary Funds  
For The Year Ended June 30, 2016

	<u>Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<u>Cash Flows From Operating Activities</u>			
Receipts from customers	\$ 573,163	\$ 447,742	\$ 1,020,905
Payments to suppliers	(290,334)	(319,207)	(609,541)
Payments to employees	(132,758)	(137,817)	(270,575)
Net cash provided (used) by operating activities	<u>150,071</u>	<u>(9,282)</u>	<u>140,789</u>
<u>Cash Flows From Non-Capital Financing Activities</u>			
Payment on interfund advances	-	41,804	41,804
Cash received from (paid to) Lake Shastina Property Owner's Associator	7,014	827	7,841
Other nonoperating income received	-	5,739	5,739
Net cash provided by operating activities	<u>7,014</u>	<u>48,370</u>	<u>55,384</u>
<u>Cash Flows (Used) By Capital and Related Financing Activities</u>			
Purchase of capital assets	(35,400)	(30,668)	(66,068)
Debt principal paid	(33,463)	-	(33,463)
Debt interest paid	(27,563)	-	(27,563)
Net cash used by capital and related financing activities	<u>(96,426)</u>	<u>(30,668)</u>	<u>(127,094)</u>
<u>Cash Flows Provided By Investing Activities</u>			
Interest received	<u>2,011</u>	<u>7,613</u>	<u>9,624</u>
Net increase in cash and cash equivalents	62,670	16,033	78,703
Cash and cash equivalents at the beginning of the year	<u>440,295</u>	<u>1,126,251</u>	<u>1,566,546</u>
Cash and cash equivalents at the end of the year	<u>\$ 502,965</u>	<u>\$ 1,142,284</u>	<u>\$ 1,645,249</u>
<u>Reconciliation Of Operating Income (Loss) To Net Cash Provided</u>			
<u>By Operating Activities</u>			
Operating gain (loss)	\$ 31,321	\$ (135,269)	\$ (103,948)
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation	60,138	121,477	181,615
(Increase) decrease in:			
Accounts receivable	(5,189)	(1,393)	(6,582)
Unbilled services receivable	(323)	(1,027)	(1,350)
Tax roll receivable	(897)	(5,936)	(6,833)
Prepays	2,311	-	2,311
Inventory	(1,364)	11,838	10,474
Deferred outflow from pension	(32,897)	-	(32,897)
Increase (decrease) in:			
Accounts payable and accrued expenses	(765)	(113)	(878)
Accrued payroll and benefits	(1,134)	1,141	7
Compensated absences	1,490	-	1,490
Net pension liability	3,468	-	3,468
Deferred inflow from pension	93,912	-	93,912
Net cash provided (used) by operating activities	<u>\$ 150,071</u>	<u>\$ (9,282)</u>	<u>\$ 140,789</u>

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

Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

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

A. Nature of Operations and Reporting Entity:

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

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

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

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

B. Basis of Presentation:

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

Government-wide Financial Statements:

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

The statement of activities presents a comparison between direct expenses and program revenues for each different identifiable activity of the District's business-type activities and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore are clearly identifiable to a particular function. Program revenues include charges paid by recipients of goods and services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented instead as general revenues.

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

Fund Financial Statements:

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

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

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

Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

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

The funds of the District are described below:

Major Governmental Funds:

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

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

Major Proprietary Funds:

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

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

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

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

C. Measurement Focus and Basis of Accounting:

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

Measurement Focus:

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

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

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

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

Basis of Accounting:

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

Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

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

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

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

**D. Cash and Cash Equivalents:**

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

**E. Local Agency Investment Fund:**

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

**F. Receivables:**

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

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

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

**G. Inventory of Supplies:**

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

**H. Prepaid Expenses:**

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

**I. Capital Assets:**

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

In the government-wide financial statements, property, plant and equipment are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual historical cost is not available, except donated capital assets are recorded at their estimated fair market value at the date of donation. The District capitalizes those items that have an initial cost of \$2,500 or more.

Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

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

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

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

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

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

J. Compensated Absences:

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

K. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) which will only be recognized as an outflow of resources (expense/expenditures) in the futures. The change in proportion and differences between the District contributions and proportionate share of contributions, and District contributions subsequent to the measurement date related to pension plans, are reported as deferred outflows of resources in the government-wide statement of net position. District contributions subsequent to the measurement date are being amortized in the current fiscal year as provided by accounting pronouncement GASB Statement No. 71. The change in proportion and difference between District contributions and proportionate share of contributions is amortized over the estimated service lives of pension plan participants

In addition to liabilities, the statement of net position includes a separate section of deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and would only be recognized as an inflow of resources (revenue) at that time. The District's proportionate share of the net difference between projected and actual earnings on pension plan investments is reported as deferred inflows of resources in the government-wide statement of net position. The amount will be amortized over a five year period.

L. Fund Balance / Net Position

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position consists of constraints imposed by creditors (such as through bond covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

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

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

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

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

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

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

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

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

M. Estimates

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

N. Revenues, Expenditures and Expenses

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

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

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

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

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

Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

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

O. Budgets

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

**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.

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

<u>Statement of Net Position</u>	
Governmental activities / governmental funds	\$ 600,432
Business-type activities / proprietary funds	1,645,249
<b>Total cash and investments</b>	<b>\$ 2,245,681</b>

  

<u>Consisting of the following</u>	
Cash on hand	\$ 302
Deposits with financial institutions	167,797
Investments (LAIF)	2,077,582
<b>Total cash and investments</b>	<b>\$ 2,245,681</b>

Investments Authorized:

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

Disclosure Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to market interest rates. As of June 30, 2016, the weighted average maturity, as well as the estimated fair value of each investment is shown in the table, below.

	<b>Cost</b>	<b>Fair Value</b>	<b>Maturity Date</b>
Local Agency Investment Fund	\$ 2,077,582	\$ 2,078,873	294 day average

Disclosure Relating to Credit Risk:

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

Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

**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 Government Code investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments whereas the District's investment policy does 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 Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**Note 3. Assessments and Accounts Receivable**

Major receivable balances for both governmental and business-type activities include assessments for services and assessments for services placed on the Siskiyou County tax rolls. There is no allowance for uncollectible accounts as management feels all amounts are collectible.

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



Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

**Note 5. Capital Assets**

Capital assets activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
<b>Governmental Activities:</b>					
<b>Nondepreciable capital assets</b>					
Land	\$ 37,506	\$ -	\$ -	\$ -	\$ 37,506
<b>Depreciable capital assets</b>					
Buildings and improvements	1,040,715	-	-	858,547	182,168
Plant and equipment	563,551	-	(6,000)	105,807	451,744
Vehicles and rolling stock	664,366	70,645	-	-	735,011
<b>Total capital assets, being depreciated</b>	<b>2,268,632</b>	<b>70,645</b>	<b>(6,000)</b>	<b>964,354</b>	<b>1,368,923</b>
<b>Less accumulated depreciation for:</b>					
Buildings and improvements	385,507	6,072	-	282,278	109,301
Plant and equipment	469,832	33,692	(103,591)	7,824	392,109
Vehicles and rolling stock	595,655	22,690	-	-	618,345
<b>Total accumulated depreciation</b>	<b>1,450,994</b>	<b>62,454</b>	<b>(103,591)</b>	<b>290,102</b>	<b>1,119,755</b>
<b>Depreciable capital assets, net</b>	<b>817,638</b>	<b>8,191</b>	<b>97,591</b>	<b>674,252</b>	<b>249,168</b>
<b>Governmental capital assets, net</b>	<b>\$ 855,144</b>	<b>\$ 8,191</b>	<b>\$ 97,591</b>	<b>\$ 674,252</b>	<b>\$ 286,674</b>

