

EAST QUINCY SERVICES DISTRICT

**AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 2018**

EAST QUINCY SERVICES DISTRICT
Audit Report
JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page No</u>
<u>Financial Section</u>	
Independent Auditor's Report on Financial Statements	1
Management's Discussion and Analysis (Required Supplementary Information)	3
<u>Basic Financial Statements</u>	
Government-wide Statement of Net Position	9
Government-wide Statement of Activities	10
<u>Fund Financial Statements</u>	
Statement of Net Position – Proprietary Funds	11
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	12
Statement of Cash Flows - Proprietary Funds	13
Notes to Financial Statements	14
<u>Required Supplementary Information</u>	
Schedule of District's Proportionate Share of Net Pension Liability	32
Schedule of District's Pension Contributions	33
Schedule of District's Proportionate Share of Net OPEB Liability	34
Schedule of District's OPEB Contributions	35
<u>Other Supplementary Information</u>	
Statement of Operations – Water Fund Budget and Actual	36
Statement of Operations – Sewer Fund Budget and Actual	37
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38
Combined Schedule of Findings and Responses	40
Summary Schedule of Prior Year Audit Findings	44
Corrective Action Plan	45

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, 2018, 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.

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

Susanville:

1740 Main Street, Suite A, Susanville, CA 96130
530.257.1040 Fax: 530.257.8876

sa@sa-cpas.com
www.sa-cpas.com

Chester:

PO Box 795, Chester, CA 96020
530.258.2272 Fax: 530.258.2282

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, 2018, 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, the Schedules of District Contributions, the Schedule of the District's Proportionate Share of the Net OPEB Liability, Schedule of District OPEB Contributions, and Schedule of Changes in the District's Total OPEB Liability and Related Ratios, 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 February 4, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully Submitted,



Singleton Auman PC

Susanville, CA

February 4, 2019

EAST QUINCY SERVICES DISTRICT
Management's Discussion and Analysis (MD&A)
June 30, 2018

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, 2018. 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 \$7,383,234 at June 30, 2018. This was a increase of \$51,973 from the prior year.
- ❑ Overall revenues were \$1,671,996 which were more than expenses of \$1,620,023 by \$51,973.
- ❑ The total cost of the District's programs decreased by \$157,488 from last year.
- ❑ Long Term Debt has decreased by \$208,902.

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 position, the difference between the assets and liabilities, is one way to measure the District's financial health or position.

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

The government-wide financial statements of the District include business-type activities. Most of the District's basic services are included here, such as water 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 \$7,383,234 at June 30, 2018. See Table 1.

**Table 1:
Net Position**

	2018	2017	2018-2017
Assets			
Cash	\$ 312,762	\$ 191,509	63.31%
Accounts Receivable	134,246	127,475	5.31%
Prepaid Interest	13,544		
American Valley Deposit	250,000		
Cash Reserves	1,979,134	2,135,171	-7.31%
Capital Assets, Net of Accumulated Depreciation	6,823,263	7,139,669	-4.43%
TOTAL ASSETS	\$ 9,512,949	\$ 9,593,824	-0.84%
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Recognition of Contributions to Pension Plan	\$ 131,592	\$ 93,228	41.15%
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 1,259	\$ 63,138	-98.01%
Utility Deposits	-	16,982	-100.00%
Accrued Payroll Liabilities	30,401	16,531	83.90%
Current Portion of Long-Term Debt	59,600		#DIV/0!
Total Current Liabilities	91,260	96,651	-5.58%
Long Term Liabilities:			
Net OPEB Obligations	427,759	554,115	-22.80%
Note Payable	1,469,481	1,585,681	-7.33%
Net Pension Liability	258,421	224,463	15.13%
Total Long Term Liabilities	2,155,661	2,364,259	
TOTAL LIABILITIES	\$ 2,246,921	\$ 2,460,910	-8.70%
DEFERRED INFLOWS OF RESOURCES			
Deferred Recognition of Pension Plan Earnings	\$ 14,386	\$ 76,494	-81.19%
Net Position			
Net Investment in Capital Assets	\$ 5,294,182	\$ 5,553,988	-4.68%
Unrestricted	2,089,052	1,595,660	30.92%
TOTAL NET POSITION	\$ 7,383,234	\$ 7,149,648	

Changes in Net Position

The District's total revenues were \$1,671,996. A majority of the revenue comes from Utility Sales (84%). Property taxes accounted for 6.3% of total revenues.

The total cost of all programs and services was \$1,620,023.

