

EAST QUINCY SERVICES DISTRICT

**AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 2016**

EAST QUINCY SERVICES DISTRICT
Audit Report
JUNE 30, 2016

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FINANCIAL SECTION

Independent Auditors' Report

Board of Directors
East Quincy Services District
Quincy, CA

We have audited the accompanying financial statements of the business-type activities and each major fund of the East Quincy Services District (District) as of and for the year ended June 30, 2016, and the respective changes in financial position and cash flows, thereof, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of East Quincy Services District as of June 30, 2016, and the respective changes in financial position and 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, budgetary comparison information, the Schedules of Proportionate Share of Net Pension Liability, and the Schedules of District Contributions 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 16, 2016 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,

A handwritten signature in black ink, appearing to read "Singleton Auman PC", with a stylized flourish at the end.

SingletonAuman PC

Susanville, CA

November 16, 2016

EAST QUINCY SERVICES DISTRICT
Management's Discussion and Analysis (MD&A)
June 30, 2016

INTRODUCTION

East Quincy Services District's present operations include providing water and sewer services to residents of the District.

Our discussion and analysis of East Quincy Services District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the District's financial statements, including notes and supplementary information, which follow this section.

FINANCIAL HIGHLIGHTS

- ❑ The net position was \$7,357,522 at June 30, 2016. This was a increase of \$128,787 from the prior year.
- ❑ Overall revenues were \$1,557,914 which were less than expenses of \$1,686,701 by \$128,787.
- ❑ The total cost of the District's programs increased by \$113,708 from last year.
- ❑ Debt has increased by \$14,731.

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.
 - 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 assets, the difference between the assets and liabilities, are 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 and sewer. 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 Board of Directors establishes 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 one kind of fund:

Proprietary Fund-Utility Fund – Services for which the District charges a fee are generally reported in proprietary funds. 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 combined net position was \$7,357,522 at June 30, 2016. See Table 1. The significant changes in Table 1 line items for fiscal 2016 vs 2015 are:

- Increase in cash due to rate increases.

**Table 1:
Net Position**

	Business-Type Activities		Total %
	2016	2015	Change 2016-2015
Assets			
Cash	\$ 314,295	\$ 391,608	-19.74%
Accounts Receivable	124,096	115,433	7.50%
Other Current Assets	-	17,620	-100.00%
Cash Reserves	1,915,010	1,708,340	12.10%
Capital Assets, Net of Accumulated Depreciation	7,457,710	7,715,349	-3.34%
TOTAL ASSETS	<u>\$ 9,811,111</u>	<u>\$ 9,996,133</u>	
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Recognition of Contributions to Pension Plan	<u>\$ 52,816</u>	<u>\$ 39,892</u>	
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 100,294	\$ 67,767	48.00%
Utility Deposits	13,963	9,420	48.23%
Accrued Payroll Liabilities	16,546	8,978	84.29%
Current Portion of Long-Term Debt	51,100	48,500	5.36%
Total Current Liabilities	<u>181,903</u>	<u>155,795</u>	
Long Term Liabilities:			
Net OPEB Obligations	470,683	454,176	3.63%
Note Payable	1,639,483	1,690,581	-3.02%
Net Pension Liability	175,276	173,192	1.20%
Total Long Term Liabilities	<u>2,285,442</u>	<u>2,317,949</u>	
TOTAL LIABILITIES	<u>\$ 2,467,345</u>	<u>\$ 2,270,195</u>	
DEFERRED INFLOWS OF RESOURCES			
Deferred Recognition of Pension Plan Earnings	<u>\$ 39,060</u>	<u>\$ 49,319</u>	-20.80%
Net Position			
Net Investment in Capital Assets	\$ 5,767,127	\$ 5,976,268	-3.50%
Unrestricted	1,590,395	1,510,041	5.32%
TOTAL NET POSITION	<u>\$ 7,357,522</u>	<u>\$ 7,725,938</u>	

Changes in Net Position

The District's total revenues were \$1,557,914. A majority of the revenue comes from Utility Sales (82%). Property taxes accounted for 7% of total revenues.

The total cost of all programs and services was \$1,686,701.

**Table 2:
Changes in Net Position**

	Business-Type Activities		Total Percentage
	2016	2015	Change 2016-2015
Revenues			
Program Revenues:			
Charges for Services	\$ 1,314,441	\$ 1,295,996	1.42%
Capital Grants and Contributions	126,149	139,924	-9.84%
General Revenues			
Property Taxes	110,764	82,957	33.52%
Interest Income	6,560	6,069	8.09%
TOTAL REVENUES	<u>1,557,914</u>	<u>1,524,946</u>	
Program Expenses			
Water	554,382	561,851	-1.33%
Sewer	1,132,319	1,013,605	11.71%
TOTAL EXPENSES	<u>1,686,701</u>	<u>1,575,456</u>	
DECREASE IN NET POSITION	<u>\$ (128,787)</u>	<u>\$ (50,510)</u>	-154.97%

Governmental Activities

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.

