

**SPALDING COMMUNITY
SERVICES DISTRICT**

**AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 2015**

**SPALDING COMMUNITY SERVICES DISTRICT
AUDIT REPORT
JUNE 30, 2015**

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FINANCIAL SECTION

Independent Auditor's Report on Financial Statements

Board of Directors
Spalding Community Services District
Spalding, CA

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Spalding Community Services District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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.

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 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 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.

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Opinions

In our opinion, the 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 fund information of Spalding Community Services District as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof 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 and budgetary comparison information identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a basic part of the 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2015, on our consideration of the 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 the 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 the District's internal control over financial reporting and compliance.

Respectfully submitted,



Singleton Auman, PC

Susanville, CA

November 7, 2014

SPALDING COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (MD&A)
June 30, 2015

INTRODUCTION

Spalding Community Services District's present operations include providing fire protection, marina and recreation services, and sewer services to residents of the District.

This discussion and analysis of Spalding Community Services District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2015. It should be read in conjunction with the District's financial statements, including notes and supplementary information, which follow this section.

FINANCIAL HIGHLIGHTS

- ❑ Total net position was \$7,864,906 at June 30, 2015. This was a decrease of \$421,110 from the prior year.
- ❑ The Government-Wide Net Position as of June 30, 2014 (prior year end) was restated to \$8,286,016, down from \$16,305,440, due to the District's decision to report the USDA Special Assessment Bonds as a direct liability.
- ❑ Overall revenues were \$386,867 which was less than expenses of \$807,977 by \$421,110.
- ❑ The total cost of the District's programs decreased by \$70,096 from last year.
- ❑ The District has funded debt of \$8,411,525 of as of June 30, 2015.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ❑ Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- ❑ Fund financial statements focus on reporting the individual parts of the District operations in more detail. The fund financial statements comprise the remaining statements.
 - Governmental funds tell how services were financed in the short-term as well as what remains for future spending.
 - Proprietary funds statements provide information about the short and long-term financial information of the district that operate like businesses.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements. A comparison of the district's budget for the year is included.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net position, the difference between the assets and liabilities, is one way to measure the District's financial health or position.

- ❑ Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- ❑ To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the property tax base, changes in program funding by the Federal and State governments, and condition of facilities.

The government-wide financial statements of the District include business-type activities. Most of the District's basic services are included here, such as water, sewer, and street lighting. Customer payments finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds-not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Manager and Board of Directors establish other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues. The District has two kinds of funds:

- ❑ Governmental Fund - Fire protection, marina and recreational services, and building maintenance are included here.
- ❑ Proprietary Fund - Services for which the District expects to completely support services from user fees are generally reported in proprietary funds. The sewer services are considered to be proprietary. Proprietary funds are reported in the same way as the district-wide financial statements.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's business-type and governmental net positions were \$3,054,384 and \$4,810,522, respectively at June 30, 2015. See Table 1.

For the Business-Type Activities (Sewer Fund), the significant changes in Table 1 line items for fiscal 2015 vs. 2014 are:

- The District decided to report the USDA Special Assessment Bonds as a direct obligation June 30, 2015. This resulted in the recognition of \$8,280,390 of Long-Term Debt, \$131,135 in Current Portion of Long-Term Debt and \$119,161 of accrued interest payable on the bonds, and \$8,019,424 of net Prior Period Adjustments.
- As of June 30, 2015, the District also decided to include on the financial statements - the cash held in trust (with Lassen County) for debt service and bond redemptions. The overall increase of \$641,537 in total cash is attributed to the inclusion of these trust funds.
- The increase in the restricted portion of the Net Position is based on updated calculations for the reserves required by the USDA in connection with the Special Assessment Bonds.

**Table 1:
Net Position Business-Type Activities**

	Business-Type Activities		Total Percentage
	2015	2014	Change 2015-2014
Assets			
Cash	\$ 315,211	\$ 460,363	-31.53%
Cash in Trust - held in County Treasury	786,689		n/a
Accounts Receivable	16,710	11,248	48.56%
	1,118,610	471,611	137.19%
Capital Assets, Net of Accumulated Depreciation	10,467,551	10,917,641	-4.12%
TOTAL ASSETS	\$ 11,586,161	\$ 11,389,252	1.73%
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 120,252	\$ -	n/a
Current Portion of Long-Term Debt	131,135	-	n/a
Total Current Liabilities	251,387	-	n/a
Long-Term Debt	8,280,390		n/a
TOTAL LIABILITIES	\$ 8,531,777	\$ -	n/a
Net Position			
Net Investment in Capital Assets	\$ 2,056,026	\$ 10,917,641	-81.17%
Restricted	510,551	157,163	224.85%
Unrestricted (deficit)	487,807	314,448	
Net Position, as previously stated at 6/30/2014		11,389,252	
Prior Period Adjustments (net)	-	(8,019,424)	-100.00%
TOTAL NET POSITION	\$ 3,054,384	\$ 3,369,828	-9.36%

Net Position Governmental Activities

	Governmental Activities		Total Percentage
	2015	2014	Change 2015-2014
Assets			
Cash	\$ 120,895	\$ 107,835	12.11%
Total Current Assets	120,895	107,835	
Capital Assets, Net of Accumulated Depreciation	4,700,000	4,811,101	-2.31%
TOTAL ASSETS	\$ 4,820,895	\$ 4,918,936	
Current Liabilities:			
Accounts Payable and Accrued Liabilities	\$ 10,373	\$ 2,747	277.61%
Total Current Liabilities	10,373	2,747	
TOTAL LIABILITIES	\$ 10,373	\$ 2,747	
Net Position			
Net Investment in Capital Assets	\$ 4,700,000	\$ 4,811,101	-2.31%
Unrestricted (deficit)	110,522	105,088	5.17%
TOTAL NET POSITION	\$ 4,810,522	\$ 4,916,189	

Changes in Net Position

The District's business-type and governmental revenues were \$323,879 and \$154,354, respectively. Charges for services remained consistent from the prior year. Other Income in the Sewer Fund increased primarily from the inclusion of \$529,092 of Special Assessment Tax Revenue, less \$358,678 of bond interest expense; there was also a \$58,667 loss on the disposal of fixed assets included in the \$119,971 of Other Income (net).

