

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2020**

# LAKE SHASTINA COMMUNITY SERVICES DISTRICT

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## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lake Shastina Community Service District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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.

### **Auditors' 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. 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 includes 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

### **Opinion**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the Lake Shastina Community Service District as of June 30, 2020, and the changes in financial position, of those activities and funds, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

## **Other Matters**

### *Required Supplementary Information*

The Lake Shastina Community Services District has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Accounting principles generally accepted in the United States of America require that the budgetary comparison for the General fund, Police Fund and Fire Fund on pages 26-28 the District's Employees' 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 pages 29-30; 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 (GASB), 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.

*Larry Bain, CPA,*  
*An Accounting Corporation*  
April 12, 2021

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**STATEMENT OF NET POSITION  
JUNE 30, 2020**

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and investments	\$ 830,200	\$ 1,160,573	\$ 1,990,773
Receivables			
General receivables	91,342	38,123	129,465
Unbilled service receivables	43,206	234,836	278,042
Delinquent accounts-tax roll	215,698	132,587	348,285
Grant receivable	16,752	11,577	28,329
Interest receivable	2,050	3,339	5,389
Due from others	13,067		13,067
Prepaid expense	10,616	950	11,566
Inventory		52,578	52,578
Total current assets	1,222,931	1,634,563	2,857,494
<b>Noncurrent Assets</b>			
Intergovernmental advance	(307,550)	307,550	-
Asset held for investment	389,263		389,263
<b>Capital assets:</b>			
Nondepreciable capital assets			
Land	37,506	31,433	68,939
Construction in progress		168,323	168,323
Depreciable capital assets			
Infrastructure		9,219,492	9,219,492
Land improvements		21,318	21,318
Structures and improvements	426,089	289,889	715,978
Equipment and vehicles	1,104,800	438,531	1,543,331
Less accumulated depreciation	(1,206,697)	(6,039,455)	(7,246,152)
Total capital assets (net of accumulated depreciation)	361,698	4,129,531	4,491,229
Total noncurrent assets	443,411	4,437,081	4,880,492
Total assets	1,666,342	6,071,644	7,737,986
<b>Deferred Outflows of Resources</b>			
Deferred outflows-pension	51,639	148,586	200,225
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued expense	28,879	46,867	75,746
Accrued payroll	35,570	10,818	46,388
Due to others	23,253		23,253
Capital lease-current		44,862	44,862
Compensated absences	11,944	28,170	40,114
Total current liabilities	99,646	130,717	230,363
Noncurrent Liabilities			
Net pension liability	240,587	645,555	886,142
Capital lease-due in more than one year		237,852	237,852
Compensated absences	17,915	28,170	46,085
Total noncurrent liabilities	258,502	911,577	1,170,079
Total liabilities	358,148	1,042,294	1,400,442
<b>Deferred Inflows of Resources</b>			
Deferred inflows-pension	15,239	43,160	58,399
<b>Net Position</b>			
Net investment in capital assets	361,698	3,846,817	4,208,515
Unrestricted	982,896	1,287,959	2,270,855
Total net position	\$ 1,344,594	\$ 5,134,776	\$ 6,479,370

The notes to the financial statements are an integral part of this statement

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**STATEMENT OF ACTIVITIES  
JUNE 30, 2020**

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities:</b>							
General	\$ 103,933	\$ 7,456	\$ -	\$ -	\$ (96,477)	\$ -	\$ (96,477)
Public safety	1,091,069	614,571		453,407	(23,091)		(23,091)
Interest	8,353				(8,353)		(8,353)
Total governmental activities	<u>1,203,355</u>	<u>622,027</u>		<u>453,407</u>	<u>(127,921)</u>		<u>(127,921)</u>
<b>Business-type activities:</b>							
Water	710,440	485,380				(225,060)	(225,060)
Sewer	731,360	670,684		38,557		(22,119)	(22,119)
Interest	18,719					(18,719)	(18,719)
Total business-type activities	<u>1,460,519</u>	<u>1,156,064</u>		<u>38,557</u>		<u>(265,898)</u>	<u>(265,898)</u>
Total	<u>\$2,663,874</u>	<u>\$ 1,778,091</u>	<u>\$ -</u>	<u>\$ 491,964</u>	<u>(127,921)</u>	<u>(265,898)</u>	<u>(393,819)</u>
<b>General Revenues:</b>							
Rental income					84,131		84,131
Other					30,553		30,553
Investment income					12,351	25,715	38,066
Total general revenues					<u>127,035</u>	<u>25,715</u>	<u>152,750</u>
Change in net position					(886)	(240,183)	(241,069)
Net position - beginning					<u>1,345,480</u>	<u>5,374,959</u>	<u>6,720,439</u>
Net position - ending					<u>\$ 1,344,594</u>	<u>\$ 5,134,776</u>	<u>\$ 6,479,370</u>

The notes to the financial statements are an integral part of this statement

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2020**

	General Fund	Major Special Revenue Funds			Total Governmental Funds
		Police	Fire	Cops Grant	
<b>Assets</b>					
Cash and investments	\$ 223,881	\$ 395,620	\$ 202,992	\$ 7,707	\$ 830,200
Receivables					
Accounts	1,345	15,585	74,412		91,342
Assessments		43,206			43,206
Delinquent accounts-tax roll		164,758	50,940		215,698
Grants			16,752	-	16,752
Interest	447	883	720		2,050
Due from other fund		91,168			91,168
Prepaid expense	8,557	30	29	2,000	10,616
Due from others	9,607		3,460		13,067
Total assets	<u>\$ 243,837</u>	<u>\$ 711,250</u>	<u>\$ 349,305</u>	<u>\$ 9,707</u>	<u>\$ 1,314,099</u>
<b>Liabilities</b>					
Accounts payable	\$ 10,142	\$ 1,371	\$ 8,130	\$ 9,236	\$ 28,879
Accrued payroll	9,049	6,705	16,761	3,055	35,570
Due to others	3		23,250		23,253
Deferred revenue			12,735		12,735
Due to other funds				91,168	91,168
Advance from other fund	307,550				307,550
Total liabilities	<u>326,744</u>	<u>8,076</u>	<u>60,876</u>	<u>103,459</u>	<u>499,155</u>
<b>Fund balances</b>					
Nonspendable					
Prepaid expense	8,557	30	29	2,000	10,616
Assigned for police		703,144			703,144
Assigned for fire			288,400		288,400
Unassigned	(91,464)			(95,752)	(187,216)
Total fund balances	<u>(82,907)</u>	<u>703,174</u>	<u>288,429</u>	<u>(93,752)</u>	<u>814,944</u>
Total liabilities and fund balances	<u>\$ 243,837</u>	<u>\$ 711,250</u>	<u>\$ 349,305</u>	<u>\$ 9,707</u>	<u>\$ 1,314,099</u>