The amount that our taxpayers paid for these activities through property taxes was \$110,764.

Most of the costs were paid directly from people who directly benefited from the programs of \$1,314,441 or by grants and contributions of \$126,149.

Table 3
Net Cost of Business-Type Activities

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Water	\$ 554,382	\$ 561,851	\$ 72,555	\$ 2,228
Sewer	1,132,319	1,013,605	(173,556)	(141,764)
TOTAL	\$ 1,686,701	\$ 1,575,456	\$ (101,001)	\$ (139,536)

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 equity of \$7,357,522.

Budgetary Highlights

The District prepares a preliminary budget in May or June of each fiscal year. A final budget is adopted by the Board in August. A schedule of the District's original and final budget amounts compared with actual revenues and expenses is provided in the supplemental section of the audited financial report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had invested \$7,457,710 in a broad range of capital assets, including land and the water and sewer systems. During the year the District invested in a truck, a backhoe, and engineering fees. 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

	Business-Type Activities		Change
	2016	2015	2016-2015
Land and Easements	\$ 203,396	\$ 203,396	0.00%
Water System	3,756,726	3,723,088	0.90%
Sewer System	9,560,610	9,528,555	0.34%
Totals at Historical Cost	13,520,732	13,455,039	
Total Accumulated Depreciation	(6,063,022)	(5,739,689)	5.63%
NET CAPITAL ASSETS	\$ 7,457,710	\$ 7,715,350	

Long-Term Debt

At year end, the District had \$2,285,422 in long-term debt, consisting of a USDA loan, OPEB Obligations and net pension liability, as shown in Table 5. More detailed information about the District's debt is presented in the notes to the financial statements.

Table 5
Long-Term Debt

	Business-Type Activities		Total Percentage
	2016	2015	Change
USDA Loan	\$ 1,639,483	\$ 1,690,581	-3.02%
Net OPEB Obligation	470,683	454,176	3.63%
Net Pension Liability	175,276	173,192	1.20%
TOTAL LONG-TERM DEBT	\$ 2,285,442	\$ 2,317,949	-1.40%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- The continuing increases in fuel and power costs along with the influence of inflation on all costs.
- The inevitable increases in pension contributions which will be needed to pay the unfunded Net Pension Liability will require careful planning and budgeting.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, 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:

East Quincy Services District
Mike Green, General Manager
179 Rogers
Quincy, CA 95971
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EAST QUINCY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

	Business-Type Activities
ASSETS	Water and Sewer Funds
Current Assets:	
Cash on Hand and in Banks	\$ 314,295
Accounts Receivable	124,096
Total Current Assets	438,391
Other Assets:	
Cash - System Facility Reserves	1,915,010
Total Other Assets	1,915,010
Property, Plant & Equipment, Net:	7,457,710
Total Assets	\$ 9,811,111
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred Recognition of Contributions to Pension Plan	\$ 52,816
 LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 100,294
Utility Deposits	13,963
Accrued Payroll and Related Liabilities	16,546
Current Portion of Long Term Debt	51,100
Total Current Liabilities	181,903
 Long Term Liabilities:	
Bonds Payable	1,639,483
OPEB Obligations	470,683
Net Pension Liability	175,276
Total Long Term Liabilities	2,467,345
Total Liabilities	\$ 2,467,345
 DEFERRED INFLOWS OF RESOURCES	
Deferred recognition of Pension Plan Earnings	\$ 39,060
 NET POSITION	
Net Investment in Capital Assets	\$ 5,767,127
Unrestricted	1,590,395
Total Net Position	\$ 7,357,522

The accompanying notes are an integral part of this statement.

EAST QUINCY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2016

		Program Revenue			
	Expenses	Charges For Services	Capital Grants and Contributions	-	Net (Expense) Revenue and Changes in Net Assets
<u>Business-Type Activities</u>					
Water	\$ 554,382	\$ 481,827	\$ -	\$	(72,555)
Sewer	1,132,319	832,614	126,149		(173,556)
Total Business-Type Activities	\$ 1,686,701	\$ 1,314,441	\$ 126,149		(246,111)
General Revenues:					
					110,764
					6,560
					117,324
					(128,787)
					7,486,309
				\$	7,357,522

The accompanying notes are an integral part of this statement.