The total cost of all business-type and governmental programs and services were \$547,956 and \$260,021, respectively. Program expenses decreased from the prior year by \$1,884 for business-type activities and decreased by \$68,212 for governmental activities. Recreation and Marina expenses decreased due to the low water levels in Eagle Lake.

As of July 1, 2014, the Net Position for business-type activities (Sewer Fund) was restated from \$11,389,252 to \$3,369,827. This restatement was due to the reporting of the USDA Bonds as a direct liability of the District, and the recording of the bond-related assets, liabilities, revenues and expenses. More detailed information about the USDA Bonds is presented in the notes to the financial statements.

**Table 2:
Changes in Net Position Business-Type Activities**

	Business-Type Activities		Total Percentage Change
	2015	2014	2015-2014
Revenues			
Program Revenues:			
Charges for Services	\$ 203,908	\$ 210,803	-3.27%
General Revenues			
Other Income (net)	119,971	305	39234.75%
TOTAL REVENUES	<u>323,879</u>	<u>211,108</u>	
Program Expenses			
Sewer	547,956	549,840	-0.34%
TOTAL EXPENSES	<u>547,956</u>	<u>549,840</u>	
Transfers	(91,366)	(90,544)	0.91%
DECREASE IN NET POSITION	<u>\$ (315,443)</u>	<u>\$ (429,276)</u>	

Changes in Net Position Governmental Activities

	Governmental Activities		Total Percentage Change
	2015	2014	2015-2014
Revenues			
Program Revenues:			
Charges for Services	\$ 3,488	\$ 2,255	54.68%
General Revenues			
Interest Income	334	86	288.37%
Property Taxes and Assessment	39,044	33,916	15.12%
Other Local Income	20,122	33,812	-40.49%
Transfers	91,366	90,544	0.91%
TOTAL REVENUES	<u>154,354</u>	<u>160,613</u>	-3.90%
Program Expenses			
General Government	136,847	132,666	3.15%
Fire Protection	40,810	55,427	-26.37%
Recreation and Marina	82,364	140,140	-41.23%
TOTAL EXPENSES	<u>260,021</u>	<u>328,233</u>	-20.78%
DECREASE IN NET POSITION	<u>\$ (105,667)</u>	<u>\$ (167,620)</u>	

Table 3 presents the cost of each of the District's functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by charges for services, operating grants and capital grants and contributions.

Table 3
Net Cost of Business-Type Activities

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
Sewer	\$ 547,956	\$ 549,840	\$ 344,048	\$ 339,037
TOTAL	\$ 547,956	\$ 549,840	\$ 344,048	\$ 339,037

Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
General Government	\$ 136,847	\$ 132,666	\$ 136,847	\$ 132,666
Fire Protection	40,810	55,427	37,674	54,520
Recreation and Marina	82,364	140,140	82,012	138,792
TOTAL	\$ 260,021	\$ 328,233	\$ 256,533	\$ 325,978

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The overall financial performance of the District as a whole is reflected in the communication between the Board of Directors and the District employees as they all work together in providing the best quality of service to its customers. As the District completed the year, its proprietary funds reported a net position of \$3,054,384, which is below last year's ending net position of \$11,389,252. This is due primarily to the reporting of the USDA Bonds as a direct liability of the District's Sewer Fund, effective June 30, 2015. More detailed information about the USDA Bonds is presented in the notes to the financial statements. The District's governmental funds reported a net position of \$4,810,522, which is below last year's ending net position of \$4,916,189.

Budgetary Highlights

Over the course of the year, the District revised its annual budget to reflect unexpected changes in revenues and expenditures. A schedule of the District's original and final budget amounts compared with actual revenues and expenses are provided in the supplemental section of the audited financial report.

CAPITAL ASSETS AND LONG-TERM DEBT

At June 30, 2015, the District had invested in a broad range of capital assets, including land, equipment and the sewer system (see Table 4) and financed a major portion of these assets with

long-term debt (see Table 5). More detailed information about the District's capital assets and long-term debt is presented in the notes to the financial statements.

Table 4
Capital Assets Governmental Activities

	Governmental Activities		Total Percentage
	2015	2014	Change 2015-2014
Land, Easements and Improvements	\$ 1,350,000	\$ 1,350,000	0.00%
Buildings and Infrastructure	3,814,879	3,814,879	0.00%
Vehicles and Other Equipment	379,608	435,608	-12.86%
Marina Dredging	340,800	340,800	0.00%
Totals at Historical Cost	5,885,287	5,941,287	
Total Accumulated Depreciation	(1,185,287)	(1,130,186)	4.88%
NET CAPITAL ASSETS	\$ 4,700,000	\$ 4,811,101	

Capital Assets Business-Type Activities

	Business-Type Activities		Total Percentage
	2015	2014	Change 2015-2014
Land, Easements and Improvements	\$ 119,211	\$ 119,211	0.00%
Utility Plant and Infrastructure	12,440,552	12,440,552	0.00%
Buildings	664,302	664,302	0.00%
Vehicles and Other Equipment	174,275	206,759	-15.71%
Totals at Historical Cost	13,398,340	13,430,824	
Total Accumulated Depreciation	(2,930,789)	(2,513,183)	16.62%
NET CAPITAL ASSETS	\$ 10,467,551	\$ 10,917,641	

The District expects to spend \$110,000 on capital assets for FY 15/16, for various capital improvements.

