

**SPALDING COMMUNITY
SERVICES DISTRICT**

**AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 2014**

**SPALDING COMMUNITY SERVICES DISTRICT
JUNE 30, 2014**

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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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of Spalding Community Services District as of June 30, 2014, 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, 2014, 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,



SingletonAuman, PC

Susanville, CA

November 7, 2014

SPALDING COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis (MD&A)
June 30, 2014

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, 2014. 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 \$16,305,441 at June 30, 2014. This was a decrease of \$596,896 from the prior year.
- ❑ Overall revenues were \$281,177, which was less than expenses of \$878,073 by \$596,896.
- ❑ The total cost of the District's programs decreased by \$66,009 from last year.
- ❑ The District has no debt as of June 30, 2014.

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. 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 Assets

The District's business-type and governmental net positions were \$11,389,252 and \$4,916,189 respectively at June 30, 2014. See Table 1.

Table 1:
Net Position Business-Type Activities

	Business-Type Activities		Total Percentage
	2014	2013	Change 2013-2014
Assets			
Cash	\$ 460,363	\$ 501,280	-8.16%
Accounts Receivable	11,248	8,283	-7.45%
	<u>471,611</u>	<u>509,563</u>	-7.45%
Capital Assets, Net of Accumulated Depreciation	<u>10,917,641</u>	<u>11,313,528</u>	-3.50%
TOTAL ASSETS	<u>\$ 11,389,252</u>	<u>\$ 11,823,091</u>	
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ -	\$ 370	N/A
Accrued Payroll Liabilities	-	4,193	N/A
Total Current Liabilities	<u>-</u>	<u>4,563</u>	
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ 4,563</u>	
Net Position			
Net Investment in Capital Assets	\$ 10,917,641	\$ 11,313,528	-3.50%
Restricted	157,163	200,470	-21.60%
Unrestricted (deficit)	<u>314,448</u>	<u>304,530</u>	3.26%
TOTAL NET POSITION	<u>\$ 11,389,252</u>	<u>\$ 11,818,528</u>	

Net Position Governmental Activities

	Governmental Activities		Total Percentage
	2014	2013	Change 2014-2013
Assets			
Cash	\$ 107,835	\$ 89,903	19.95%
Prepaid Expenses	-	17,396	-100.00%
	<u>107,835</u>	<u>107,299</u>	0.50%
Capital Assets, Net of Accumulated Depreciation	<u>4,811,101</u>	<u>4,983,582</u>	-3.46%
TOTAL ASSETS	<u>\$ 4,918,936</u>	<u>\$ 5,090,881</u>	
Current Liabilities:			
Accounts Payable	\$ 2,747	\$ 7,072	100.00%
Total Current Liabilities	<u>2,747</u>	<u>7,072</u>	
TOTAL LIABILITIES	<u>\$ 2,747</u>	<u>\$ 7,072</u>	
Net Position			
Net Investment in Capital Assets	\$ 4,811,101	\$ 4,983,582	-3.46%
Unrestricted (deficit)	<u>105,088</u>	<u>100,227</u>	4.85%
TOTAL NET POSITION	<u>\$ 4,916,189</u>	<u>\$ 5,083,809</u>	

Changes in Net Position

The District's business-type and governmental revenues were \$210,803 and \$160,613 respectively. Charges for services remained consistent from the prior year.

The total cost of all business-type and governmental programs and services were \$549,840 and \$328,233 respectively. Program expenses decreased from the prior year by \$57,412 and decreased by \$8,597 for business-type and governmental activities respectively.

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

	Business-Type Activities		Total Percentage
	2014	2013	Change 2014-2013
Revenues			
Program Revenues:			
Charges for Services	\$ 210,803	\$ 197,529	6.72%
General Revenues			
Other Income	305	3,010	-89.87%
TOTAL REVENUES	<u>211,108</u>	<u>200,539</u>	
Program Expenses			
Sewer	549,840	492,428	11.66%
TOTAL EXPENSES	<u>549,840</u>	<u>492,428</u>	
Transfers	(90,544)	(98,871)	-8.42%
DECREASE IN NET POSITION	<u>\$ (429,276)</u>	<u>\$ (390,760)</u>	