EAST QUINCY SERVICES DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2016

ASSETS	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Current Assets:			
Cash on Hand and in Banks		\$ 314,295	\$ 314,295
Accounts Receivable	\$ 33,415	90,681	124,096
Total Current Assets	33,415	404,976	438,391
Other Assets:			
Cash - System Facility Reserves	1,183,076	731,934	1,915,010
Total Other Assets	1,183,076	731,934	1,915,010
Property, Plant & Equipment, Net:	1,680,675	5,777,035	7,457,710
Total Assets	\$ 2,897,166	\$ 6,913,945	\$ 9,811,111
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Recognition of Contributions to Pension Plan	\$ 26,408	\$ 26,408	\$ 52,816
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 18,889	\$ 81,405	\$ 100,294
Utility Deposits	14,880	(917)	13,963
Accrued Payroll and Related Liabilities	9,715	6,831	16,546
Current Portion of Long Term Debt		51,100	51,100
Total Current Liabilities	43,484	138,419	181,903
Long Term Liabilities:			
Bonds Payable		1,639,483	1,639,483
Net OPEB Obligation	235,342	235,341	470,683
Net Pension Liability	87,638	87,638	175,276
Total Liabilities	\$ 366,464	\$ 2,100,881	\$ 2,467,345
DEFERRED INFLOWS OF RESOURCES			
Deferred Recognition of Pension Plan Earnings	\$ 19,530	\$ 19,530	\$ 39,060
NET POSITION			
Net Investment in Capital Assets	\$ 1,680,675	\$ 4,086,452	\$ 5,767,127
Unrestricted	856,905	733,490	1,590,395
Total Net Position	\$ 2,537,580	\$ 4,819,942	\$ 7,357,522

The accompanying notes are an integral part of this statement.

EAST QUINCY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Water Fund	Sewer Fund	Total
Operating Revenues:			
Utility Revenue	\$ 469,582	\$ 829,097	\$ 1,298,679
Other Operating Revenue	12,245	3,517	15,762
Total Operating Revenue	<u>481,827</u>	<u>832,614</u>	<u>1,314,441</u>
Expenses:			
Salaries and Benefits	256,462	257,997	514,459
Insurance	15,320	15,320	30,640
Legal, Accounting and Professional Services	30,458	21,179	51,637
Utilities	66,068	18,131	84,199
Vehicles and Equipment	4,724	7,161	11,885
Permits and Fees	13,822	5,745	19,567
Depreciation	117,913	205,420	323,333
Sewage Treatment		465,340	465,340
Repairs and Maintenance	16,715	13,746	30,461
Office	10,388	11,266	21,654
Director's Fees	2,284	1,451	3,735
Miscellaneous	20,228	22,488	42,716
Total Operating Expenses	<u>554,382</u>	<u>1,045,244</u>	<u>1,599,626</u>
Operating Income (Loss)	<u>(72,555)</u>	<u>(212,630)</u>	<u>(285,185)</u>
Non-Operating Revenues and Expenses:			
Interest Income	3,904	2,656	6,560
Property Taxes	110,764		110,764
System Facility Fees		126,149	126,149
Interest Expense	-	(87,075)	(87,075)
Total Non-Operating Revenues and Expenses	<u>114,668</u>	<u>41,730</u>	<u>156,398</u>
Change in Net Position	<u>\$ 42,113</u>	<u>\$ (170,900)</u>	<u>\$ (128,787)</u>

The accompanying notes are an integral part of this statement.

**EAST QUINCY SERVICES DISTRICT
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 493,794	\$ 816,527	\$ 1,310,321
Cash Payments to Employees	(255,146)	(256,337)	(511,483)
Cash Payments to Suppliers for Goods and Services	(164,174)	(547,512)	(711,686)
Net Cash Provided (used) by Operating Activities	<u>74,474</u>	<u>12,678</u>	<u>87,152</u>
Cash Flows from Non-Capital Financing Activities:			
Property Taxes	<u>110,764</u>	-	<u>110,764</u>
Net Cash Provided (used) by Non-Capital Financing Activities	<u>110,764</u>	-	<u>110,764</u>
Cash Flows from Capital and Related Financing Activities:			
Purchases of Fixed Assets	(33,638)	(32,055)	(65,693)
Interfund Loans	38,441	(38,441)	-
Principal Payments on Long-term Debt		(48,500)	(48,500)
Interest Payments on Long-term Debt	-	(87,075)	(87,075)
Proceeds from Special Assessment	-	126,149	126,149
Net Cash Provided (used) by Capital Financing Activities	<u>4,803</u>	<u>(79,922)</u>	<u>(75,119)</u>
Cash Flows from Investing Activities:			
Interest Received	<u>3,904</u>	<u>2,656</u>	<u>6,560</u>
Net Cash Provided (used) by Investing Activities	<u>3,904</u>	<u>2,656</u>	<u>6,560</u>
Net Increase (Decrease) in Cash and Cash Equivalents	193,945	(64,588)	129,357
Cash and Cash Equivalents:			
Balance - July 1	<u>989,131</u>	<u>1,110,817</u>	<u>2,099,948</u>
Balance - June 30	<u>\$ 1,183,076</u>	<u>\$ 1,046,229</u>	<u>\$ 2,229,305</u>
Reconciliation:			
Operating Income (Loss)	\$ (72,555)	\$ (212,630)	\$ (285,185)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	117,913	205,420	323,333
(Increase)/Decrease in Accounts Receivable	7,424	(16,087)	(8,663)
(Increase)/Decrease in Other Assets	4,770	12,850	17,620
(Increase)/Decrease in Deferred Outflows	(6,462)	(6,462)	(12,924)
Increase/(Decrease) in Accounts Payable	11,063	21,465	32,528
Increase/(Decrease) in Utility Deposits	4,543	-	4,543
Increase/(Decrease) in Net OPEB Obligation	8,254	8,253	16,507
Increase/(Decrease) in Net Pension Liability	1,042	1,042	2,084
Increase/(Decrease) in Payroll Liabilities	3,612	3,956	7,568
Increase/(Decrease) in Deferred Inflows	(5,130)	(5,129)	(10,259)
Net Cash Provided (used) by Operating Activities	<u>\$ 74,474</u>	<u>\$ 12,678</u>	<u>\$ 87,152</u>