The notes to the financial statements are an integral part of this statement

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

Fund balances of governmental funds	\$ 814,944
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, are not current financial resources and are not included in the governmental funds.	361,698
Assets held for investment are not current financial resources and are not included in the governmental funds	389,263
Some liabilities, including long-term debt, accrued interest and compensated absences and deferred revenue are not due and payable in the current period and therefore are not reported in the funds.	
Deferred revenue	12,735
Compensated absences	(29,859)
Net pension liability, deferred inflows/outflows	<u>(204,187)</u>
Net position of governmental activities	<u><u>\$ 1,344,594</u></u>

The notes to the financial statements are an integral part of this statement



**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	General Fund	Major Special Revenue Funds			Total Governmental Funds
		Police	Fire	Cops Grant	
<b>Revenues</b>					
Assessments	\$ -	\$ 393,456	\$ 106,692	\$ -	\$ 500,148
Intergovernmental revenues			282,353	158,319	440,672
Use of money and property	87,156	5,140	4,188		96,484
Licenses and permits		4,615			4,615
Fines forfeitures and penalties			34,245		34,245
Charges for services	7,456		70,900		78,356
Other	5,078	12,748	19,386		37,212
<b>Total revenues</b>	<b>99,690</b>	<b>415,959</b>	<b>517,764</b>	<b>158,319</b>	<b>1,191,732</b>
<b>Expenditures</b>					
Current:					
General administration	69,587				69,587
Public protection-police		291,198		168,132	459,331
Public protection-fire			571,971		571,971
Interest expense	8,353				8,353
Capital outlay	7,503		16,000	3,800	27,303
<b>Total expenditures</b>	<b>85,443</b>	<b>291,198</b>	<b>587,971</b>	<b>171,932</b>	<b>1,136,544</b>
<b>Net change in fund balance</b>	<b>14,247</b>	<b>124,761</b>	<b>(70,207)</b>	<b>(13,613)</b>	<b>55,188</b>
<b>Fund balances, beginning of fiscal year</b>	<b>(97,154)</b>	<b>578,413</b>	<b>358,636</b>	<b>(80,139)</b>	<b>759,756</b>
<b>Fund balances, end of fiscal year</b>	<b>\$ (82,907)</b>	<b>\$ 703,174</b>	<b>\$ 288,429</b>	<b>\$ (93,752)</b>	<b>\$ 814,944</b>

The notes to the financial statements are an integral part of this statement

LAKE SHASTINA COMMUNITY SERVICES DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES-GOVERNMENTAL ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Net change in fund balances - total governmental funds \$ 55,188

Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of revenues, expenditures and changes in fund balances because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized	27,303
Depreciation expense	(53,350)
Sale of assets	(1,996)

Changes in proportions from the pension do not effect expenditures in the governmental funds, but the change is adjusted through expense in the government-wide statement. (19,886)

Deferred revenue reported in the statement of activities do not provide current financial resources and, therefore, are not reported in governmental funds. 12,735

Compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds. (20,880)

Change in net position of governmental activities \$ (886)

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	Water	Sewer	Totals
<b>Current Assets:</b>			
Cash and investments	\$ 636,896	\$ 523,677	\$ 1,160,573
General receivables	20,850	17,273	38,123
Unbilled services receivable	93,033	141,803	234,836
Delinquent accounts-tax roll	78,678	53,909	132,587
Grants receivable		11,577	11,577
Interest receivable	2,182	1,157	3,339
Prepaid expense	781	169	950
Inventory	46,939	5,639	52,578
<b>Total current assets</b>	<b>879,359</b>	<b>755,204</b>	<b>1,634,563</b>
<b>Noncurrent Assets</b>			
Advances to other funds	307,550		307,550
<b>Capital Assets:</b>			
<b>Nondepreciable capital assets:</b>			
Land	26,136	5,297	31,433
Construction in progress	168,323		168,323
<b>Depreciable capital assets</b>			
Infrastructure	2,462,946	6,756,546	9,219,492
Land improvements	21,318		21,318
Structures and improvements	172,905	116,984	289,889
Equipment and vehicles	279,620	158,911	438,531
Less accumulated depreciation	(2,022,617)	(4,016,838)	(6,039,455)
<b>Total capital assets (net of accumulated depreciation)</b>	<b>1,108,631</b>	<b>3,020,900</b>	<b>4,129,531</b>
<b>Total noncurrent assets</b>	<b>1,416,181</b>	<b>3,020,900</b>	<b>4,437,081</b>
<b>Total assets</b>	<b>2,295,540</b>	<b>3,776,104</b>	<b>6,071,644</b>
<b>Deferred Outflows of Resources</b>			
Deferred outflows from pensions	64,348	84,238	148,586
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts payable and accrued expense	22,749	24,118	46,867
Accrued payroll	4,812	6,006	10,818
Compensated absences-current	14,085	14,085	28,170
Capital lease-current		44,862	44,862
<b>Total current liabilities</b>	<b>41,646</b>	<b>89,071</b>	<b>130,717</b>
<b>Noncurrent Liabilities</b>			
Compensated absences-noncurrent	14,085	14,085	28,170
Net pension liability	286,138	359,417	645,555
Capital lease payable-noncurrent		237,852	237,852
<b>Total noncurrent liabilities</b>	<b>300,223</b>	<b>611,354</b>	<b>911,577</b>
<b>Total liabilities</b>	<b>341,869</b>	<b>700,425</b>	<b>1,042,294</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows from pensions	14,691	28,469	43,160
<b>Net Position:</b>			
Net investment in capital assets	1,108,631	2,738,186	3,846,817
Unrestricted	894,697	393,262	1,287,959
<b>Total net position</b>	<b>\$ 2,003,328</b>	<b>\$ 3,131,448</b>	<b>\$ 5,134,776</b>