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
<b>Business-type Activities:</b>					
<b>Nondepreciable capital assets</b>					
Land	\$ 31,433	\$ -	\$ -	\$ -	\$ 31,433
Construction in progress	111,223	7,373	-	-	118,596
<b>Total nondepreciable capital assets</b>	<b>142,656</b>	<b>7,373</b>	<b>-</b>	<b>-</b>	<b>150,029</b>
<b>Depreciable capital assets</b>					
Buildings and improvements	280,638	30,570	-	-	311,208
Plant and equipment	8,288,687	28,125	-	-	8,316,812
Vehicles and rolling stock	300,323	-	6,000	-	300,323
<b>Total capital assets, being depreciated</b>	<b>8,869,648</b>	<b>58,695</b>	<b>6,000</b>	<b>-</b>	<b>8,928,343</b>
<b>Less accumulated depreciation for:</b>					
Buildings and improvements	152,930	10,706	-	-	163,636
Plant and equipment	4,142,023	154,790	-	-	4,296,813
Vehicles and rolling stock	216,780	16,119	6,000	-	232,899
<b>Total accumulated depreciation</b>	<b>4,511,733</b>	<b>181,615</b>	<b>6,000</b>	<b>-</b>	<b>4,693,348</b>
<b>Depreciable capital assets, net</b>	<b>4,357,915</b>	<b>(122,920)</b>	<b>-</b>	<b>-</b>	<b>4,234,995</b>
<b>Business-type capital assets, net</b>	<b>\$ 4,500,319</b>	<b>\$ (115,547)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,384,772</b>

Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

**Note 5. Capital Assets (continued)**

Depreciation expense was charged to functions/programs as follows:

General government	\$ 17,039
Police	8,913
Fire	36,502
<b>Total depreciation expense – governmental activities</b>	<b>\$ 62,454</b>
<hr/>	
Sewer	\$ 60,138
Water	121,477
<b>Total depreciation expense – business-type activities</b>	<b>\$ 181,615</b>

**Note 6. Capital Leases and Long Term Debt**

Following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2016:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Business-Type Activities:</b>				
Financial Lease:				
Installment Sale Note -				
Municipal Finance Corporation	\$ 471,489	\$ -	\$ 33,463	\$ 438,026
<b>Less amount due within one year</b>				<b>35,483</b>
<b>Long-term debt, net of current portion</b>				<b>\$ 402,543</b>

On August 18, 2010, the sewer fund obtained a \$600,000 loan to finance the sewer pond construction. The loan, with interest calculated at 5.95%, is to be repaid in thirty semi-annual payments of \$30,513 over fifteen years. Principal and interest paid for the current year was \$61,025, while total pledged revenues were \$192,223. Total principal and interest remaining on the loan is \$640,767, which is the amount of the remaining dedicated source of pledged revenues.

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

Year Ending June 30	Total Payment	Interest	Principal
2017	\$ 61,025	\$ 25,542	\$ 35,483
2018	61,025	22,927	38,098
2019	61,025	20,687	40,338
2020	61,025	18,316	42,709
2021	61,025	15,806	45,219
2022-2026	272,074	35,895	236,179
<b>Totals</b>	<b>\$ 577,199</b>	<b>\$ 139,173</b>	<b>\$ 438,026</b>

Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

**Note 7. Compensated Absences**

The District has accrued vacation and sick leave that is payable to employees upon separation from employment. The balance included in accrued expenses and deposits on the Statements of Net Position as of June 30, 2016 is as follows:

<b>Function/Program:</b>	
Police Employees	\$ 23,565
Sewer Employees	11,475
Administrative Employees	16,919
<b>Total</b>	<b>\$ 51,959</b>

**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. Interfund Receivables and Payable**

The following is a summary of interfund balances as of June 30, 2016:

	<b>Advances to other funds</b>	<b>from Other Funds</b>	<b>Internal Balances</b>
General Fund	\$ -	\$ 458,196	\$ 458,196
Water Fund	458,196	-	458,196
<b>Total Government-Wide Statement</b>	<b>\$ 458,196</b>	<b>\$ 458,196</b>	<b>\$ -</b>

**Note 10. Employee Pension Plans**

**Money Purchase Pension Plan:**

The Lake Shastina Community Services District Money Purchase Pension Plan was adopted for the purpose of rewarding long and loyal service to the District by providing to Police Officer employees additional financial security at retirement. Incidental benefits are provided in the case of disability, death or other termination of employment. This Plan is a type of qualified retirement plan commonly referred to as a money purchase plan. Since the principal purpose of the plan is to provide benefits at normal retirement age, the principal goal of the investment of the funds in the plan should be both security and long-term stability with moderate growth commensurate with the anticipated retirement dates of participants. Investments, other than "fixed dollar" investments, should be included among the plan's investments to prevent erosion by inflation. However, investments should be sufficiently liquid to enable the plan, on short notice, to make some distributions in the event of death or disability of a participant. Employees are generally not taxed on the amounts the District contributes to the Plan on their behalf until they withdraw these amounts from the Plan.

Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

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

The District contributes an amount equal to 6 percent of eligible police department employees' regular wages. Total contributions for the year ended June 30, 2016 were \$6,049. Police department eligible employees are also covered by Social Security.

**Defined Benefit Pension Plan:**

Plan Description

All qualified permanent and probationary employees, except public safety employees, are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

After the CalPERS GASB No. 68 valuation date of June 30, 2014, the District added one new pension plan under the California Public Employees' Pension Reform Act (PEPRA). Due to the fact that this plan started after the valuation date the related pension information was not included in the CalPERS GASB No. 68 actuarial calculations and is not included in the GASB 68 Pension footnote. Employer pension contributions made on behalf of the Miscellaneous PEPRA for the year ended June 30, 2016 was \$2,321.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Funding Policy

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

The Miscellaneous Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<b>Miscellaneous Plan</b>
Hire date	Prior to January 1, 2013
Benefit formula	2% at 55
Benefit vesting formula	5 years of service
Benefit payments	Monthly for life
Retirement age	50-57
Monthly benefits (as a % of eligible compensation)	2.0% (**)
Required employee contribution rates 2015-16	7.0%
Required employer contribution rates 2015-16	15.598%

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

Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Local Government is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plan was as follows:

	Miscellaneous Plan
Contributions – employer	\$ 32,913

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

As of June 30, 2016, the District reported a net pension liability of \$653,982 for its proportionate share of the net pension liability of the Miscellaneous Plan. The District's net pension asset for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 was 0.0238%.

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

For the year ended June 30, 2016, the District recognized pension expense of \$77,728. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Beginning balance	\$ 112,037	\$ 114,762
Difference between actual and expected experience	5,465	-
Change in assumptions	-	51,704
Change in employer's proportion	51,950	-
Difference between employer's actual contributions and employer's proportionate share of contributions	1,671	25,898
Net differences between projected and actual earnings on plan investments	-	91,074
Total	\$ 171,123	283,438
Net deferred outflows		\$ (112,315)

Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

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

\$2,321 reported as deferred inflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ending June 30	
2016	\$ (29,557)
2017	(29,557)
2018	(29,557)
2019	(23,644)
2020	-
Thereafter	-
Total	\$ (112,315)

Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

June 30, 2015	
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	Varies by age and service
Investment Rate of Return	7.50%, net of pension plan investment and administrative expenses; includes inflation
Mortality	20

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were derived from the June 30, 2012 funding valuation report.

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.5% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.50%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

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

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	Target Allocation	Years 1-10*	Rate of Return Years 11+ **
Global equity	51%	5.25%	5.71%
Global fixed income	19%	0.99%	2.43%
Inflation sensitive	6%	0.45%	3.36%
Private equity	10%	6.83%	6.95%
Real estate	10%	4.50%	5.13%
Infrastructure and forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
<b>Total</b>	<b>100%</b>		

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

(\*\*) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Plan's Net Pension Liability - Miscellaneous	\$ 1,096,773	\$ 653,982	\$ 288,406

Pension Plan Fiduciary Net Position

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

**Note 11. Contingent Liabilities**

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

Lake Shastina Community Services District  
Notes to the Financial Statements  
June 30, 2016

**Note 12. Excess Expenditures Over Appropriations**

The excess expenditures over appropriations, describes a budgetary violation that occurred for the year under audit. For the year ended June 30, 2016, the District did not have any funds where expenditures exceeded appropriations.