The accompanying notes are an integral part of this statement.

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District provides water and sewer services to approximately 960 residential and commercial customers within the boundaries of the District.

East Quincy Services District (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 Statement.

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.

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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 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 enterprise 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 Enterprise Funds:

The Water Fund accounts for water revenue, expenses, and net position.

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

b. Measurement Focus, Basis of Accounting

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 levied. 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.

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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.

3. Assets, Liabilities, and Equity

a. Cash, Cash Equivalents and Concentrations of Risk

For the purpose of the statement of cash flows, highly liquid investments, including restricted funds, are considered to be cash equivalents if they have a maturity of three months or less when purchased. The District considers cash, investments in the Local Agency Investment Fund, and reserved cash to be cash equivalents.

Cash balances held in banks are insured to \$250,000 by the Federal Depository Insurance Corporation.

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.

b. Capital Assets

Property, Plant and Equipment owned by the Enterprise Fund 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. 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>
Buildings	33
Office Equipment	3-7
Meters and Maint. Equipment	5-20
Utility Plant and Infrastructure	15-50

Gain or loss is recognized when assets are retired from service or are otherwise disposed.

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

c. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County of Plumas bills and collects the taxes for the District. The District recognizes tax revenues when apportioned by the County.

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. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. Currently, the District has only one item that qualifies for reporting in this category, deferred amounts from District pension contributions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category, deferred recognition of pension plan earnings.

f. Compensated Absences

Accumulated unpaid employee vacation leave benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the Water Fund and Sewer Fund at year end.

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

g. Equity Restrictions

Following are the District's designated portions of the Net Position:

Designated for System Facilities	\$ 911,237
Designated for Vehicles	44,704
Other Designations	<u>634,454</u>
 Total Unrestricted Net Position	 <u><u>\$ 1,590,395</u></u>

The System Facility Reserves are for future replacement of the water and sewer systems. The Vehicle Fund Reserve is for future replacement of district vehicles. Additionally, the water fund has a Reserve to track refundable customer utility deposits.

h. 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.

i. Components of Net Position

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.

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

A summary of changes in fixed assets follows:

	<u>Balance 6/30/15</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance 6/30/16</u>
Land and Easements	\$ 203,396			\$ 203,396
Water System	3,723,088	33,638		3,756,726
Sewer System	9,528,555	32,055		9,560,610
	<u>13,455,039</u>	<u>65,693</u>	-	<u>13,520,732</u>
Accumulated Depreciation	<u>(5,739,689)</u>	<u>(323,333)</u>		<u>(6,063,022)</u>
Property, Plant and Equipment, Net	<u>\$ 7,715,350</u>	<u>\$ (257,640)</u>	<u>\$ -</u>	<u>\$ 7,457,710</u>

Depreciation was charged to functions as follows:

Water	\$ 114,435
Sewer	<u>205,420</u>
Total	<u>\$ 313,174</u>

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 – BONDS PAYABLE

Long Term Debt is summarized as follows:

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
	<u>6/30/15</u>			<u>6/30/16</u>
5.125% Series 1996 USDA Improvement Bonds, \$2,400,020 Original Issue, Semi-Annual Payments of Principal and Interest	\$ 1,739,083		\$ 48,500	\$ 1,690,583
Total Bonds Payable	<u>\$ 1,739,083</u>	<u>\$ -</u>	<u>\$ 48,500</u>	<u>1,690,583</u>
Less Current Portion				<u>(51,100)</u>
Long-Term Portion of Bonds Payable				<u>\$ 1,639,483</u>

Debt service requirements on long term debt at June 30, 2016 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 51,100	\$ 86,642	\$ 137,742
2018	53,800	84,023	137,823
2019	56,600	81,266	137,866
2020	59,600	78,365	137,965
2021	61,800	75,311	137,111
2022-2026	362,300	325,515	687,815
2027-2031	464,400	222,753	687,153
2032-2036	580,983	90,872	671,855
Totals	<u>\$ 1,690,583</u>	<u>\$ 1,044,747</u>	<u>\$ 2,735,330</u>