The notes to the financial statements are an integral part of this statement

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
Operating Revenues			
Charges for services	\$ 474,322	\$ 630,804	\$ 1,105,126
Late payment penalties and other	8,718	3,637	12,355
Total operating revenues	<u>483,040</u>	<u>634,441</u>	<u>1,117,481</u>
Operating Expenses			
Salary and benefits	329,891	308,308	638,199
Services and supplies	219,243	205,977	425,220
Depreciation expense	161,306	217,075	378,381
Total operating expenses	<u>710,440</u>	<u>731,360</u>	<u>1,441,800</u>
Operating income (loss)	<u>(227,400)</u>	<u>(96,919)</u>	<u>(324,319)</u>
Non-operating Revenue (Expense)			
Connection fees	2,340	36,243	38,583
Interest revenue	20,667	5,048	25,715
Grant revenue		38,557	38,557
Interest expense		(18,719)	(18,719)
Total non-operating revenue (expense)	<u>23,007</u>	<u>61,129</u>	<u>84,136</u>
Change in net position	<u>(204,393)</u>	<u>(35,790)</u>	<u>(240,183)</u>
Net position, beginning of fiscal year	<u>2,207,721</u>	<u>3,167,238</u>	<u>5,374,959</u>
Net position, end of fiscal year	<u><u>\$ 2,003,328</u></u>	<u><u>\$ 3,131,448</u></u>	<u><u>\$ 5,134,776</u></u>

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
JUNE 30, 2020**

	Water	Sewer	Totals
<b>Cash Flows from Operating Activities</b>			
Cash received from customers	\$ 467,393	\$ 615,713	\$ 1,083,106
Cash payments to suppliers	(249,564)	(194,933)	(444,497)
Cash payments to employees	(308,839)	(303,810)	(612,649)
Net cash provided (used) by operating activities	<u>(91,010)</u>	<u>116,970</u>	<u>25,960</u>
<b>Cash Flows from Non-Capital Financing Activities</b>			
Payment for interfund advances	<u>35,646</u>		<u>35,646</u>
Net cash provided (used) by noncapital financing activities	<u>35,646</u>		<u>35,646</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchases of capital assets	(110,237)	(77,631)	(187,868)
Cash received from grants		147,845	147,845
Principal paid on debt		(42,307)	(42,307)
Interest paid on debt		(18,719)	(18,719)
Connection fees	<u>2,340</u>	<u>36,243</u>	<u>38,583</u>
Net cash provided (used) by capital and related financing activities	<u>(107,897)</u>	<u>45,431</u>	<u>(62,466)</u>
<b>Cash Flows from Investing Activities:</b>			
Interest received on investments	<u>23,236</u>	<u>5,754</u>	<u>28,990</u>
Net increase (decrease) in cash and cash equivalents	(140,025)	168,155	28,130
Cash and cash equivalents, beginning of fiscal year	<u>776,921</u>	<u>355,522</u>	<u>1,132,443</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 636,896</u>	<u>\$ 523,677</u>	<u>\$ 1,160,573</u>
Reconciliation of Cash and Cash Equivalents:			
Cash and investments	<u>\$ 636,896</u>	<u>\$ 523,677</u>	<u>\$ 1,160,573</u>
Reconciliation of operating income to net cash flows from operating activities:			
Operating income	\$ (227,400)	\$ (96,919)	\$ (324,319)
Noncash items included in operating loss:			
Depreciation	161,306	217,075	378,381
Changes in:			
General receivables	(13,027)	1,963	(11,064)
Unbilled service receivables	(5,038)	(20,893)	(25,931)
Tax roll receivables	2,418	201	2,619
Prepays	2,714	3,186	5,900
Accounts payables	(33,035)	7,858	(25,177)
Accrued payroll and benefits	4,812	(14,108)	(9,296)
Compensated absences	(6,132)	(1,280)	(7,412)
GASB 68 pension adjustments	<u>22,372</u>	<u>19,886</u>	<u>42,258</u>
Net cash provided (used) by operating activities	<u>\$ (91,010)</u>	<u>\$ 116,970</u>	<u>\$ 25,960</u>

The notes to the financial statements are an integral part of this statement

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2020**

Note 1: Summary of Significant Accounting Policies

The basic financial statements of Lake Shastina Community Services District, (the “District”) have been prepared in conformity with accounting principles generally in the United States of America (“U.S. GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the acceptable standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

A. Reporting Entity

The District was form in 1978 and is located in Siskiyou County, California. The District operated under a five member Board of Directors and provides services including police and fire protection, the collection and treatment of wastewater and provides water to the residences within the District’s boundaries.

The financial reporting entity, as defined by the GASB, consists of the primary government, the District, organizations for which the primary government is financially accountable, and any other organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

B. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or, for assessment revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or as a reservation of fund balance.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt, as well as compensated absences and claims and judgments are recorded only when payment is due. General capital acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financial sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

C. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the District. These statements include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the District. Governmental activities, which normally are supported by taxes, assessments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2020**

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continue)

The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function. Program revenues include 1) charges paid by the recipient of goods or services offered by the programs and 2) 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, including all taxes, are presented instead as general revenues.

When both restricted and unrestricted net position are available, unrestricted resources are used only after the restricted resources are depleted.

Fund Financial Statements

The fund financial statements provide information about the District's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in separate columns.

The District reports the following major governmental funds:

General Fund - This fund accounts for all the financial resources not required to be accounted for in another fund. This fund consists primarily of general government type activities.

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District has three special revenue funds; the police fund, the fire fund and the COPS Grant fund.

The District reports the following major enterprise funds.

Water and Sewer Funds - account for the operation of the District's water and sewer utilities. Activities of these funds include administration, operation and maintenance of the water and sewer systems and billing and collection activities. The Funds also accumulate resources for, and payment of long-term debt principal and interest. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the Funds.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

E. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the District considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Restricted cash and unrestricted pooled cash and investments held by the District are considered cash equivalents for purposes of the combined statement of cash flow's because the District's cash management pool and funds invested by the District possess the characteristics of demand deposit accounts.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2020**

Note 1: Summary of Significant Accounting Policies (Continued)

F. Accounts Receivable

Accounts receivable are recorded for services, provided to individuals or non-governmental entities that are billed but unpaid. Proprietary Fund receivables are shown net of allowance for uncollectible accounts.