Table 5
Long-Term Debt Business-Type Activities

	Business-Type Activities		Total Percentage
	2015	2014	Change 2015-2014
USDA Special Assessment Bonds	\$ 8,411,525	\$ 8,579,557	-1.96%
Less Current Portion	<u>(131,135)</u>	<u>(117,034)</u>	
Long-Term Portion of Debt	8,280,390	8,462,523	-2.15%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health:

- The budget assumptions used to prepare the budget for 2015-2016 included certain cost of living increases such as salaries and benefits and other operating expenditures.
- The long-term viability and success of the wastewater enterprise is dependent upon an annual increase in rates within the next few years.
- Revenues for Recreation are dependent upon Eagle Lake's water levels that dictate visitor levels.
- The Fire Department has been working with revenue created in 1985. These revenue levels cannot support the continued operations and maintenance.
- The costs of providing enterprise services to the customers in the District continues to rise without an increase in rates to keep up with inflation. The revenue level cannot support the continued operations and maintenance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, participants, 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 questions about this report, or need additional financial information, contact:

Spalding Community Services District

Chris Gallagher
 General Manager
 502-907 Mahogany Way
 Susanville, CA 96130
 (530) 825-3258

SPALDING COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash on Hand and in County Treasury	\$ 120,895	\$ 315,211	\$ 436,106
Cash in Trust - held in County Treasury		786,689	786,689
Accounts Receivable		16,710	16,710
Total Current Assets	120,895	1,118,610	1,239,505
Property, Plant & Equipment, Net	4,700,000	10,467,551	15,167,551
Total Assets	<u>\$ 4,820,895</u>	<u>\$ 11,586,161</u>	<u>\$ 16,407,056</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 8,545	\$ 1,091	\$ 9,636
Payroll Liabilities	1,828		1,828
Accrued Interest Payable		119,161	119,161
Current Portion of Long-Term Debt		131,135	131,135
Total Current Liabilities	10,373	251,387	261,760
Long-Term Debt		8,280,390	8,280,390
Total Liabilities	<u>\$ 10,373</u>	<u>\$ 8,531,777</u>	<u>\$ 8,542,150</u>
NET POSITION			
Net Investment in Capital Assets	\$ 4,700,000	\$ 2,056,026	\$ 6,756,026
Restricted for Debt Service (Note 10)		356,708	356,708
Restricted - Other (Note 10)		153,843	153,843
Unrestricted	110,522	487,807	598,329
Total Net Position	<u>\$ 4,810,522</u>	<u>\$ 3,054,384</u>	<u>\$ 7,864,906</u>

The accompanying notes are an integral part of this statement.

SPALDING COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2015

	Program Revenue		Net (Expense)		Net (Expense)	
	Charges	For Services	Revenue and Changes in Net Position Governmental Activities	Revenue and Changes in Net Position Business Type Activities	Revenue and Changes in Net Position	Total
<u>Governmental Activities</u>						
General Government	\$ 136,847		\$ (136,847)	\$ -		(136,847)
Fire Protection	40,810	3,136	(37,674)	-		(37,674)
Recreation and Marina	82,364	352	(82,012)	-		(82,012)
Total Governmental Activities	<u>260,021</u>	<u>3,488</u>	<u>(256,533)</u>	<u>-</u>		<u>(256,533)</u>
<u>Business Type Activities</u>						
Sewer Utility	547,956	203,908	-	(344,048)		(344,048)
Total Business Type Activities	<u>547,956</u>	<u>203,908</u>	<u>-</u>	<u>(344,048)</u>		<u>(344,048)</u>
Total Primary Government	\$ 807,977	\$ 207,396	(256,533)	(344,048)		(600,581)
General Revenues:						
Interest Income		334		1,419		1,753
Interest Expense				(358,678)		(358,678)
Property Taxes and Assessments		39,044		540,364		579,408
Other Local Income (expenses)		20,122		(63,134)		(43,012)
Interfund Administration		91,366		(91,366)		-
Total General Revenue		<u>150,866</u>		<u>28,605</u>		<u>179,471</u>
Change in Net Position			(105,667)	(315,443)		(421,110)
Net Position Beginning, as restated (No			4,916,189	3,369,827		8,286,016
Net Position Ending			<u>4,810,522</u>	<u>3,054,384</u>		<u>7,864,906</u>

The accompanying notes are an integral part of this statement.

SPALDING COMMUNITY SERVICES DISTRICT
 BALANCE SHEET-GOVERNMENTAL FUNDS
 JUNE 30, 2015

	General
<u>ASSETS</u>	
Cash on Hand and In County Treasury	\$ 120,895
 TOTAL ASSETS	 <u>\$ 120,895</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Accounts Payable	\$ 8,545
Payroll Liabilities	<u>1,828</u>
Total Liabilities	<u>10,373</u>
 Fund Equity:	
Unassigned Fund Equity	<u>110,522</u>
Total Fund Equity	<u>110,522</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 120,895</u>

The accompanying notes are an integral part of this statement.

**SPALDING COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Fund Balances - Governmental Funds	\$ 110,522
Reconciling Items:	
Capital Assets are not recorded in the governmental funds	<u>4,700,000</u>
Total Net Position - Governmental Activities	<u>\$ 4,810,522</u>

The accompanying notes are an integral part of this statement.