Changes in Net Assets Governmental Activities

	Governmental Activities		Total Percentage
	2014	2013	Change 2014-2013
Revenues			
Program Revenues:			
Charges for Services	\$ 2,255	\$ 19,184	-88.25%
Operating Grants & Contribution	15,698		
General Revenues			
Interest Income	86	388	-77.84%
Property Taxes and Assessment	33,916	34,288	-1.08%
Other Local Income	18,114	11,109	63.06%
Transfers	90,544	98,871	-8.42%
TOTAL REVENUES	<u>160,613</u>	<u>163,840</u>	-1.97%
Program Expenses			
General Government	132,666	125,662	5.57%
Fire Protection	55,427	52,534	5.51%
Recreation and Marina	140,140	158,634	-11.66%
TOTAL EXPENSES	<u>328,233</u>	<u>336,830</u>	-2.55%
DECREASE IN NET POSITION	<u>\$ (167,620)</u>	<u>\$ (172,990)</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	
	2014	2013	2014	2013
Sewer	\$ 549,840	\$ 492,428	\$ 339,037	\$ 294,899
TOTAL	\$ 549,840	\$ 492,428	\$ 339,037	\$ 294,899

Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
General Government	\$ 132,666	\$ 125,662	\$ 132,666	\$ 125,662
Fire Protection	55,427	52,534	54,520	48,083
Recreation and Marina	140,140	158,634	138,792	143,901
TOTAL	\$ 328,233	\$ 336,830	\$ 325,978	\$ 317,646

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 \$11,389,252, which is above last year's ending net position of \$11,181,528. The District's governmental funds reported a net position of \$4,916,189, which is below last year's ending net position of \$5,083,809.

Budgetary Highlights

Over the course of the year, the District did revise its annual budget to reflect unexpected changes in revenues and expenditures. The final revised budget was approved on November 13, 2013. 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 DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had invested in a broad range of capital assets, including land, equipment and the sewer system. See Table 4. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Table 4
Capital Assets Governmental Activities

	Governmental Activities		Total Percentage
	2014	2013	Change 2014-2013
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	435,608	435,608	0.00%
Marina Dredging	340,800	340,800	0.00%
Totals at Historical Cost	<u>5,941,287</u>	<u>5,941,287</u>	
Total Accumulated Depreciation	<u>(1,130,186)</u>	<u>(957,705)</u>	18.01%
NET CAPITAL ASSETS	<u><u>\$ 4,811,101</u></u>	<u><u>\$ 4,983,582</u></u>	

Capital Assets Business-Type Activities

	Business-Type Activities		Total Percentage
	2014	2013	Change 2014-2013
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	206,759	212,158	-2.54%
Totals at Historical Cost	<u>13,430,824</u>	<u>13,436,223</u>	
Total Accumulated Depreciation	<u>(2,513,183)</u>	<u>(1,729,598)</u>	45.30%
NET CAPITAL ASSETS	<u><u>\$ 10,917,641</u></u>	<u><u>\$ 11,706,625</u></u>	

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 2014-2015 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.

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

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General Manager
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**SPALDING COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash on Hand and in County Treasury	\$ 107,835	\$ 460,363	\$ 568,198
Accounts Receivable		11,248	11,248
Prepaid Expenses	-	-	-
Total Current Assets	107,835	471,611	579,446
Property, Plant & Equipment, Net	4,811,101	10,917,641	15,728,742
Total Assets	\$ 4,918,936	\$ 11,389,252	\$ 16,308,188
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ -	\$ -	\$ -
Payroll Liabilities	2,747	-	2,747
Total Current Liabilities	2,747	-	2,747
Total Liabilities	\$ 2,747	\$ -	\$ 2,747
NET POSITION			
Net Investment in Capital Assets	\$ 4,811,101	\$ 10,917,641	\$ 15,728,742
Restricted (Note 10)		157,163	157,163
Unrestricted	105,088	314,448	419,536
Total Net Position	\$ 4,916,189	\$ 11,389,252	\$ 16,305,441

The accompanying notes are an integral part of this statement.

SPALDING COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2014

	Program Revenue		Net (Expense)		Net (Expense)	
	Charges For Services	Operating Grants and Contributions	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	\$ 132,666	\$ -	(132,666) \$	- \$	(132,666)	
Fire Protection	55,427	15,698	(38,822)	-	(38,822)	
Recreation and Marina	140,140	1,348	(138,792)	-	(138,792)	
Total Governmental Activities	328,233	15,698	(310,280)	-	(310,280)	
<u>Business Type Activities</u>						
Sewer Utility	549,840	-	-	(339,037)	(339,037)	
Total Business Type Activities	549,840	-	-	(339,037)	(339,037)	
Total Primary Government	\$ 878,073	\$ 15,698	(310,280)	(339,037)	(649,317)	
General Revenues:						
Interest Earnings			86	305	391	
Property Taxes and Assessments			33,916		33,916	
Other Local Income			18,114		18,114	
Transfers			90,544	(90,544)	-	
Total General Revenue			142,660	(90,239)	52,421	
Change in Net Position			(167,620)	(429,276)	(596,896)	
Net Position Beginning			5,083,809	11,818,528	16,902,337	
Net Position Ending			\$ 4,916,189	\$ 11,389,252	\$ 16,305,441	

The accompanying notes are an integral part of this statement.