G. Inventory of Supplies

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

H. Prepaid Expense

Prepaid expenses are payments made to vendors in the current accounting period for costs applicable to future accounting periods.

I. Fixed Assets

Capital assets, recorded at historical cost or estimated historical cost if actual historical cost is not available, are reported in governmental activities column of the government-wide financial statements. Contributed fixed assets are valued at their estimated fair market value. Capital assets include land, buildings and building improvements and equipment. Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,500.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is recorded in the government-wide financial statements on the straight-line basis over the useful life of the assets as follows:

<u>Assets</u>	<u>Useful Life</u>
Subsurface sewer lines	40-50 years
Sewage collections facilities	10-40 years
Sewage disposal facilities	40 years
Water System	5-35 years
Building	20-40 years
Equipment	5-20 years
Vehicles	5-10 years

J. Compensated Absences

District employees are granted vacation and sick time in varying amounts based on classification and length of service. Upon termination or retirement, the District is to pay 100% of the vacation time accrued and sick time will be paid based on the tier system the District has established for sick time earned. For employees who retire from the District, accrued sick leave at the time retirement will be added to years of service for pension purposes.

K. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.



**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2020**

Note 1: Summary of Significant Accounting Policies (Continued)

L. 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 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.

M. Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances 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 net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. These principally include restrictions for capital projects, debt service requirements and other special revenue fund purposes.
- Unrestricted net position – All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

N. Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2020, fund balances for governmental funds are made up of the following:

- Nonspendable fund balance - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.
- Restricted fund balance - includes amounts that can be spent for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2020**

Note 1: Summary of Significant Accounting Policies (Continued)

N. Fund Balances (Continued)

- Committed fund balance - includes amounts that can only be used for the specific purposes determined by a formal action of the District’s highest level of decision-making authority, the Board of Directors. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).
- Assigned fund balance - comprises amounts intended to be used by the District for specific purposes that are neither restricted nor committed. Intent is expressed by (1) the Board of Directors or (b) a body (for example: a budget or finance committee) or official to which the Board of Directors has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned fund balance - is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, that fund would report a negative unassigned fund balance.

Note 2: Cash and Investments

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as cash and investments. Unless otherwise dictated by legal or contractual requirements, income earned or losses arising from the investment of pooled cash are allocated on a quarterly basis to the participating funds and component units based on their proportionate shares of the average quarterly cash balance.

The District maintains “restricted cash and investments”.

Cash and investments at June 30, 2020, consisted of the following:

Cash on hand	\$	311
Deposit accounts		451,120
Investments (LAIF)		1,539,342
Total cash and investments	\$	<u>1,990,773</u>

A. Investments Authorized by the California Government Code and the Entity’s Investment Policy

The table below identifies the **investment types** that are authorized for Lake Shastina Community Services District by the California Government Code (or the District’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District’s investment policy, where more restrictive) that address **interest rate risk, credit risk and concentration of credit risk**. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District investment policy.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2020**

Note 2: Cash and Investments (Continued)

A. Investments Authorized by the California Government Code and the Entity's Investment Policy (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>Investment in One Issuer</u>
Investment pools authorized under CA Statutes governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Accounts	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-Purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of all investments. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment maturity:

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturity (in Months)</u>	
		<u>12 Months or Less</u>	<u>13-48 Months</u>
Local Agency Investment Fund	\$ 1,539,342	\$ 1,539,342	\$ -
Totals	\$ 1,539,342	\$ 1,539,342	\$ -

\*Not subject to categorization

C. Concentrations of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. There are no investments to one issuer exceeding those limits.

D. Custodial Credit Risk

Custodial credit risk for 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 deposit or will not be able to recover collateral securities that are in the possession of an outside party. 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 of collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secured 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 government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2020, the District's deposits balance was \$457,168 and the carrying amount was \$451,120. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance \$250,000 was covered by the Federal Depository Insurance or by collateral held in the pledging bank's trust department in the District's name and \$207,168 was collateralized with pledged securities.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2020**

Note 2: Cash and Investments (Continued)  
D. Custodial Credit Risk (Continued)

LAIF is included in the State's Pooled Money Investment Account. The total amount invested by all public agencies in the State's Pooled Money Investment Account approximates \$101.79 billion. Of the \$101.79 billion managed by the State Treasurer, 100% is invested in non-derivative financial products and 3.37% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

Investments are accounted for in accordance with the provisions of GASB Statement No. 31, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value of investments in the year in which the change occurred. The District reports its investments at fair value based on quoted market information obtained from fiscal agents or other sources if the change is material to the financial statements.

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 allowances for uncollectible accounts as management feels all amounts are collectible. Charges for sewer and water services are recorded when earned. Services provided but unbilled at year-end have been included in the accompanying financial statements.

Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows:

	Balance July 1, 2019	Additions	Retirements/ Adjustments	Balance June 30, 2020
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 37,506	\$ -	\$ -	\$ 37,506
Capital assets, being depreciated:				
Structures and improvements	426,089			426,089
General equipment	476,316	11,303		487,619
Vehicles and rolling stock	611,162	16,000	(9,981)	617,181
Total capital assets, being depreciated	1,518,930	27,303	(9,981)	1,530,889
Less accumulated depreciation:	(1,161,333)	(53,349)	7,985	(1,206,697)
Governmental activities capital assets, net	\$ 395,103	\$ (26,046)	\$ (1,996)	\$ 361,698
<b>Business-Type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 31,433	\$ -	\$ -	\$ 31,433
Construction in progress	333,420		(165,097)	168,323
Capital assets, being depreciated:				
Infrastructure	8,988,322	231,170		9,219,492
Land improvements	21,318			21,318
Structures and improvements	289,889			289,889
Vehicles and rolling stock	316,734	121,797		438,531
Total capital assets, being depreciated	9,616,263	352,967		9,969,230
Less accumulated depreciation:	(5,661,075)	(378,380)		(6,039,455)
Total capital assets, being depreciated, net	3,955,188	(25,413)		3,929,775
Business- type activities capital assets, net	\$ 4,320,041	\$ (25,413)	\$ (165,097)	\$ 4,129,531