SPALDING COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Governmental Funds
	General
Revenues	
Property Taxes	\$ 39,044
Interest	334
Charges For Current Services	3,488
Other Local Income	20,122
Total Revenues	62,988
Expenditures	
Salaries and Benefits	49,475
Utilities	8,984
Professional Services	29,386
Insurance	17,615
Office	8,137
Special Department	6,686
Repairs and Maintenance	9,494
Rent and Leases	2,834
Other Local Expenses	16,309
Total Expenditures	148,920
Excess Of Revenues Over (Under) Expenditures	(85,932)
Other Financing Sources (Uses) Sewer Fund Administration Services	91,366
Excess Of Revenues And Transfers In Over (Under) Expenditures And Transfers Out	5,434
Fund Balances - July 1	105,088
Fund Balances - June 30	\$ 110,522

The accompanying notes are an integral part of this statement.

**SPALDING COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Net Changes in fund balances - total governmental funds	\$ 5,434
Reconciling Items:	
The depreciation of capital assets is not recorded in the governmental funds	<u>(111,101)</u>
Changes in net position of governmental activities - statement of activities	<u>\$ (105,667)</u>

The accompanying notes are an integral part of this statement.

SPALDING COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2015

	Business-Type Activities
ASSETS	Sewer Fund
Current Assets:	
Cash on Hand and in County Treasury	\$ 315,211
Cash in Trust - Sewer System Improvements	110,379
Cash in Trust - Debt Service and Bond Redemption Funds	676,310
Accounts Receivable	16,710
Total Current Assets	1,118,610
Property, Plant & Equipment, Net	10,467,551
Total Assets	\$ 11,586,161
LIABILITIES	
Accounts Payable	\$ 1,091
Accrued Interest Payable	119,161
Current Portion of Long-Term Debt	131,135
Total Current Liabilities	251,387
Long-Term Debt	8,280,390
Total Liabilities	\$ 8,531,777
NET POSITION	
Net Investment in Capital Assets	\$ 2,056,026
Restricted for Debt Service (Note 10)	356,708
Restricted for Sewer System Improvements (Note 10)	153,843
Unrestricted	487,807
Total Net Position	\$ 3,054,384

The accompanying notes are an integral part of this statement.

SPALDING COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
JUNE 30, 2015

	<u>Sewer Fund</u>
Operating Revenues:	
Utility Sales	\$ 203,908
Total Operating Revenue	<u>203,908</u>
 Expenses:	
Salaries and Benefits	56,116
Communications	7,362
Insurance	8,088
Legal, Accounting and Professional Services	6,485
Utilities	6,447
Depreciation and Amortization	438,485
Repair and Maintenance	10,313
Special Department Expense	8,608
Other Local Expenses	6,052
Total Operating Expenses	<u>547,956</u>
 Operating Income (Loss)	 <u>(344,048)</u>
 Other Financing Sources(Uses)	
Administrative Services - General Fund	<u>(91,366)</u>
 Non-Operating Revenues and (Expenses):	
Special Assessment Tax Revenue	529,092
Property Tax Revenue	11,273
Interest and other Income	2,317
Bond Administration Expense	(5,366)
Loss on Disposal of Assets	(58,667)
Interest Expense	(358,678)
Total Non-Operating Revenues and (Expenses)	<u>119,971</u>
 Change in Net Position	 <u>(315,443)</u>
 Total Net Position - July 1, 2014, as restated (Note 11)	 <u>3,369,827</u>
 Total Net Position - June 30, 2015	 <u><u>\$ 3,054,384</u></u>

The accompanying notes are an integral part of this statement.

**SPALDING COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
JUNE 30, 2015**

	Business-Type Activities
	Sewer Fund
Cash Flows from Operating Activities:	
Cash Received From Customers	\$ 198,446
Cash Payments to Employees	(56,116)
Cash Payments to Suppliers for Goods and Services	(52,264)
Net Cash Provided by Operating Activities	90,066
Cash Flows from Capital and Related Financing Activities:	
Investment in capital assets	(47,062)
Payments to Bond Holders - Principal and Interest	(529,092)
Bond Administration Payments	(5,366)
Other Financing Sources (Transfers)	(91,366)
Net Cash Provided (Used) by Capital Financing Activities	(672,886)
Cash Flows from Non-Capital and Related Financing Activities:	
Property Taxes and Special Assessments Received	540,364
Addition of Bond Trust Accounts to Sewer Fund	676,310
Other items related to Bond Trust Activities (net)	5,366
Interest Income and other	2,317
Net Cash Provided (Used) by Non-Capital Financing Activities	1,224,357
Net Increase (Decrease) in Cash and Cash Equivalents	641,537
Cash and Cash Equivalents:	
Balance - July 1	460,363
Balance - June 30	\$ 1,101,900
Reconciliation:	
Operating Income (Loss)	\$ (344,048)
Depreciation and Amortization	438,485
(Increase)/Decrease in Accounts Receivable	(5,462)
Increase/(Decrease) in Accounts Payable	1,091
Net Cash Provided by Operating Activities	\$ 90,066

The accompanying notes are an integral part of this statement.

SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Spalding Community Services District (District) is a California Special District that provides sewer, fire protection, and recreational services to residential and commercial customers within the boundaries of the District.

The Spalding Community Services District accounts for its financial transactions in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14 "The Financial Reporting Entity" and GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units," include whether:

- The organization is legally separate (can sue and be sued in its name)
- The District holds the corporate powers of the organization
- The District appoints a voting majority of the organization's board
- The District is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the District
- There is fiscal dependency by the organization on the District
- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government
- The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization
- The economic resources received or held by an individual organization that the specific primary government is entitled to, or has the ability to otherwise access, are significant to that primary government

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB Statements.

SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the 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. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different governmental and business-type activities of the District. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) 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 as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major funds, each displayed in a separate column.

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 nonexchange transactions or ancillary activities.

The District reports the following major Governmental and Proprietary Funds:

The General Fund is the District's primary operating fund. It accounts for all general, marina, and fire activities of the District except those required to be reported in other funds.

The Sewer Fund accounts for sewer utility income, expenses, and net position.

b. Measurement Focus, Basis of Accounting

Government-Wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include county assessments, grants, entitlements, and

SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

donations. On an accrual basis, revenue from county assessments is recognized in the fiscal year for which the taxes are received. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of county assessments and charges for services. County assessments revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are received. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

When the District incurs an expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen not to apply future FASB standards.

SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

3. Assets, Liabilities, and Equity

a. Cash and Cash Equivalents

The District maintains substantially all of its cash in the County Treasury. Funds are pooled with those of other agencies and invested. These pooled funds are carried at cost, which closely approximates fair market value as determined by the pooled fund manager. Therefore, no adjustment has been made to reflect the current market value in the financial statements. Assumptions made in determining the fair value of the pooled investment portfolios are available from the Lassen County Treasurer. Interest earned is deposited into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The District is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the District are either secured by federal depository insurance or are collateralized.

For the purposes of the statement of cash flows, highly liquid investments, including restricted funds, are considered to be cash equivalents.

b. Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expense at the time individual inventory items are purchased. These inventories are considered immaterial and have been omitted from these statements.

c. Capital Assets and Intangible Assets

Property, Plant and Equipment owned by the District is stated at cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Related interest expenses that occur during the sewer construction project have been capitalized.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Vehicles and Other Equipment	5-20
Utility Plant and Infrastructure	5-50

SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

During the fiscal year ended June 30, 2015, the District adjusted the useful life for several specific capital asset items. The effective of these changes are included in the amount of depreciation expense (see Note 5). For the Sewer Fund, gain or loss is recognized when assets are retired from service or are otherwise disposed.

d. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

e. Compensated Absences

Accumulated unpaid employee vacation and comp time leave benefits are recognized as liabilities of the District. Accumulated sick leave benefits are not recognized as liabilities of the District, because these balances are not vested.

f. Bad Debts

The District uses the direct write-off method to record bad debts. This method is not GAAP; however, the effect of this departure is considered immaterial. In the opinion of management, the accounts receivable balances are fully collectible. Outstanding balances in the Sewer Fund are being added to the County property tax bills to verify timely collection.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

h. Budgetary Accounting

With the exception of not budgeting depreciation, the District prepared budgets on the modified accrual basis and accrual basis as appropriate.

i. Equity Classifications

The District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

- Nonspendable fund balance—amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., District Board). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the District intends to use for a specific purpose. Intent can be expressed by the District Board or by an official or body to which the District Council delegates the authority. The District has chosen not to delegate this authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the District's governmental funds have been restated to reflect the above classifications.

The District Board establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as obligated for future contracts). Assigned fund balance is established by District Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District Board has provided otherwise in its commitment or assignment actions.

For Government-Wide Financial Statements, equity is classified in three components as follows:

Net Investment in Capital Assets consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of debt borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Restricted Net Position consists of net assets with restrictions placed on their use either by external groups such as contributors, grantors or regulations of other governments, or law through constitutional provisions or enabling legislation.

Unrestricted Net Position consists of all other net assets that do not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Net Assets of Individual Funds

Following are funds having deficit fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None	n/a	n/a

**SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

3. Excess of Expenses and Expenditures over Budget

As of June 30, 2015, expenses and expenditures exceeded budget as follows:

<u>Budget Category</u>	<u>Amount</u>
General Fund:	
Professional Services	\$ 4,386
Insurance	\$ 3,685
Office	\$ 6,837
Special Department	\$ 3,076
Repairs and Maintenance	\$ 1,044
Rents and Leases	\$ 834
Sewer Fund:	
Depreciation	\$ 438,485
Services and Supplies	\$ 13,696

The General fund expenditures exceeded budget due to minor unanticipated costs. Sewer Fund expenses exceeded budget due to minor cost overruns on line items. Overall, the District did not exceed its total budget. The District does not budget for depreciation. The District does not budget for debt service on the USDA bonds; this function is administered by a third party and the related funds are held in trust accounts with the County Treasury.

**SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 – CASH ON HAND AND IN BANKS

Cash balances on hand and in banks, consisting primarily of Cash in the Lassen County Treasury, as of June 30, 2015 are as follows:

Fire Protection	\$ 82,764
Recreation and Marina	10,423
General Government	27,582
Cash on Hand	126
Total General Cash in Treasury and on Hand	<u>\$ 120,895</u>
Sewer Fund	315,211
Sewer Trust - Improvement Trust Account (See Note 10)	110,379
Sewer Trust - Bond Redemption Trust Account	382,530
Sewer Trust - Debt Service Trust Account (See Note 10)	293,780
Cash on Hand	7,127
Total Sewer Cash in Treasury and On Hand	<u>\$ 1,109,027</u>

NOTE 4 – RISK MANAGEMENT AND LITIGATION

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and customers; and natural disasters. The District has managed these risks by obtaining coverage from commercial insurance companies as well as providing employee education and prevention programs. All risk management activities are accounted for in the General and Sewer Funds. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported are considered. The District is not aware of any significant pending litigation.

**SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

A summary of changes in fixed assets of the General Fund follows:

	Balance <u>6/30/14</u>	<u>Additions</u>	<u>Dispositions</u>	Balance <u>6/30/15</u>
Land, Easements and Improvements	\$ 1,350,000	\$ -	\$ -	\$ 1,350,000
Buildings and Infrastructure	3,814,879	-	-	3,814,879
Vehicles and Other Equipment	435,608	-	56,000	379,608
Marina Dredging	340,800	-	-	340,800
Total	<u>5,941,287</u>	<u>-</u>	<u>56,000</u>	<u>5,885,287</u>
Accumulated Depreciation	<u>(1,130,187)</u>	<u>(111,100)</u>	<u>(56,000)</u>	<u>(1,185,287)</u>
Property, Plant and Equipment, Net	<u>\$ 4,811,100</u>	<u>\$ (111,100)</u>	<u>\$ -</u>	<u>\$ 4,700,000</u>

A summary of changes in fixed assets of the Sewer Fund follows:

	Balance <u>6/30/14</u>	<u>Additions</u>	<u>Dispositions</u>	Balance <u>6/30/15</u>
Land, Easements and Improvements	\$ 119,211	\$ -	\$ -	\$ 119,211
Utility Plant and Infrastructure	12,440,552	-	-	12,440,552
Buildings	664,302	-	-	664,302
Vehicles and Other Equipment	206,759	47,062	79,548	174,273
Total	<u>13,430,824</u>	<u>47,062</u>	<u>79,548</u>	<u>13,398,338</u>
Accumulated Depreciation	<u>(2,513,183)</u>	<u>(438,487)</u>	<u>(20,881)</u>	<u>(2,930,789)</u>
Property, Plant and Equipment, Net	<u>\$ 10,917,641</u>	<u>\$ (391,425)</u>	<u>\$ 58,667</u>	<u>\$ 10,467,549</u>

Depreciation and amortization was charged to functions as follows:

Fire Protection	<u>\$ 16,409</u>
Recreation	<u>\$ 82,398</u>
General	<u>\$ 12,293</u>
Sewer	<u>\$ 438,487</u>

**SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 – LONG TERM DEBT

Long Term Debt in the Sewer Fund is summarized as follows:

	Balance <u>6/30/14</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>6/30/15</u>
USDA Special Assessment Bonds:				
Series 2007A	\$ 7,332,534	\$ -	\$ 142,594	\$ 7,189,940
Series 2007B	1,247,023		25,438	1,221,585
Total Bonds Payable	<u>\$ 8,579,557</u>	<u>\$ -</u>	<u>\$ 168,032</u>	8,411,525
Less Current Portion				<u>(131,135)</u>
Long-Term Portion of Debt				<u>\$ 8,280,390</u>

USDA Special Assessment Bonds – In 2007, the District borrowed \$9,427,703 from the USDA to finance major improvements to the sewer system. The bonds consist of two issues, series 2007A and 2007B, have a combined face value of \$9,427,703, an interest rate of 4.25%, annual principal payments and semiannual interest payments, and a final maturity date in September of 2047. These are limited obligation bonds issued to the Spalding Community Services District Assessment District No. 2004-1, with the primary source of funding for the bond principal and interest payments from property assessments. The assessments are billed and collected by the County of Lassen, then the proceeds are deposited into bond trust funds and accumulated for future bond debt service payments.

Series 2007A Bonds

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 111,955	\$ 305,572	\$ 417,527
2017	107,501	300,814	408,315
2018	112,239	296,246	408,485
2019	117,179	291,475	408,654
2020	122,330	286,495	408,825
2021-2025	694,896	1,349,822	2,044,718
2026-2030	854,747	1,189,156	2,043,903
2031-2035	1,049,966	991,650	2,041,616
2036-2040	1,293,441	748,684	2,042,125
2041-2045	1,596,074	449,241	2,045,315
2046-2048	1,129,612	97,350	1,226,962
Totals	<u>\$ 7,189,940</u>	<u>\$ 6,306,505</u>	<u>\$ 13,496,445</u>

**SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Series 2007B Bonds

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 19,180	\$ 51,917	\$ 71,097
2017	18,953	51,102	70,055
2018	19,758	50,297	70,055
2019	19,598	49,457	69,055
2020	20,474	48,624	69,098
2021-2025	116,858	229,268	346,126
2026-2030	145,050	202,138	347,188
2031-2035	187,616	168,488	356,104
2036-2040	232,177	126,806	358,983
2041-2045	219,676	75,490	295,166
2046-2048	189,303	16,324	205,627
Totals	<u>\$ 1,188,643</u>	<u>\$ 1,069,911</u>	<u>\$ 2,258,554</u>

NOTE 7 – OPERATING LEASES

Following is a schedule by years of future minimum lease payments required under operating leases that have future minimum lease payments in excess of one year as of June 30, 2015.

<u>Year ending June 30,</u>	
2016	1,200
2017	1,200
2018	1,200
2019	1,200
2020	1,200
Thereafter	100
	<u>\$ 6,100</u>

Rent expense for the year ending June 30, 2015 was \$2,930.

SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Litigation

The District is not currently involved in any significant litigation. In the opinion of management, the disposition of any litigation pending will not have a material effect on the financial statements.

Federal and State Allowances, Awards, and Grants

The District has received Federal and State funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

NOTE 9 – JOINT POWERS AGREEMENT

The District participates in one joint venture under joint powers agreements (JPA's) with the Fire District Association of California, Fire Agency Self-Insurance System (FDAC-FASIS).

FDAC-FASIS is a public risk entity pool established to provide workers' compensation insurance coverage (FDAC-FASIS) to its members and to pay for the administration of the Agencies and for the cost of excess insurance and related risk management costs as approved by the Board of Commissioners. The boards control the operations of the JPA's, including the selection of management and approval of the operating budget, independent of any influence by the member districts beyond their representation on the boards.