**SPALDING COMMUNITY SERVICES DISTRICT
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General</u>
<u>ASSETS</u>	
Cash on Hand and In Banks	\$ 107,835
TOTAL ASSETS	<u>\$ 107,835</u>
 <u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Payroll Liabilities	\$ 2,747
Total Liabilities	<u>2,747</u>
Fund Equity:	
Unassigned Fund Equity	<u>105,088</u>
Total Fund Equity	<u>105,088</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 107,835</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, 2014**

Total Fund Balances - Governmental Funds	\$ 105,088
Reconciling Items:	
Capital Assets are not recorded in the governmental funds	<u>4,811,101</u>
Total Net Position - Governmental Activities	<u>\$ 4,916,189</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, 2014**

	Governmental Funds
	General
Revenues	
Property Taxes	\$ 33,916
Interest	86
Charges For Current Services	2,255
State Grant	15,698
Other Local Income	18,114
 Total Revenues	 70,069
Expenditures	
Salaries and Benefits	59,245
Utilities	10,566
Professional Services	19,756
Insurance	13,716
Office	1,716
Special Department	1,316
Repairs and Maintenance	17,375
Rent and Leases	880
Other Local Expenses	31,181
 Total Expenditures	 155,752
Excess Of Revenues Over (Under) Expenditures	(85,683)
 Other Financing Sources (Uses) Operating Transfers In	 90,544
 Excess Of Revenues And Transfers In Over (Under) Expenditures And Transfers Out	 4,861
 Fund Balances - July 1	 100,227
 Fund Balances - June 30	 \$ 105,088

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, 2014**

Net Changes in fund balances - total governmental funds	\$ 4,861
Reconciling Items:	
The depreciation of capital assets is not recorded in the governmental funds	(172,480)
Changes in net position of governmental activities - statement of activities	<u>\$ (167,619)</u>

The accompanying notes are an integral part of this statement.

**SPALDING COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2014**

ASSETS	<u>Business-Type Activities</u>
	<u>Sewer Fund</u>
Current Assets:	
Cash on Hand, in Banks and in LAIF	\$ 460,363
Accounts Receivable	11,248
Total Current Assets	<u>471,611</u>
Property, Plant & Equipment, Net	<u>10,917,641</u>
Total Assets	<u><u>\$ 11,389,252</u></u>
 LIABILITIES	
Total Liabilities	<u><u>\$ -</u></u>
 NET POSITION	
Net Investment in Capital Assets	\$ 10,917,641
Restricted (Note 10)	157,163
Unrestricted	314,448
Total Net Position	<u><u>\$ 11,389,252</u></u>

The accompanying notes are an integral part of this statement.

**SPALDING COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES - PROPRIETARY FUND
JUNE 30, 2014**

	<u>Sewer Fund</u>
Operating Revenues:	
Utility Sales	\$ 210,803
Total Operating Revenue	<u>210,803</u>
Expenses:	
Salaries and Benefits	52,684
Communications	7,750
Insurance	3,936
Legal, Accounting and Professional Services	11,709
Utilities	6,065
Depreciation and Amortization	392,737
Parcel Tax Assessment	43,464
Repair and Maintenance	16,222
Special Department Expense	7,388
Other Local Expenses	7,885
Total Operating Expenses	<u>549,840</u>
Operating Income (Loss)	<u>(339,037)</u>
Other Financing Sources(Uses)	
Transfer to General Fund	<u>(90,544)</u>
Non-Operating Revenues and (Expenses):	
Interest Income	<u>305</u>
Total Non-Operating Revenues and (Expenses)	<u>305</u>
Change in Net Position	<u><u>\$ (429,276)</u></u>

The accompanying notes are an integral part of this statement.