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2020**

Note 5: Long-term Liabilities

Governmental Activities:

A summary of the changes in the District's long-term liabilities reported in the governmental activities column of the government-wide financial statements for the year ended June 30, 2020:

	Balance July 1, 2019	Additions	Adjustments/ Retirements	Balance June 30, 2020	Due Within One Year
Compensated absences	\$ 8,981	\$ 47,091	\$ (26,213)	\$ 29,859	\$ 11,944
Net pension liability	220,642	19,945		240,587	
Total	<u>\$ 229,623</u>	<u>\$ 67,036</u>	<u>\$ (26,213)</u>	<u>\$ 270,446</u>	<u>\$ 11,944</u>

Business Activities:

A summary of the changes in the District's long-term business-type liabilities reported in the proprietary funds statement of net position and the business-type activities column of the government-wide financial statements for the year ended June 30, 2020:

	Balance July 1, 2019	Additions	Adjustments/ Retirements	Balance June 30, 2020	Due Within One Year
Compensated absences	\$ 63,752	\$ 37,988	\$ (45,400)	\$ 56,340	\$ 22,536
Net pension liability	603,173	42,382		645,555	
Note payable	325,021		(42,307)	282,714	44,862
Total	<u>\$ 991,946</u>	<u>\$ 80,370</u>	<u>\$ (87,707)</u>	<u>\$ 984,609</u>	<u>\$ 67,398</u>

Note

Payable

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 \$61,026. Total principal and interest remaining on the loan is \$282,714 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:

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	\$ 44,862	\$ 16,164	\$ 61,026
2022	47,570	13,455	61,025
2023	50,443	10,583	61,026
2024	53,489	7,536	61,025
2025	56,719	4,307	61,026
2026	29,631	882	30,513
Totals	<u>\$ 282,714</u>	<u>\$ 52,927</u>	<u>\$ 335,641</u>

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2020**

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan

**A. General Information about the Pension Plans**

**Plan Descriptions** – All qualified non-safety and safety Police, permanent and probationary employees are eligible to participate in the District’s Miscellaneous and Safety Employee Pension Plans, 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 District 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. Effective August 26, 2019 Local Police Officers were added as members of the retirement system.

**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 between ages 55 and 62, dependent upon the individual plan criteria, 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.

The Plans’ provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Miscellaneous		Safety	
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date				
Benefit formula	2.0% @ 55	2.0% @ 62	2.7% @ 57	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50-57	52-67	52-57	52-57
Monthly benefits, as a % of compensation	1.5% to 2.0%	1.0% to 2.0%	2.20% to 2.70%	2.20% to 2.70%
Required employee contribution rates	7.00%	6.75%	12.00%	12.00%
Required employer contribution rates	9.68%	6.99%	13.03%	13.03%

**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 the 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 District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2020, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions-employer miscellaneous classic	\$	99,139
Contributions-employer miscellaneous-PEPRA		11,434
Contributions-employer safety classic		7,864
Contributions-employer safety PEPRA		6,974

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2020**

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

***B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions***

As of June 30, 2020, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	<b>Proportionate share of Net pension liability</b>
Miscellaneous Plan	\$ 886,143

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2019, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 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 as of June 30, 2019 and 2020 reporting dates were as follows:

Proportion - June 30, 2019	0.02186%
Proportion - June 30, 2020	0.02213%
Change - Increase (Decrease)	0.00027%

For the year ended June 30, 2020, the District recognized pension expense of \$98,268. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 56,778	\$ -
Changes of assumptions	27,277	
Net difference between projected and actual earnings		(15,493)
Changes in proportion	5,597	
Changes in proportionate share of contributions		(42,906)
District contributions subsequent to the measurement date	110,573	
Total	\$ 200,225	\$ (58,399)

\$110,573 reported as deferred outflows 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, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Measurement Period</b>	
<b><u>Year Ended June 30:</u></b>	
2021	\$ (44,469)
2022	18,788
2023	(2,443)
2024	(3,129)

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2020**

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.15%

**Discount Rate** – The discount rate used to measure the total pension liability was 7.15% 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent 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.

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.



**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2020**

Note 6: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

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.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10 (1)</u>	<u>Real Return Years 11+ (2)</u>
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Estate	13%	3.75%	4.93%
Liquidity	1%	0.00%	-0.92%

(1) An expected inflation of 2.00% used for this period

(2) An expected inflation of 2.92% 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 each Plan, calculated using the discount rate for each 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:

	<u>Discount Rate -1% (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>Discount Rate +1% (8.15%)</u>
Misc Tier I	\$ 1,421,419	\$ 886,143	\$ 444,310

Note 7: 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 Police Officer employee’s by adding additional financial security at retirement. Fire department employees were subsequently added. Incidental benefits are provided in the case of disability, death or termination of employment. The Plan is a type of qualified retirement plan commonly referred to as a money purchase pension 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 to 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.

During the 2019/20 fiscal year the City adopted a safety plan with CalPERS for the Police Department employee’s. See note 6 to these financial statements for information on the safety member Defined Benefit Pension Plan with CalPERS.

The District contributes an amount equal to 6 percent of eligible fire department employees’ regular wages. Total contributions for the year ended June 30, 2020 were \$4,099. Fire department eligible employees are also covered by Social Security. As of June 30, 2020 there was one Fire Department employee covered under the plan.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2020**

Note 8: Interfund Transactions

Transfers are used to (1) move revenues from the fund required by statute or budget to collect them to the fund required by statute or budget to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the fiscal year end are reported as either “due from/due to other funds” (amounts due within one year), “advances to/from other funds” (non-current portions of interfund lending/borrowing transactions), or “loans to/from other funds” (long-term lending/borrowing transactions evidenced by loan agreements). Advances and loans to other funds are offset by a fund balance reserve in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Note 9: Related Party Transaction

The District prepares, bills and collects the association dues for the Lake Shastina Property Owner’s Association (LSPOA). The District also processes bills, payroll and provides other financial and administrative services for the LSPOA. The LSPOA utilizes office space in the District administration building, has a separate Board of Directors, is a separate legal entity and is not reported as a component unit of Lake Shastina Community Services District as defined by its reporting entity. The amount of payroll reimbursements paid by LSPOA to the District during the 2019/20 fiscal year was \$84,876 and the amount of shared services and supplies reimbursed was \$49,303. Furthermore the LSPOA general manager is also a Board Member of Lake Shastina Community Services District.