FDAC-FASIS members pay an annual premium to the insurance system based on the number of personnel, an estimated amount of payroll and an experience factor. At fiscal year end, when the actual payroll expenditures are available, an adjustment to the year's annual premium is made. If the estimated premium is less than the actual premium calculated a refund is generated.

The JPA is independently accountable for its fiscal matters. The insurance group maintains its own accounting records. The budget is not subject to any approval other than that of the executive committee. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

NOTE 10 – USDA RESERVES - RESTRICTED FUND BALANCES

The USDA Bond Documents require the District to maintain minimum levels of funds restricted for debt service and other purposes, also known as USDA Reserves. The \$356,708 of funds restricted for debt service includes \$293,780 held in trust account in the Lassen County Treasury. The Sewer Fund also has Restricted Net Assets of \$153,843 consisting of remaining USDA

**SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Bond proceeds that have not been spent as of June 30, 2015; \$110,379 of these funds were held in a separate trust account in the Lassen County Treasury. These funds are to be utilized for additional construction on the District's sewer system.

As of June 30, 2015, the aggregate amounts of USDA Reserves are summarized as follows:

	Sewer Fund
Restricted for Debt Service	\$ 356,708
Restricted - other	153,843
Total restricted funds - USDA Reserves	\$ 510,551

NOTE 11 – PRIOR PERIOD ADJUSTMENTS

The District has determined that certain transactions were recorded incorrectly in a prior year.

In the Government-Wide statements and the Proprietary Fund statements, long-term liabilities were understated. Effective for the fiscal year ending June 30, 2015, the USDA Special Assessment Bonds for the Sewer Fund are treated as a direct liability of the District. In prior years, these bonds were disclosed, but not treated as a direct liability of the District. These bonds had a combined outstanding balance of \$8,411,525 as of June 30, 2015 and \$8,579,557 as of June 30, 2014 (see Note 6). The District has also elected to record the assets, liabilities, revenues and expenses connected with the bonds. These Bond-related Adjustments increased the Net Position by \$560,133, as of June 30, 2014.

In the Government-Wide statements and the Proprietary Fund statements, the combined effect of the Prior Period Adjustments decreases the Net Position by \$8,019,424.

The following table summarizes the effect on the Net Position by fund, as of July 1, 2014:

	General Fund	Sewer Fund	Government Wide
Net Position before Prior Period Adjustments	\$ 4,916,189	\$ 11,389,251	\$ 16,305,440
Special Assessment Bonds		(8,579,557)	(8,579,557)
Bond-related Adjustments (net)		560,133	560,133
Total Prior Period Adjustments	-	(8,019,424)	(8,019,424)
Net Position - July 1, 2014, as restated	\$ 4,916,189	\$ 3,369,827	\$ 8,286,016

**SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 12 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 7, 2015, which is the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**SPALDING COMMUNITY SERVICES DISTRICT
GENERAL FUND BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015**

	General Fund			
	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Property Taxes and Assessments	\$ 34,810	\$ 34,810	\$ 39,044	\$ 4,234
Interest	95	95	334	239
Charges for Current Services	1,386	1,386	3,488	2,102
State Grants	5,000	5,000	-	(5,000)
Other Local Income	27,050	27,050	20,122	(6,928)
Total Revenues	<u>68,341</u>	<u>68,341</u>	<u>62,988</u>	<u>(5,353)</u>
Expenditures				
Salaries and Benefits	49,919	49,919	49,475	444
Utilities	12,530	12,530	8,984	3,546
Professional Services	25,000	25,000	29,386	(4,386)
Insurance	13,930	13,930	17,615	(3,685)
Office	1,300	1,300	8,137	(6,837)
Special Department	3,610	3,610	6,686	(3,076)
Repairs and Maintenance	8,450	8,450	9,494	(1,044)
Rents and Leases	2,000	2,000	2,834	(834)
Other Local Expenses	19,080	19,080	16,309	2,771
Capital Outlay	40,000	40,000	-	40,000
Total Expenditures	<u>175,819</u>	<u>175,819</u>	<u>148,920</u>	<u>26,899</u>
Excess of Revenues Over (Under) Expenditures	(107,478)	(107,478)	(85,932)	21,546
Sewer Fund Administrative Services	91,366	91,366	91,366	-
Excess of Revenues and Transfers In Over (Under) Expenditures and Transfers Out	<u>\$ (16,112)</u>	<u>\$ (16,112)</u>	<u>5,434</u>	<u>\$ 21,546</u>
Fund Balance - July 1			<u>105,088</u>	
Fund Balance - June 30			<u>\$ 110,522</u>	

**SPALDING COMMUNITY SERVICES DISTRICT
SEWER FUND BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015**

	Sewer Fund			Variance with Final Budget Favorable (Unfavorable)
	Budget Amounts		Actual	
	Original	Final		
Operating Revenues:				
Utility Sales	\$ 330,000	\$ 330,000	\$ 203,908	\$ (126,092)
Total Operating Revenue	<u>330,000</u>	<u>330,000</u>	<u>203,908</u>	<u>(126,092)</u>
Expenses:				
Salaries and Benefits	57,448	57,448	56,116	1,332
Legal, Accounting and Professional Services	10,000	10,000	6,485	3,515
Utilities	6,500	6,500	6,447	53
Depreciation/Amortization	-	-	438,485	(438,485)
Services and Supplies	20,675	20,675	34,371	(13,696)
Other Local	15,975	15,975	6,052	9,923
Total Operating Expenses	<u>110,598</u>	<u>110,598</u>	<u>547,956</u>	<u>(437,358)</u>
Operating Income (Loss)	<u>219,402</u>	<u>219,402</u>	<u>(344,048)</u>	<u>(563,450)</u>
Non-Operating Revenue (Expense):				
Special Assessment Tax Revenue			529,092	529,092
Property Tax Revenue			11,272	11,272
Interest and Other Income			2,318	2,318
Bond Administration Expense			(5,366)	(5,366)
Loss on Disposal of Assets			(58,667)	(58,667)
Interest Expense			(358,678)	(358,678)
Administrative Expenses - General Fund	(91,366)	(91,366)	(91,366)	-
Total Non-Operating Revenues (Expenses)	<u>(91,366)</u>	<u>(91,366)</u>	<u>28,605</u>	<u>119,971</u>
Change in Net Position	<u>\$ 128,036</u>	<u>\$ 128,036</u>	<u>\$ (315,443)</u>	<u>\$ (443,479)</u>