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 – EXCESS OF EXPENSES OVER APPROPRIATIONS

<u>Appropriations Category</u>	<u>Amount</u>	<u>Explanation</u>
Water Fund:		
Salaries and Benefits	\$ 15,575	The District does not budget for OPEB expense
Insurance	1,320	Minor cost overruns
Vehicles and Equipment	724	Minor cost overruns
Office	2,388	Minor cost overruns
Permits and Fees	3,822	Minor cost overruns
Depreciation	117,913	The District does not budget for Depreciation
Miscellaneous	84	Minor cost overruns
Sewer Fund:		
Salaries and Benefits	17,110	The District does not budget for OPEB expense
Utilities	131	Minor cost overruns
Vehicles and Equipment	2,161	Minor cost overruns
Permits and Fees	3,745	Minor cost overruns
Insurance	320	Minor cost overruns
Depreciation	205,420	The District does not budget for Depreciation
Office	66	Minor cost overruns
Miscellaneous	17,238	Various year-end adjustments

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Legal Matters

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

NOTE 7 – 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 Water Fund and Sewer Fund. 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.

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

The District's attorney estimates that the amount of actual or potential claims against the District as of June 30, 2016 will not materially affect the financial condition of the District. Therefore, the funds contain no provision for estimated claims. Information relating to an analysis of claims activities for the year was not available.

**NOTE 8 – FORMATION OF AMERICAN VALLEY COMMUNITY SERVICE
AUTHORITY**

In October 1995, The East Quincy Services District formed a Joint Powers Authority (JPA) with the Quincy Community Services District to more effectively serve the residents of Quincy, California. The main task of the JPA is to oversee the joint use of the Quincy Community Services District Sewage Treatment Plant. The agreement will allow East Quincy Services District to use the sewage treatment plant for at least 40 years upon payment of a one-time investment of \$1.822 million. The payments for the investment were completed during the fiscal year ending June 30, 1997.

NOTE 9 – SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The District maintains enterprise funds, which provide water and sewer services. Segment information for the year ended June 30, 2016 is as follows:

	Water Services	Sewer Services
CONDENSED STATEMENT OF NET POSITION		
Assets:		
Current assets	\$ 33,415	\$ 404,976
Other assets	1,183,076	1,046,229
Capital assets	1,680,675	5,777,035
Total assets	2,897,166	7,228,240
Deferred outflows of resources:		
Recognition of contributions to pension plan	\$ 26,408	\$ 26,408
Liabilities:		
Current liabilities	\$ 43,484	\$ 138,419
Noncurrent liabilities	322,980	1,962,462
Total liabilities	\$ 366,464	\$ 2,100,881
Deferred inflows of resources:		
Recognition of pension plan earnings	\$ 19,530	\$ 19,530
Net Position:		
Net investments in capital assets	\$ 1,680,675	\$ 4,086,452
Unrestricted	856,905	733,490
Total net position	\$ 2,537,580	\$ 4,819,942

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

	Water Services	Sewer Services
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	\$ 481,827	\$ 832,614
Depreciation expense	(117,913)	(205,420)
Other operating expense	(436,469)	(839,824)
Operating income (loss)	\$ (72,555)	\$ (212,630)
Nonoperating revenues (expenses):		
Interest income	\$ 3,904	\$ 2,656
Property taxes	110,764	-
System facility fees	-	126,149
Interest expense	-	(87,075)
Change in net position	\$ 42,113	\$ (170,900)
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	\$ 74,474	\$ 12,678
Noncapital financing activities	110,764	-
Capital and related financing activities	4,803	(79,922)
Investing activities	3,904	2,656
Net increase (decrease)	193,945	(64,588)
Beginning cash and cash equivalents	989,131	1,110,817
	\$ 1,183,076	\$ 1,046,229

NOTE 10 – PENSION PLAN

Plan Description

The District, as the employer, participates in the cost-sharing, multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members, and beneficiaries. A full description of the pension plan benefit provisions, and assumptions for funding purposes can be obtained in Appendix B of the June 30, 2013 CalPERS actuarial evaluation report available at <https://www.calpers.ca.gov/page/forms-publications>.

Contributions

The contribution requirements of the Plan are established by Section 20814(c) of the California Public Employees' Retirement Law, which requires that employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

July 1 following notice of a change in the rate. For the measurement period ended June 30, 2014 the active employee contribution rate was 6.25%(PEPRA) and 7%(Misc) of annual pay, and the Districts contribution rate was 6.25% (PEPRA) and 18.5% (Misc). Contributions to the pension plan from the District were \$51,920 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a net pension liability of \$173,191 for its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The District's proportion of the net pension liability was based on the District's contributions received by the pension plan relative to the total contributions received by the pension plan for all participating employers as of June 30, 2014. Based upon this information, the District's proportion was .0077%.