Note 10: Stewardship, Compliance and Accountability

A. Deficit Fund Balances

At June 30, 2020, the General Fund had a negative fund balance of \$82,907, and the Cops Fund had a negative fund balance of \$93,752.

B. Budget Variances

The general fund capital expense was \$7,503 over the legally adopted budget. The functional expense for public protection fire was over the final budget by \$22,047.

Note 11: Revenue Limitations Imposed by California Proposition 218

Proposition 218, which was approved by the voters in November 1996, regulates the District’s ability to impose, increase, and extend taxes and assessments. Any new increase or extended taxes and assessments subject to the provisions of Proposition 218, requires voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes and assessments are subject to voter initiative and may be rescinded in the future years by the voters.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2020**

Note 12: Commitments and Contingencies

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

In the normal course of business, the District is subject to various lawsuits. Defense of lawsuits is typically handled by the District's insurance carrier and losses, if any, are expected to be covered by insurance.

**COVID 19**

In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of Lake Shastina Community Services District could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. The District has not included any contingencies in the financial statements specific to this issue.

Commitments

The District had professional service commitments as of June 30, 2020.

Note 13: Subsequent Event

On July 31, 2020 the District purchased a new utility truck for public works from Corning Ford in the amount of \$138,684.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
June 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Interest	\$ 1,100	\$ 1,100	\$ 3,025	\$ 1,925
Rental income	83,703	83,703	84,131	428
Charges for services			7,456	7,456
Other revenues and reimbursements	<u>4,500</u>	<u>13,016</u>	<u>5,078</u>	<u>(7,938)</u>
Total revenues	<u>89,303</u>	<u>97,819</u>	<u>99,690</u>	<u>1,871</u>
<b>Expenditures</b>				
General administration	79,803	89,301	69,587	19,714
Interest expense	9,500	8,518	8,353	165
Capital outlay			<u>7,503</u>	<u>(7,503)</u>
Total expenditures	<u>89,303</u>	<u>97,819</u>	<u>85,443</u>	<u>12,376</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	14,247	<u>\$ 14,247</u>
Fund balances, beginning of fiscal year			<u>(97,154)</u>	
Fund balances, end of fiscal year			<u>\$ (82,907)</u>	

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
POLICE FUND  
June 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues				
Assessments	\$ 433,170	\$ 433,535	\$ 393,456	\$ (40,079)
Intergovernmental			-	-
Use of money and property	5,700	5,700	5,140	(560)
License and permits	6,600	6,600	4,615	(1,985)
Other revenues and reimbursements	<u>3,700</u>	<u>6,600</u>	<u>12,748</u>	<u>6,148</u>
Total revenues	<u>449,170</u>	<u>452,435</u>	<u>415,959</u>	<u>(36,476)</u>
Expenditures				
Public protection-police	428,555	337,538	291,198	46,340
Capital outlay	<u>7,500</u>		-	-
Total expenditures	<u>436,055</u>	<u>337,538</u>	<u>291,198</u>	<u>46,340</u>
Net change in fund balance	\$ <u>13,115</u>	\$ <u>114,897</u>	124,761	\$ <u>(82,816)</u>
Fund balances, beginning of fiscal year			<u>578,413</u>	
Fund balances, end of fiscal year			\$ <u>703,174</u>	

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
FIRE FUND  
June 30, 2020**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Assessments	\$ 117,670	\$ 117,883	\$ 106,692	\$ (11,191)
Intergovernmental revenues	256,500	296,684	282,353	(14,331)
Use of money and property	1,100	1,271	4,188	2,917
Fines forfeitures and penalties	15,000	40,245	34,245	(6,000)
Charges for services	22,000	61,275	70,900	9,625
Other revenues and reimbursements	10,948	15,942	19,386	3,444
Total revenues	423,218	533,300	517,764	(15,536)
<b>Expenditures</b>				
Public protection-fire	407,675	549,924	571,971	(22,047)
Capital outlay		17,495	16,000	1,495
Total expenditures	407,675	567,419	587,971	(20,552)
Net change in fund balance	\$ 15,543	\$ (34,119)	(70,207)	\$ (36,088)
Fund balances, beginning of fiscal year			358,636	
Fund balances, end of fiscal year			\$ 288,429	

\*Negative balance to be reserve transfer

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE NET PENSION  
LIABILITY  
June 30, 2020**

<u>Reporting Date</u>	District's proportion of the net pension liability (asset)	District's proportionate share of the net pension liability (asset)	District's covered-employee payroll	District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
6/30/2015	0.01041%	\$647,752	\$531,976	121.76%	66.00%
6/30/2016	0.02384%	\$653,982	\$433,896	150.72%	71.25%
6/30/2017	0.02210%	\$767,697	\$334,425	229.56%	72.61%
6/30/2018	0.02180%	\$859,560	\$345,984	248.44%	65.04%
6/30/2019	0.02186%	\$823,815	\$437,361	188.36%	67.47%
6/30/2020	0.02213%	\$886,143	\$429,120	206.50%	67.92%

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS**  
**June 30, 2020**

<u>Reporting Date</u>	<u>Contractually required contribution</u>	<u>Contributions in relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employees payroll</u>	<u>Contribution as a percentage of covered-employee payroll</u>
6/30/2015	\$83,991	(\$83,991)	\$0	\$531,976	15.79%
6/30/2016	\$83,991	(\$83,991)	\$0	\$433,896	19.36%
6/30/2017	\$71,983	(\$71,983)	\$0	\$334,425	21.52%
6/30/2018	\$81,082	(\$81,082)	\$0	\$345,984	23.44%
6/30/2019	\$95,966	(\$95,966)	\$0	\$437,361	21.94%
6/30/2020	\$110,573	(\$110,573)	\$0	\$429,120	25.77%

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.



**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2020**

Budgets and Budgetary Accounting

As required by the laws of the State of California, the District prepares and legally adopts a final balanced operating budget. Public hearings were conducted on the proposed final budget to review all appropriations and the sources of financing. Because the final budget must be balanced, any shortfall in revenue requires an equal reduction in financing requirements. At the fund level, actual expenditures cannot exceed budgeted appropriations.