**NOTE 13. Future GASB Implementation**

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



REQUIRED SUPPLEMENTARY INFORMATION

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
 Budgetary Comparison Schedule  
 General Fund  
 For The Year Ended June 30, 2016

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
<b>REVENUES</b>				
Interest	\$ 595	\$ 595	\$ 910	\$ 315
Rents	81,783	81,783	80,134	(1,649)
Other operating revenues	3,000	3,000	6,785	3,785
Other nonoperating revenues	-	-	-	-
Total revenues	<u>85,378</u>	<u>85,378</u>	<u>87,829</u>	<u>2,451</u>
<b>EXPENDITURES</b>				
Current:				
Contract services	5,000	17,000	996	16,004
Dues and subscriptions	3,650	3,650	149	3,501
Elections	-	-	-	-
Events	750	750	-	750
Fuel and supplies	-	-	-	-
Insurance	1,300	1,300	37	1,263
Labor	224,069	274,210	8,693	265,517
Licenses and permits	2,350	2,350	151	2,199
Medical clinic contract	42,110	42,110	-	42,110
Miscellaneous	-	-	1	(1)
Office supplies	8,250	8,250	274	7,976
Professional services	5,750	40,250	2,979	37,271
Repairs and maintenance	13,000	20,000	666	19,334
Supplies and small tools	250	800	24	776
Travel and training	3,000	3,000	18	2,982
Uniforms	-	-	-	-
Utilities	7,300	7,300	288	7,012
Administrative overhead	(244,249)	(348,441)	-	(348,441)
Capital outlay	-	-	-	-
Debt service:				
Interest	1,890	1,890	-	1,890
Total expenditures	<u>74,420</u>	<u>74,419</u>	<u>14,276</u>	<u>60,143</u>
Excess of revenues under expenditures	10,958	10,959	73,553	62,594
<b>FUND BALANCES</b>				
Beginning of the year	<u>(300,474)</u>	<u>(300,474)</u>	<u>(300,474)</u>	<u>-</u>
End of the year	<u>\$ (289,516)</u>	<u>\$ (289,515)</u>	<u>\$ (226,921)</u>	<u>\$ 62,594</u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
 Budgetary Comparison Schedule  
 Police Funds  
 For The Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Favorable (Unfavorable) Variance With Final Budget
<b><u>REVENUES</u></b>				
Special tax assessments	\$ 257,140	\$ 257,140	\$ 257,760	\$ 620
Federal and state grants	100,000	100,000	100,000	-
Other operating revenues	9,300	7,800	7,656	(144)
Interest	550	550	954	404
Other nonoperating revenues	1,000	3,200	3,352	152
Total revenues	<u>367,990</u>	<u>368,690</u>	<u>369,722</u>	<u>1,032</u>
<b><u>EXPENDITURES</u></b>				
Current:				
Contract services	3,000	3,000	3,232	(232)
Dues and subscriptions	2,600	2,600	2,410	190
Elections	-	-	-	-
Events	500	500	5,885	(5,385)
Fuel and supplies	10,000	10,000	5,885	4,115
Insurance	11,000	11,000	8,805	2,195
Labor	262,186	264,000	249,349	14,651
Licenses and permits	750	750	466	284
Miscellaneous	-	-	543	(543)
Office supplies	1,525	1,525	1,031	494
Professional services	4,350	4,850	4,258	592
Repairs and maintenance	7,850	7,850	940	6,910
Supplies and small tools	1,750	1,750	132	1,618
Travel and training	6,950	6,950	3,838	3,112
Uniforms	1,650	1,650	819	831
Utilities	9,650	9,650	9,422	228
Administrative overhead	19,540	27,875	27,992	(117)
Capital outlay	4,000	4,000	-	4,000
Total expenditures	<u>347,301</u>	<u>357,950</u>	<u>325,007</u>	<u>32,943</u>
Excess of revenues over expenditures	20,689	10,740	44,715	33,975
<b><u>FUND BALANCES</u></b>				
Beginning of the year	<u>376,252</u>	<u>376,252</u>	<u>376,252</u>	<u>-</u>
End of the year	<u>\$ 396,941</u>	<u>\$ 386,992</u>	<u>\$ 420,967</u>	<u>\$ 33,975</u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
 Budgetary Comparison Schedule  
 Fire Fund  
 For The Year Ended June 30, 2016