SPALDING COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
JUNE 30, 2014

	Business-Type Activities
	Sewer Fund
Cash Flows from Operating Activities:	
Cash Received From Customers	\$ 207,838
Cash Payments to Employees	(56,877)
Cash Payments to Suppliers for Goods and Services	(104,789)
Net Cash Provided by Operating Activities	46,172
Cash Flows from Capital and Related Financing Activities:	
Other Financing Sources (Transfers)	(87,374)
Net Cash Provided (Used) by Capital Financing Activities	(87,374)
Cash Flows from Non-Capital and Related Financing Activities:	
Interest Income	305
Net Cash Provided (Used) by Non-Capital Financing Activities	305
Net Increase (Decrease) in Cash and Cash Equivalents	(40,897)
Cash and Cash Equivalents:	
Balance - July 1	501,280
Balance - June 30	\$ 460,383
Reconciliation:	
Operating Income (Loss)	\$ (339,037)
Depreciation and Amortization	392,737
(Increase)/Decrease in Accounts Receivable	(2,965)
Increase/(Decrease) in Accounts Payable	(370)
Increase/(Decrease) in Payroll Liabilities	(4,193)
Net Cash Provided by Operating Activities	\$ 46,172

The accompanying notes are an integral part of this statement.

SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014

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 assets.

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, 2014

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. For the Government-Wide presentation, inter-fund activities are eliminated within the Governmental and Business-Type account groups.

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, 2014

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.

Cash balances held in banks are insured to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

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.

**SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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	5-60

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.

SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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:

- 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.

**SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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.

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, 2014**

3. Excess of Expenses and Expenditures over Budget

As of June 30, 2014, expenses and expenditures exceeded budget as follows:

<u>Budget Category</u>	<u>Amount</u>
General Fund:	
Professional Services	\$ 2,205
Repairs and Maintenance	\$ 4,925
Other Local Expenses	\$ 9,251
Sewer Fund:	
Professional Services	\$ 1,709
Depreciation	\$ 392,737
Services and Supplies	\$ 23,789

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.

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, 2014 are as follows:

Fire Protection	\$ 58,712
Recreation and Marina	10,045
General Government	38,952
Cash on Hand	126
Total General Cash in Treasury and on Hand	<u>\$ 107,835</u>
Sewer Trust (See Note 10)	157,163
Sewer Fund	297,840
Cash on Hand	5,360
Total Sewer Cash in Treasury, LAIF, and On Hand	<u>\$ 460,363</u>

SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4 – SEWER SYSTEM CONSTRUCTION PROJECT AND BOND FINANCING

During the spring of 2005, the District began construction of a sewer system to serve the residential and commercial customers in the District. The construction project was financed with a combination of property assessments, state and federal grants, a line of credit, and limited obligation bonds.

Most of the construction project has been financed with USDA limited obligation bonds. The nature of these bonds is such that the source of funding for the bond principal and interest payments is limited to funds collected from property assessments of the District's residents. 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 payments.

Since the District is not obligated to repay the debt to the bondholders, any outstanding bond liability has not been included on the District's financial statements. Additionally, the related property assessments receivable and related bond trust funds have been omitted from the financial statements.

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%, and a final maturity date in September of 2047.

NOTE 5 – 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, 2014**

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

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

	Balance <u>6/30/13</u>	<u>Additions</u>	<u>Dispositions</u>	Balance <u>6/30/14</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	-	-	435,608
Marina Dredging	340,800	-	-	340,800
Total	<u>5,941,287</u>	<u>-</u>	<u>-</u>	<u>5,941,287</u>
Accumulated Depreciation	<u>(957,705)</u>	<u>(172,481)</u>	<u>-</u>	<u>(1,130,186)</u>
Property, Plant and Equipment, Net	<u>\$ 4,983,582</u>	<u>\$ (172,481)</u>	<u>\$ -</u>	<u>\$ 4,811,101</u>

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

	Balance <u>6/30/13</u>	<u>Additions</u>	<u>Dispositions</u>	Balance <u>6/30/14</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	212,159	-	5,400	206,759
Total	<u>13,436,224</u>	<u>-</u>	<u>5,400</u>	<u>13,430,824</u>
Accumulated Depreciation	<u>(2,122,696)</u>	<u>(392,737)</u>	<u>(2,250)</u>	<u>(2,513,183)</u>
Property, Plant and Equipment, Net	<u>\$ 11,313,528</u>	<u>\$ (392,737)</u>	<u>\$ 3,150</u>	<u>\$ 10,917,641</u>

Depreciation and amortization was charged to functions as follows:

Fire Protection	<u>\$ 26,514</u>
Recreation	<u>\$ 133,674</u>
General	<u>\$ 12,293</u>
Sewer	<u>\$ 392,737</u>

**SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014.

<u>Year ending June 30,</u>	
2015	1,800
2016	1,800
2017	600
	\$ 4,200

Rent expense for the year ending June 30, 2014 was \$2,650.

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.

SPALDING COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 - RESTRICTED NET ASSETS

The Sewer Fund has Restricted Net Assets of \$157,163 consisting of remaining USDA Bond proceeds that have not been spent as of June 30, 2014. These funds are to be utilized for additional construction on the District's sewer system and are maintained in a separate trust fund in the Lassen County Treasury.