Budgets for the general, and special revenue funds are adopted on the modified accrual basis of accounting. The budgets for the general and special revenue funds are the only legally adopted budgets. Budgets for the proprietary funds are used for management and control purposes only.

The budgetary data presented in the accompanying financial statements includes all revisions approved by the Board of Directors.

**Lake Shastina Community Services District**

**Management Report**

**June 30, 2020**

# LARRY BAIN, CPA

An Accounting Corporation

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2148 Frascati Drive, El Dorado Hills, CA 95762 / 916.601-8894  
[lpbain@sbcglobal.net](mailto:lpbain@sbcglobal.net)

## **COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES**

To the Board of Directors  
Lake Shastina Community Services District  
Weed, California 96094

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lake Shastina Community Services District as of and for the fiscal year ended June 30, 2020, and have issued our report thereon dated April 12, 2021.

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

In planning and performing our audit of the financial statements, we considered Lake Shastina Community Service 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 Lake Shastina Community Services District internal control. Accordingly, we do not express an opinion on the effectiveness of Lake Shastina Community Services 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 the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We consider findings FS 2020-001, and FS 2020-002 in the following schedule of findings to be deficiencies in internal control that we considered a material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding FS 2020-003 through FS 2020-006 in the following schedule of findings to be significant deficiencies in the District's internal control:

## **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.

The Lake Shastina Community Service District's written response to the significant deficiencies identified in our audit and any follow up for subsequent year corrections has not been subjected to the audit procedures applied in the audit of the financial statements and accordingly, we do not express an opinion on the responses.

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

*Larry Bain, CPA,*  
*An Accounting Corporation*  
May 5, 2021

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**  
**FINDINGS and RECOMMENDATIONS**  
**JUNE 30, 2020**

**Deemed to be Significant Deficiencies and Material Weaknesses**

**Finding 2020-001:** The District relies on the external auditor to ensure its financial statements are in accordance with GAAP. In addition, the District relies on the external auditor to ensure that all necessary disclosures are included in the notes to the financial statements. The District does not employ a staff member with the necessary knowledge and training to prepare governmental financial statements. In accordance with Statement of Auditing Standards No. 122c external auditors cannot be part of an entity's internal controls over preparation of the financial statements and are prohibited from auditing their own work, which would impair their independence. We also posted numerous material journal entries as part of our audit in order to agree the financial statements with the underlying support. We have noted this condition in the prior audit.

Recommendation: The District should consider training staff in preparing GAAP financial statements or hire an external qualified accountant to prepare the GAAP financial statements. The District could opt to take no action if it considers the cost will outweigh the benefit.

**District Response:** The District agrees with this recommendation and, in addition to providing staff with additional training where applicable, the District will continue to explore the costs of utilizing a CPA to prepare the GAAP financial statements after fiscal year end as determined a need by the District Board of Directors.

**FS 2020-002 (Prior Year Finding 2018-005):** We noted the fire department overbilled OES for the Lane Fire strike team reimbursement. Furthermore strike team invoices are prepared by the fire chief and sent directly by the fire chief to OES with a return address, for checks to be mailed, to the fire department. The invoices are not entered into the general ledger as an accounts receivable when they are billed. This provides a lack of review for accuracy and a lack of segregation of duties for billing and collecting funds. This also increases the risk of material misstatement in the financial statements for misappropriation of assets.

During our testing of strike team activity we noted relatives of fire department management who were working as strike team members, and it appeared that a fire department management employee was involved in their hiring.

**(Prior Year Follow Up 2019-003):** During the 2018/19 fiscal year audit we noted continuing problems with the strike team billing. We noted the District overbilled CalFire/OES a net total of \$14,853.93 during the 2018/19 fiscal year and we did not observe that the overbilling for the Lane Fire strike team had been reimbursed to CalFire/OES.

We also noted that the amounts reported to CalFire/OES for firefighter salaries on the salary survey and the administrative overhead rate were not supported by underlying documentation. We were informed that the administrative overhead rate was calculated based on budgets as opposed to actual overhead costs. The salary survey rates reported to CalFire/OES for firefighters did not appear to be supported by actual rates paid to firefighters. The salary survey indicated a firefighter hourly rate of \$24.14, as opposed to the default rate of \$20.69. We estimate the District overbilled CalFire/OES for strike team firefighter reimbursements in the 2018/19 fiscal year by \$35,608.60. This lack of supporting documentation could result in questioned costs that will have to be repaid to the State.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
FINDINGS and RECOMMENDATIONS  
JUNE 30, 2020**

**Deemed to be Significant Deficiencies and Material Weaknesses (Continued)**

**2019/20 Fiscal Year Follow Up:** During the current fiscal year we did not observe that the 2017/18 fiscal year or 2018/19 fiscal year findings had been resolved.

We tested the five largest strike team incidents for the 2019/20 fiscal year and noted that the amount reported on the salary survey was higher than expected based on the full time firefighter and captain salaries, at the time the salary survey was prepared. The amount claimed based on the 2019/20 fiscal year salary survey for firefighters was \$28.81 and for captain was \$31.48. The expected amount would have been the default base rate for firefighters of \$20.69 and the captains supported full time hourly rate of \$26.44. Based on these expectations we calculated the District was overpaid \$26,318 for the five strike team incidents tested and the strike team members were overpaid \$13,219 for the five incidents tested, had the default rate been used.

Furthermore, we noted the District was underpaying the strike team members. The time and one half hourly rate received from Cal Fire for firefighters was \$43.21 and for the captain was \$47.22, however the District paid the firefighters \$38 per hour and paid the captain \$42 per hour resulting in an underpayment to the firefighters of \$5.21 per hour and an underpayment to the captain of \$5.22 per hour. It is acceptable for a District to pay less than the reimbursed rate when the District incurs additional cost for backfilling positions when the District firefighter's employees are on strike teams, however we did not observe and the District could not document that backfill costs were incurred for the strike team incidents tested.

**Recommendation:** We recommend the District continue to follow up on the overbilling for the Lane fire strike team and the additional overbillings for the 2018/19 and 2019/20 fiscal years. The Finance Department and Board of Directors should also review and approve the salary survey and the administrative overhead rate to verify they are supported by underlying documentation. The District should consult with Cal Fire OES regarding the unsupported amount reported on the salary survey versus the default rate and determine if a reimbursement to Cal Fire OES is necessary. Furthermore the District should review the amount that was reimbursed for strike team members versus the amount paid out. If it determined that additional wages are owed to strike team members then the District should take action to reimburse those wages. It is our understanding that the District should not make a profit on the strike team member wage reimbursements from Cal Fire OES.