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
<b>REVENUES</b>				
Special tax assessments	\$ 118,385	\$ 118,385	\$ 118,190	\$ (195)
Federal and state grants	12,000	7,589	7,368	(221)
Other operating revenues	5,316	11,016	11,377	361
Interest	300	300	703	403
Other nonoperating revenues	48,000	161,865	165,449	3,584
Total revenues	<u>184,001</u>	<u>299,155</u>	<u>303,087</u>	<u>3,932</u>
<b>EXPENDITURES</b>				
Current:				
Contract services	2,000	2,000	1,794	206
Dues and subscriptions	925	925	755	170
Elections	-	-	-	-
Events	500	500	13,787	(13,287)
Fuel and supplies	23,500	23,500	13,787	9,713
Insurance	7,000	7,000	6,884	116
Labor	110,359	162,969	173,476	(10,507)
Licenses and permits	300	300	273	27
Miscellaneous	-	-	85	(85)
Office supplies	550	550	583	(33)
Professional services	980	1,980	1,170	810
Repairs and maintenance	9,750	38,000	40,972	(2,972)
Supplies and small tools	1,500	3,500	1,362	2,138
Travel and training	8,500	8,500	6,959	1,541
Uniforms	4,000	4,000	3,485	515
Utilities	6,700	6,700	7,623	(923)
Administrative overhead	19,540	27,875	27,992	(117)
Capital outlay	99,000	114,177	85,381	28,796
Total expenditures	<u>295,104</u>	<u>402,476</u>	<u>386,368</u>	<u>16,108</u>
Excess of revenues and other sources over (under) expenditures and other financing sources	(111,103)	(103,321)	(83,281)	20,040
<b>FUND BALANCES</b>				
Beginning of the year	<u>159,041</u>	<u>159,041</u>	<u>159,041</u>	<u>-</u>
End of the year	<u>\$ 47,938</u>	<u>\$ 55,720</u>	<u>\$ 75,760</u>	<u>\$ 20,040</u>

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

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
A Cost Sharing Defined Benefit Pension Plan  
As of June 30, 2016

**Lake Shastina Community Services District Employee's Retirement System -**

	<b>6/30/2016 (1)</b>	<b>6/30/2015 (1)</b>
Valuation Date	6/30/2014	6/30/2013
District's proportion of the net pension liability (asset)	0.015677%	0.01041%
District's proportionate share of the net pension liability (asset)	\$ (653,982)	\$ 647,752
District's covered-employee payroll	\$ 433,896	\$ 531,976
District's proportionate share of the net pension liability (asset) as a percentage of covered-employee payroll	-150.72%	121.76%
Plan's fiduciary net position as a percentage of the total pension liability	100.00%	100.00%

**Lake Shastina Community Services District Employee's Retirement System -**

	<b>6/30/2016 (1)</b>	<b>6/30/2015 (1)</b>
Actuarially determined contribution	\$ 83,991	\$ 83,991
Contributions in relation to the actuarially determined contributions	83,991	83,991
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll (3)	\$ 433,896	\$ 531,976
Contributions as a percentage of covered-employee payroll	19.36%	15.79%

**Notes to the Schedules**

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

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

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

Change in Benefit Terms: None

Change in Assumptions: None

SUPPLEMENTARY INFORMATION

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Combining Balance Sheet - Police Special Revenue Funds  
June 30, 2016

	<u>Police</u>	<u>COPS More Grants</u>	<u>Combined Total</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 243,749	\$ 7,139	\$ 250,888
Receivables			
Assessments and accounts	22,202	-	22,202
Tax roll	97,679	-	97,679
Intergovernmental	-	11,253	11,253
Prepaid expenses	1,916	1,916	3,832
Due from other funds	64,577	-	64,577
	<u>64,577</u>	<u>-</u>	<u>64,577</u>
Total assets	<u>\$ 430,123</u>	<u>\$ 20,308</u>	<u>\$ 450,431</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts payable	\$ 1,499	\$ -	\$ 1,499
Accrued expenses and deposits	2,887	5,216	8,103
Due to other funds	-	64,577	64,577
Total liabilities	<u>4,386</u>	<u>69,793</u>	<u>74,179</u>
 Fund balances (deficit):			
Committed	-	-	-
Assigned	425,737	-	425,737
Unassigned, designated for police	-	(49,485)	(49,485)
	<u>425,737</u>	<u>(49,485)</u>	<u>376,252</u>
Total liabilities and fund balances	<u>\$ 430,123</u>	<u>\$ 20,308</u>	<u>\$ 450,431</u>

LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
Combining Statement of Revenues, Expenditures and Changes  
in Fund Balances - Police Special Revenue Funds  
For The Year Ended June 30, 2016

	<u>Police</u>	<u>COPS More Grants</u>	<u>Total</u>
<b><u>REVENUES</u></b>			
Special tax assessments	\$ 257,760	\$ -	\$ 257,760
Federal and state grants	-	100,000	100,000
Other operating revenues	7,656	-	7,656
Interest	954	-	954
Other nonoperating revenues	3,352	-	3,352
Total revenues	<u>269,722</u>	<u>100,000</u>	<u>369,722</u>
<b><u>EXPENDITURES</u></b>			
Current:			
Bad debt			
Contract services	3,232	-	3,232
Dues and subscriptions	2,410	-	2,410
Elections	-	-	-
Fuel and supplies	5,885	-	5,885
Insurance	8,805	-	8,805
Labor	131,507	117,842	249,349
Licenses and permits	466	-	466
Miscellaneous	543	-	543
Office supplies	1,031	-	1,031
Professional services	4,258	-	4,258
Repairs and maintenance	940	-	940
Supplies and small tools	132	-	132
Travel and training	326	3,512	3,838
Uniforms	819	-	819
Utilities	9,422	-	9,422
Administrative overhead	27,992	-	27,992
Total expenditures	<u>197,768</u>	<u>121,354</u>	<u>319,122</u>
Excess of revenues over (under) expenditures	71,954	(21,354)	50,600
<b>OTHER FINANCING SOURCES / (USES)</b>			
Operating transfers in	-	1,433	1,433
Operating transfers out	(1,433)	-	(1,433)
Total other financing sources/uses	<u>(1,433)</u>	<u>1,433</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	<u>70,521</u>	<u>(19,921)</u>	<u>50,600</u>
<b><u>FUND BALANCES</u></b>			
Beginning of the year, as previously reported	<u>355,216</u>	<u>(29,564)</u>	<u>325,652</u>
End of the year	<u>\$ 425,737</u>	<u>\$ (49,485)</u>	<u>\$ 376,252</u>

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



GAO SECTION



## **Aiello, Goodrich & Teuscher**

—An Accountancy Corporation—

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

Board of Directors  
Lake Shastina Community Services District  
Weed, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund, of Lake Shastina Community Services District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 4, 2017.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2016-1 and 2016-2 that we consider to be significant deficiencies.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **The District's Response to Findings**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Aiello, Goodrich & Teuscher*

Aiello, Goodrich & Teuscher  
An Accountancy Corporation  
Mt. Shasta, California  
January 4, 2017



**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Schedule of Findings and Responses**  
For the Year Ended June 30, 2016

**2016 - 1**

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

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

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

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

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

Response: The District accounting staff is limited in size, training and expertise as noted. The current accounting staff is familiar with GAAP and has applied it as directed by management and they have improved in their knowledge over the years to apply it to the accounting entries. More education is always welcome by staff as time and budgeting allows. The District may be able to consider hiring a CPA to provide training to staff or review monthly entries if funds are available in the budget to do so.

**2016 - 2**

**Audit Adjustments**

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

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

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

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

Response: Year-end adjustments for recommended items are typically posted by staff within 90 days following fiscal year-end. Most of the adjusting entries normally made at year-end were completed before submission to the auditors. Although staff tried to complete all entries, a few were inadvertently missed. This has improved from the prior years as staff has been learning from auditors new audit requirements and timeframes. The accounting staff plans to implement year-end procedures to include the necessary postings to look for and enter in a more organized method. Having a detailed checklist will assist in completing all required entries on time. Some items are not within the scope of staffs' abilities to calculate or post due to the complicated nature of certain GASB required entries, such as deferred outflows and inflows. The accounting staff does not want to make these postings without direction and will continue to work with auditors to assist with posting these year-end adjustments correctly.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Schedule of Prior Year Findings and Responses**  
For the Year Ended June 30, 2016

**2015 - 1**

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

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

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

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

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

Current Status: See current year finding 2016-1

**2015 - 2**

**Audit Adjustments**

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

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

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

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

Current Status: See current year finding 2016-2