**OTHER SUPPLEMENTARY
INFORMATION**

**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***

Board of Directors
Spalding Community Services District
Spalding, California

Members of the Board of Directors:

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, business-type activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 7, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, 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.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses, or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be

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prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs listed as item 2015-2 to be a material weakness.

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 the deficiencies described in the accompanying schedule of findings and questioned costs as items 2015-1 and 2015-2 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of the Report

This 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



SingletonAuman PC
Susanville, CA
November 7, 2015

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

**SPALDING COMMUNITY SERVICES DISTRICT
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015**

EXECUTIVE SUMMARY

The District provides sewer, fire protection, and recreational services to residential and commercial customers within the boundaries of the District.

The quality of the District's internal controls is dependent upon oversight by the Board Members. Also, due to the limited number of employees of the District, there is an inability to segregate the custody of and accountability for District assets in the manner generally required for model systems of internal accounting controls. A summary of the auditors' results follows:

1. **Type of Auditors' Report on Financial Statements:** Unmodified.
2. **Internal Control Findings:** 2 Significant Deficiencies, 1 Being Material a Weakness.
3. **Material Noncompliance Noted:** None.

**SPALDING COMMUNITY SERVICES DISTRICT
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015**

**YELLOW BOOK SECTION
Significant Deficiency**

Finding 2015-1 Lack of Segregation of Duties

Criteria Upon Which Audit Finding is Based (Legal Citation)
Yellow Book Paragraphs 5.11 – 5.15 and Appendix I, SAS 122.

Finding (Condition)

An inadequate segregation of duties exists.

Amount of Questioned Cost, How Computed and Prevalence

None.

Effect

The District has exposure to risk of financial statement misstatement and the potential risk of errors or fraud.

Cause

Due to the District only having a few personnel assigned to duties that involve access to the general ledger and other accounting records and who also have custody of and responsibility for handling cash and other assets, an inadequate segregation of duties exists.

Recommendation

We recommend that the District employees and Board examine all activities of the District carefully to help decrease the risks of any individual being in a position to both perpetrate and conceal errors or fraud.

District's Response

Due to the number of employees of the District, it is not possible for the District to cost effectively mitigate this finding. The District cannot, with its current budget hire an adequate number of employees to insure that custody of assets and accountability for assets is separated.

The District does, however, believe that being aware of this weakness will insure that existing employees and Board members will maintain diligence to potential risks of not having an adequate segregation of duties.

**SPALDING COMMUNITY SERVICES DISTRICT
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015**

**YELLOW BOOK SECTION
Material Weakness**

Finding 2015-2 Financial Reporting

Criteria Upon Which Audit Finding is Based (Legal Citation)
Statement on Auditing Standards No. 122.

Finding (Condition)

Similar to many other small special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, MD&A and footnote disclosures are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Amount of Questioned Cost, How Computed and Prevalence
None.

Effect

There is a risk that a material financial statement misstatement may exist and not be prevented or detected by the District's system of internal control.

Cause

This condition has always existed at the District, and is being reported in accordance with Statement on Auditing Standards No. 122 (SAS 122).

Recommendation

We recommend that the District should consider the cost benefit of hiring an accountant familiar with GAAP or hiring an independent CPA firm to compile financial statements in conformity with GAAP.

District's Response

The District has determined that the costs of correcting this control weakness outweigh the benefits to be received. The District will continue to rely on the independent auditor to prepare its annual financial statements.

**SPALDING COMMUNITY SERVICES DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
(FINDINGS FROM THE JUNE 30, 2014 AUDIT REPORT)
FOR THE YEAR ENDED JUNE 30, 2015**

Finding 2014-1 Lack of Segregation of Duties

Due to the number of employees an inadequate segregation of duties exists.

Status

Ongoing.

Finding 2014-2 Financial Reporting

Similar to many other small special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, MD&A and footnote disclosures are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Status

Ongoing.

**SPALDING COMMUNITY SERVICES DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2015**

Person Monitoring Corrective Action Plan
District Manager, Chris Gallagher

Finding 2015-1 Lack of Segregation of Duties

Finding (Condition)

An inadequate segregation of duties exists.

Corrective Action Planned

Due to the number of employees of the District it is not possible for the District to cost effectively mitigate this finding. The District cannot, with its current budget hire an adequate number of employees to insure that custody of assets and accountability for assets is separated.

The District does, however, believe that being aware of this weakness will insure that existing employees and Board members will maintain diligence to potential risks of not having an adequate segregation of duties.

Expected Completion Date

Ongoing.

Finding 2015-2 Financial Reporting

Finding (Condition)

The District is responsible for preparing complete and accurate financial statements, footnote disclosures, and management's discussion and analysis in accordance with Generally Accepted Accounting Principles (GAAP).

Corrective Action Planned

The District has determined that the costs of correcting this control weakness outweigh the benefits to be received. The District will continue to rely on the independent auditor to prepare its annual financial statements.

Expected Completion Date

Ongoing.