**District Response:** The District has entered into contract with a CPA firm whose Public Safety consultant, with knowledge and expertise specific to Cal Fire OES "Strike Team" billing needs and processes, will look to 1) support the District with overall training to current processes for the 2021 Fire Season, 2) support the District in the development of revised policies and procedures specific to this area of compliance for the 2021 Fire Season, and 3) carry out an independent review and reconciliation of 2018-2020 "Strike Team" reimbursement submissions to support follow-up with Cal Fire OES, as instructed by the District, on an as-needed basis. The District is therefore in the process of refining compliance measures and performance needs to ensure a consistent and compliant approach moving forward in FY2022.

**Deemed to be Significant Deficiency and Not Material Weaknesses**

**Finding 2020-003:** During the current year audit we noted the Cops Grant fund had a negative fund balance of \$93,752 and a due to other fund liability of \$91,168 as of June 30, 2020. We have noted this condition in past audits.

**Recommendation:** Because the Cops Grant fund operates with a restricted allocation each year, any shortage should be made up from the Police department fund. We recommend the District review the activity in the Cops Grant fund and cure the due to other fund liability and the negative fund balance.

**District Response:** The District is working alongside a contracted CPA firm to review and refine this area of operation and accountability to ensure compliance moving forward in FY2022.

**LAKE SHASTINA COMMUNITY SERVICES DISTRICT  
FINDINGS and RECOMMENDATIONS  
JUNE 30, 2020**

**Deemed to be Significant Deficiency and Not Material Weaknesses**

**Finding 2020-004:** During our audit we noted that many of the prior year audit journal entries were posted as of July 1, 2019 as opposed to June 30, 2019. While there was no effect on equity as of June 30, 2020, the fund equity as of June 30, 2019 was misstated.

**Recommendation:** We recommend the District post the audit entries to the correct fiscal year.

**District Response:** Given timing to changes in the District’s accounting function, personnel support and challenges encountered with the currently utilized accounting software system, the District was not able to input FY2019 audit entries into the system at a date of June 30, 2019. Instead, the District motioned to enter outstanding FY2019 audit entries to the first available date of July 1, 2019, to ensure financial reporting compliance. In moving forward, the District will ensure, as in the past, for all audit entries to be entered into the accounting system within a month of receipt and acceptance of the audited financial statements by the District Board of Directors.

**Finding 2020-005:** During our testing of compensated time off we noted that a management employee was paid out 220 hours for PTO. Per review of the District policy we did not observe a provision where PTO could be paid out.

**Recommendation:** We recommend the Board review the policy for PTO payout and revise the policy if the intent is that employees can be paid out for the accumulated time, or if the hours can only be used for paid time off from work..

**District Response:** The Board of Directors has recently approved several employee contracts containing “PTO” provisions and that the District will look to formalize updates to the Financial Policies and Procedures to specifically include verbiage to “PTO” which was in fact intended as part of previously allowable vacation and similar cost centers.

**Finding 2020-006:** During our review of the FEMA Safer Grant activity we noted the invoices seeking reimbursement did not agree to the underlying general ledger activity for matching expenditures. Furthermore, the Fire Department, who is the administrator of the grant, was sending the invoice to the grantor seeking reimbursement without providing the finance department with the invoice. The CPA consultant assisted the District with reconciling the activity to the underlying documents.

**Recommendation:** We recommend the finance department review the Safer Grant invoices, and match them to the general ledger and underlying documents prior to sending the invoice to the grantor. The finance department should then enter the invoice into the general ledger as a receivable, record the revenue and then clear out the receivable once the money is collected.

**District Response:** During FY2021, the District entered contract with a CPA firm who, as outlined above, supported the District in developing needed grant compliance, support and reconciliation documents in the month of November 2020, to ensure the achievement of a “Clean” monitoring audit report with the grantor, Federal Emergency Management Agency, as issued to the District in the month of December 2020. The District is in the process of refining compliance measures and performance needs to ensure a consistent and compliant approach moving forward in FY2022.

# LARRY BAIN, CPA

An Accounting Corporation

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2148 Frascati Drive, El Dorado Hills, CA 95762 / 916.601-8894

[lpbain@sbcglobal.net](mailto:lpbain@sbcglobal.net)

May 5, 2021

To the Board of Directors

Lake Shastina Community Services District

We have audited the financial statements of the governmental-type and business-type activities of Lake Shastina Community Services District for the year ended June 30, 2020, and have issued our report thereon dated April 12, 2021. Professional standards require that we provide you with the following information related to our audit.

## **Our responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated December 29, 2020, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

## **Planned Scope and Timing of the Audit**

We performed the audit beginning January 18, 2021 as previously communicated in the letter dated December 29, 2020. The report issuance was issued as previously communicated in the letter dated December 29, 2020.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Lake Shastina Community Services District are described in Note 1 to the financial statements. The application of existing policies was not changed during the 2020 fiscal year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There were no prior period adjustments recorded in the financial statements.

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



Management's estimate of the useful lives of assets for calculating depreciation expense is based on GFOA recommended useful lives. We evaluated the key factors and assumptions used to develop the useful life estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Estimates for allocating administrative assets, liabilities, revenues and expenses are allocated to each fund based on percentages that are determined by management and the governing board of the District.

Deferred outflows of resources-pensions, deferred inflows of resources-pensions and net pension liability are reported based on actuarially determined calculations.

#### **Difficulties Encountered in performing the Audit**

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

#### **Corrected and Uncorrected Misstatements**

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

#### **Disagreements with Management**

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

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated April 12, 2021.

#### **Management Consultation with Other Independent Accountants**

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

**Other Audit Findings or Observations**

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

We discussed that the District should consider hiring and cross training the accounting/billing clerk's replacement. The current employee had previously announced and then postponed retirement, and we feel the remaining staff and outside consultant may not be able to fully take over the duties of this critical position.

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

Very truly yours,

Larry Bain, CPA,  
An Accounting Corporation