For the year ended June 30, 2015, the District recognized pension expense of \$33,392. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and Actual Experience	\$ -	\$ -
Changes of Assumption	-	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	-
Adjustment due to Differences in Proportions	-	38,529
District Contributions Subsequent to the Measurement Date	39,892	10,790
Total	<u>\$ 39,892</u>	<u>\$ 49,319</u>

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

\$39,892 of contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2016	\$	13,485
2017		13,485
2018		12,716
2019		9,633
2020		-
Total	<u>\$</u>	<u>49,319</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Discount Rate:	7.50%
Inflation:	2.75%
Salary Increases:	Varies by Entry Age and Service
Investment Rate of Return:	7.50% net of Pension Plan Investment and Administrative Expenses
Mortality Rate Table:	Derived using CalPERS Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The table below reflects long-term expected real rates of return by asset class. The rate of return was calculated using the capital marked assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Asset Class	New Strategic Allocation	Real Return Years 1-10 ¹	Real Return years 11 + ²
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	12.00	6.83	6.95
Real Estate	11.00	4.50	5.13
Infrastructure and Forestland	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS' website under the GASB 68 section.

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

The following presents the net pension liability/(asset) of the Plan as of the measurement date using the discount rate of 7.50%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

(6.50%)	Current Rate (7.50%)	(8.50%)
\$ 293,947	\$ 175,275	\$ 77,297

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of CalPERS which can be located at <https://www.calpers.ca.gov/page/forms-publications>.

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB Statement No. 45, the recognition of post-employment benefits liability will be phased in over 30 years.

Plan Description and Eligibility Requirements

The District provides certain postretirement healthcare benefits, as established by board policy, to eligible employees who retire from the District based on standards determined by PERS.

The District pays health insurance premiums on behalf of pre-Medicare retirees at a rate of 45% of the cost.

All contracts with District employees will be renegotiated periodically in the future, thus costs and benefits are subject to change. Benefits and contribution requirements for the OPEB plan are established by various labor agreements.

For the District, OPEB benefits are administered by District personnel. No separate financial statements are issued.

Funding Policy

The District currently pays for post employment healthcare benefits on a pay-as-you-go basis. Due to the requirements of GASB No. 45, assets intended to fund future obligations are not considered to offset the unfunded benefit obligation until the assets are transferred to an irrevocable trust designed to pay for future OPEB obligations.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant actuarial methods and assumptions are as follows:

Plan Type	Single Employer
Actuarial Valuation Date	07/1/15
Alternative Measurement Method	Projected Unit
Amortization Method	Level Dollar
Remaining Amortization Period	25 Years

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Actuarial Assumptions:

Investment Rate of Return	4.0%
Projected Salary Increases	5.0%
Healthcare Inflation Rate	5.7%

The District has elected to calculate information of an actuarial nature using the alternative measurement method permitted by GASB Statement No. 43 for single-employer plans with fewer than one hundred employees.

Annual OPEB Cost and Net OPEB Obligations

The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

<u>Description</u>	<u>June 30, 2016</u>
Normal Cost (service cost for one year)	\$ 61,036
Amortization of Unfunded Actuarial Accrued Liability	22,395
Interest on Normal Cost and Amortization	<u>-</u>
Annual Required Contribution (ARC)	83,431
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	<u>(66,924)</u>
Annual OPEB Cost (Expense)	16,507
Contribution toward the OPEB Cost	<u>-</u>
Increase (Decrease) in Net OPEB Obligation	16,507
Net OPEB Obligation, Beginning of the Year	<u>454,176</u>
Net OPEB Obligation, End of the Year	<u>\$ 470,683</u>

Three year trend information will not be fully available until the third year that the District has adopted GASB Statement No. 45.

Funding Status and Funding Progress

The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

The funded status of the plan as of June 30, 2016 is as follows:

Actuarial Valuation Date	Value of Assets (a)	Liability (AAL) (b)	AAL (UAAL) b - a	Funded Ratio a/b	Covered Payroll (c)	Of Covered Payroll ((b - a)/c)
06/30/14	\$ -	\$ 498,015	\$ 498,015	0.00%	\$ 236,964	210.2%
06/30/15	\$ -	\$ 498,015	\$ 498,015	0.00%	\$ 259,463	191.9%
06/30/16	\$ -	\$ 470,683	\$ 470,683	0.00%	\$ 290,469	162.0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events in the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 16, 2016 which is the date the financial statements were available to be issued.