NOTE 11 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 7, 2014, which is the date the financial statements were available to be issued.

**OTHER SUPPLEMENTARY
INFORMATION**

**SPALDING COMMUNITY SERVICES DISTRICT
GENERAL FUND BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund			
	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Property Taxes and Assessments	\$ 34,810	\$ 34,810	\$ 33,916	\$ (894)
Interest	155	155	86	(69)
Charges for Current Services	1,386	1,386	2,255	869
State Grants	-	7,000	15,698	8,698
Other Local Income	22,417	22,417	18,114	(4,303)
Total Revenues	<u>58,768</u>	<u>65,768</u>	<u>70,069</u>	<u>4,301</u>
Expenditures				
Salaries and Benefits	65,450	65,450	59,245	6,205
Utilities	12,530	12,530	10,566	1,964
Professional Services	17,550	24,550	19,755	4,795
Insurance	16,071	16,071	13,716	2,355
Office	1,550	1,550	1,716	(166)
Special Department	3,810	3,810	1,316	2,494
Repairs and Maintenance	12,450	12,450	17,375	(4,925)
Rents and Leases	2,000	2,000	880	1,120
Other Local Expenses	21,930	21,930	31,181	(9,251)
Capital Outlay	15,000	15,000	-	15,000
Total Expenditures	<u>168,341</u>	<u>175,341</u>	<u>155,750</u>	<u>19,591</u>
Excess of Revenues Over (Under)				
Expenditures	(109,573)	(109,573)	(85,681)	23,892
Operating Transfers In	90,544	90,544	90,544	-
Excess of Revenues and Transfers In Over (Under) Expenditures and Transfers Out				
	<u>\$ (19,029)</u>	<u>\$ (19,029)</u>	<u>4,863</u>	<u>\$ 23,892</u>
Fund Balance - July 1			<u>100,227</u>	
Fund Balance - June 30			<u>\$ 105,090</u>	

**SPALDING COMMUNITY SERVICES DISTRICT
SEWER FUND BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014**

	Sewer Fund			Variance with Final Budget Favorable (Unfavorable)
	Budget Amounts		Actual	
	Original	Final		
Operating Revenues:				
Utility Sales	\$ 205,000	\$ 205,000	\$ 210,803	\$ 5,803
Total Operating Revenue	<u>205,000</u>	<u>205,000</u>	<u>210,803</u>	<u>5,803</u>
Expenses:				
Salaries and Benefits	52,735	52,735	52,684	51
Legal, Accounting and Professional Services	10,000	10,000	11,709	(1,709)
Utilities	6,500	6,500	6,065	435
Depreciation/Amortization	-	-	392,737	(392,737)
Services and Supplies	19,675	19,675	78,760	(59,085)
Other Local	17,650	17,650	7,885	9,765
Total Operating Expenses	<u>106,560</u>	<u>106,560</u>	<u>549,840</u>	<u>(443,280)</u>
Operating Income (Loss)	<u>98,440</u>	<u>98,440</u>	<u>(339,037)</u>	<u>(437,477)</u>
Non-Operating Revenue (Expense):				
Property Taxes	-	-	305	305
Transfers Out	(90,544)	(90,544)	(90,544)	-
Total Non-Operating Revenues (Expenses)	<u>(90,544)</u>	<u>(90,544)</u>	<u>(90,239)</u>	<u>305</u>
Change in Net Position	<u>\$ 7,896</u>	<u>\$ 7,896</u>	<u>\$ (429,276)</u>	<u>\$ (437,172)</u>

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

**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, 2014, 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, 2014.

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 2013-2 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 2014-1 and 2014-2 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, 2014

**SPALDING COMMUNITY SERVICES DISTRICT
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014**

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, 2014**

**YELLOW BOOK SECTION
Significant Deficiency**

Finding 2014-1 Lack of Segregation of Duties

Criteria Upon Which Audit Finding is Based (Legal Citation)
Yellow Book Paragraphs 5.10 – 5.14 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, 2014**

**YELLOW BOOK SECTION
Material Weakness**

Finding 2014-2 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.

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
(FINDINGS FROM THE JUNE 30, 2013 AUDIT REPORT)
FOR THE YEAR ENDED JUNE 30, 2014**

Finding 2013-1 Lack of Segregation of Duties

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

Status

Ongoing, however decreased to a significant deficiency.

Finding 2013-2 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, 2014**

Person Monitoring Corrective Action Plan
District Manager, Chris Gallagher

Finding 2014-1 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 2014-2 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.