EAST QUINCY SERVICES DISTRICT
STATEMENT OF OPERATIONS - WATER FUND BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Operating Revenues:				
Utility Revenue	\$ 504,400	\$ 504,400	\$ 469,582	\$ (34,818)
Other Operating Revenue	3,200	3,200	12,245	9,045
Total Operating Revenue	<u>507,600</u>	<u>507,600</u>	<u>481,827</u>	<u>(25,773)</u>
Expenses:				
Salaries and Benefits	232,228	240,887	256,462	(15,575)
Insurance	14,000	14,000	15,320	(1,320)
Legal, Accounting and Professional Services	36,500	41,500	30,458	11,042
Utilities	80,000	80,000	66,068	13,932
Vehicles and Equipment	4,000	4,000	4,724	(724)
Permits and Fees	10,000	10,000	13,822	(3,822)
Depreciation			117,913	(117,913)
Repairs and Maintenance	46,000	51,000	16,715	34,285
Office	12,200	12,200	10,388	1,812
Director's Fees	2,200	2,200	2,284	(84)
Miscellaneous	14,250	14,250	20,228	(5,978)
Total Operating Expenses	<u>451,378</u>	<u>470,037</u>	<u>554,382</u>	<u>(84,345)</u>
Operating Income (Loss)	<u>56,222</u>	<u>37,563</u>	<u>(72,555)</u>	<u>(110,118)</u>
Non-Operating Revenue(Expense):				
Interest Income	2,500	2,500	3,904	1,404
Property Taxes	80,000	80,000	110,764	30,764
System Facility Fees	9,000	9,000	-	(9,000)
Total Non-Operating Revenues(Expenses)	<u>91,500</u>	<u>91,500</u>	<u>114,668</u>	<u>23,168</u>
Net Income (Loss)	<u>\$ 147,722</u>	<u>\$ 129,063</u>	<u>\$ 42,113</u>	<u>\$ (86,950)</u>

**EAST QUINCY SERVICES DISTRICT
STATEMENT OF OPERATIONS - SEWER FUND BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Operating Revenues:				
Utility Revenue	\$ 829,150	\$ 829,150	\$ 829,097	\$ (53)
Other Operating Revenue	1,100	1,100	3,517	2,417
Total Operating Revenue	<u>830,250</u>	<u>830,250</u>	<u>832,614</u>	<u>2,364</u>
Expenses:				
Salaries and Benefits	240,887	240,887	257,997	(17,110)
Insurance	15,000	15,000	15,320	(320)
Legal, Accounting and Professional Services	24,500	24,500	21,179	3,321
Utilities	18,000	18,000	18,131	(131)
Vehicles and Equipment	5,000	5,000	7,161	(2,161)
Permits and Fees	2,000	2,000	5,745	(3,745)
Depreciation			205,420	(205,420)
Sewage Treatment	466,317	466,317	465,340	977
Repairs and Maintenance	28,000	28,000	13,746	14,254
Office	11,200	11,200	11,266	(66)
Director's Fees	2,200	2,200	1,451	749
Miscellaneous	5,250	5,250	22,488	(17,238)
Total Operating Expenses	<u>818,354</u>	<u>818,354</u>	<u>1,045,244</u>	<u>(226,890)</u>
Operating Income (Loss)	<u>11,896</u>	<u>11,896</u>	<u>(212,630)</u>	<u>(224,526)</u>
Non-Operating Revenue(Expense):				
Interest Income	2,000	2,000	2,656	656
System Facility Fees	4,500	4,500	126,149	121,649
Interest Expense	-	-	(87,075)	(87,075)
Total Non-Operating Revenues(Expenses)	<u>6,500</u>	<u>6,500</u>	<u>41,730</u>	<u>35,230</u>
Net Income (Loss)	<u>\$ 18,396</u>	<u>\$ 18,396</u>	<u>\$ (170,900)</u>	<u>\$ (189,296)</u>

**SCHEDULE OF THE EAST QUINCY SERVICES DISTRICT'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM
(MISCELLANEOUS PLAN)**

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
District's Proportion of the Net Pension Liability/(Asset)	0.0077%	0.0063%
Districts Proportionate Share of the Net Pension Liability/(Asset)	\$ 173,137	\$ 173,008
District's Covered-Employee Payroll	\$ 195,939	\$ 187,164
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	88.36%	92.44%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's total Net Pension Liability	74.78%	79.28%

Notes to Schedule:

Only two fiscal years of data are presented because 10-year data is not yet available.

**SCHEDULE OF THE EAST QUINCY SERVICES DISTRICT'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM
(PEPRA PLAN)**

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
District's Proportion of the Net Pension Liability/(Asset)	.00000%	.000083%
District's Proportionate Share of the Net Pension Liability/(Asset)	\$ 55	\$ 2,267
District's Covered-Employee Payroll	\$ 59,535	\$ 44,188
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	0.09%	5.13%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's total Net Pension Liability	83.13%	145.01%

Notes to Schedule:

Only two fiscal years of data are presented because 10-year data is not yet available.

**EAST QUINCY SERVICES DISTRICT'S
SCHEDULE OF DISTRICT CONTRIBUTIONS
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM
(MISCELLANEOUS PLAN)**

	<u>Fiscal Year 2013-14</u>	<u>Fiscal Year 2014-15</u>
Actuarially Determined Contribution	\$ 30,690	\$ 34,480
Actual Contributions	<u>(37,013)</u>	<u>(26,128)</u>
Contribution Deficiency (Excess)	<u>\$ (6,323)</u>	<u>\$ 8,352</u>
Covered Employee Payroll	\$ 195,939	\$ 187,164
Contributions as a Percentage of Covered-Employee Payroll	18.89%	13.96%

Notes to Schedule:

Only two fiscal years of data are presented because 10-year data is not yet available.

**EAST QUINCY SERVICES DISTRICT'S
SCHEDULE OF DISTRICT CONTRIBUTIONS
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM
(PEPRA PLAN)**

	<u>Fiscal Year 2013-14</u>	<u>Fiscal Year 2014-15</u>
Actuarially Determined Contribution	\$ 2,702	\$ 3,762
Actual Contributions	<u>(2,879)</u>	<u>(6,129)</u>
Contribution Deficiency (Excess)	<u>\$ (177)</u>	<u>\$ (2,367)</u>
Covered Employee Payroll	\$ 59,353	\$ 44,188
Contributions as a Percentage of Covered-Employee Payroll	4.85%	13.87%

Notes to Schedule:

Only two fiscal years of data are presented because 10-year data is not yet available.

**INDEPENDENT AUDITOR'S 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
East Quincy Services District
Quincy, CA

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 business-type activities, each major fund, and the aggregate remaining fund information of East Quincy Services District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 16, 2016.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal

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control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. See Findings 2016-1 to 2016-3.

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 16, 2016

**EAST QUINCY SERVICES DISTRICT
COMBINED SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

EXECUTIVE SUMMARY

East Quincy Services District provides water and sewer services to residential and commercial customers within the boundaries of the District. The quality of the District's internal controls is highly dependent upon involvement in the day to day operations by the District 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:** 3 Material Weaknesses.
3. **Material Noncompliance Noted:** None.

**EAST QUINCY SERVICES DISTRICT
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

**YELLOW BOOK SECTION
Material Weakness**

Finding 2016-1 Lack of Segregation of Duties

Criteria Upon which Audit Finding is Based (Legal Citation)

Internal Control Standards

Findings (Conditions)

An inadequate segregation of duties exists. The District does not have sufficient staff to separate the authorization, recording and custody functions as would be required in an ideal system of internal controls.

Amount Of Questioned Cost, How Computed And Prevalence

None

Effect

The District has the risk of financial statement misstatement and the potential risk of fraud that may not be prevented or detected by the District's system of internal control

Cause

Due to the number of 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 maintain diligence for the risks of not having an adequate segregation of duties.

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 responsibility 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.

**EAST QUINCY SERVICES DISTRICT
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

**YELLOW BOOK SECTION
Material Weakness**

Finding 2016-2 Financial Reporting

Criteria Upon which Audit Finding is Based (Legal Citation)

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).

Findings (Conditions)

Similar to many other California special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, footnote disclosures, and management's discussion and analysis 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.

Recommendation

We recommend that the District obtain an outside CPA, very familiar with governmental accounting to help maintain the District's financial records and 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

**EAST QUINCY SERVICES DISTRICT
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

**YELLOW BOOK SECTION
Material Weakness**

Finding 2016-3 Reconciliation of the Utility Billing System to the General Ledger

Criteria Upon Which Audit Finding Is Based (Legal Citation)

Internal Control Standards

Findings (Conditions)

The amount of utility revenue posted to the utility billing system does not reconcile with the utility revenue in the general ledger.

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

The District has been unable to get enough help from the software vendor to produce reports that will help the District reconcile revenue on the general ledger to the utility billing system.

Recommendation

The District should develop a system of reconciling revenue on the general ledger to the utility billing system. The District should consider getting help from the software vendor and reconciling short periods of time until a pattern is determined for any discrepancies.

District's Response

The District concurs with this finding.

**EAST QUINCY SERVICES DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2016**

Finding 2015-1

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

Status - Not implemented. See current year finding 2016-1.

Finding 2015-2

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 - Not implemented. See current finding 2016-2.

Finding 2015-3

The amount of utility revenue posted to the utility billing system does not reconcile with the utility revenue in the general ledger.

Status - Not implemented. See current year finding 2016-3.

**EAST QUINCY SERVICES DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2016**

Person Monitoring Corrective Action Plan
General Manager, Mike Green

Finding 2016-1 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 2016-2 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

**EAST QUINCY SERVICES DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2016**

Finding 2016-3 Reconciliation of the Utility Billing System to the General Ledger

Finding (Condition)

The amount of utility revenue posted to the utility billing system does not reconcile with the utility revenue in the general ledger.

Corrective Action Planned

The District's staff is continuing efforts to rectify the problem.

Expected Completion Date

June 30, 2017.