**Table 2:
Changes in Net Position**

	Business-Type Activities		Total Percentage
	2018	2017	Change 2018-2017
Revenues			
Program Revenues:			
Charges for Services	\$ 1,412,562	\$ 1,325,242	6.59%
Capital Grants and Contributions	121,037	130,182	-7.02%
General Revenues			
Property Taxes	105,647	102,405	3.17%
Interest Income	32,750	11,804	177.45%
TOTAL REVENUES	<u>1,671,996</u>	<u>1,569,633</u>	6.52%
Program Expenses			
Water	527,973	633,208	-16.62%
Sewer	1,392,050	1,144,303	21.65%
TOTAL EXPENSES	<u>1,620,023</u>	<u>1,777,511</u>	-8.86%
INCREASE (DECREASE) IN NET POSITION	<u>\$ 51,973</u>	<u>\$ (207,878)</u>	125.00%

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 \$105,647.

Most of the costs were paid directly from people who directly benefited from the programs of \$1,412,562 or by grants and contributions of \$121,037.

**Table 3
Net Cost of Business-Type Activities**

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Water	\$ 527,973	\$ 633,208	\$ 13,116	\$ (146,202)
Sewer	1,092,050	1,144,304	(73,308)	(175,886)
TOTAL	<u>\$ 1,620,023</u>	<u>\$ 1,777,512</u>	<u>\$ (60,192)</u>	<u>\$ (322,088)</u>

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 \$7,383,234.

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 of 2018. 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, 2018, the District had invested \$6,823,263 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		Total Percentage
	2018	2017	Change
			2018-2017
Land and Easements	\$ 203,396	\$ 203,396	0.00%
Water System	3,747,125	3,760,378	-0.35%
Sewer System	9,556,148	9,564,261	-0.08%
Totals at Historical Cost	13,506,669	13,528,035	-0.16%
Total Accumulated Depreciation	(6,683,406)	(6,388,367)	4.62%
NET CAPITAL ASSETS	\$ 6,823,263	\$ 7,139,668	-4.43%

The District has not budgeted for any capital assets for the coming fiscal year.

Long-Term Debt

At year end, the District had \$2,153,361 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
	2018	2017	Change 2018-2017
USDA Loan	\$ 1,469,481	\$ 1,585,681	-7.33%
Net OPEB Obligation	427,759	554,115	-22.80%
Net Pension Liability	258,421	224,467	15.13%
TOTAL LONG-TERM DEBT	\$ 2,155,661	\$ 2,364,263	-8.82%

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:

Consolidation with the Quincy Community Services District

The District and the Quincy Community Services District are in the process of merging and forming a new community service district to be known as the American Valley Community Service District. This merger was completed as of June 30, 2018. The financial effect of the merger cannot be estimated at this time.

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
(530) 283-2390

EAST QUINCY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS	Business-Type Activities
	Water and Sewer Funds
Current Assets:	
Cash on Hand and in Banks	\$ 312,762
Accounts Receivable	134,246
Prepaid Interest	13,544
American Valley Deposit	250,000
Total Current Assets	710,552
Other Assets:	
Cash - System Facility Reserves	1,979,134
Total Other Assets	1,979,134
Property, Plant & Equipment, Net:	6,823,263
Total Assets	\$ 9,512,949
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Recognition of Contributions to Pension Plan	\$ 131,592
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 1,259
Accrued Payroll and Related Liabilities	30,401
Current Portion of Long Term Debt	59,600
Total Current Liabilities	91,260
Long Term Liabilities:	
Bonds Payable	1,469,481
OPEB Obligations	427,759
Net Pension Liability	258,421
Total Long Term Liabilities	2,155,661
Total Liabilities	\$ 2,246,921
DEFERRED INFLOWS OF RESOURCES	
Deferred recognition of Pension Plan Earnings	\$ 14,386
NET POSITION	
Net Investment in Capital Assets	\$ 5,294,182
Unrestricted	2,089,052
Total Net Position	\$ 7,383,234

The accompanying notes are an integral part of this statement.

**EAST QUINCY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2018**

		Program Revenue			
	Expenses	Charges For Services	Capital Grants and Contributions		Net (Expense) Revenue and Changes in Net Assets
<u>Business-Type Activities</u>					
Water	\$ 527,973	\$ 514,857	\$ -	\$	(13,116)
Sewer	1,092,050	897,705	121,037		(73,308)
Total Business-Type Activities	\$ 1,620,023	\$ 1,412,562	\$ 121,037		(86,424)

General Revenues:

Property Taxes Levied for General Purpose	105,647
Interest Earnings	32,750
Total General Revenue	138,397

Change in Net Position 51,973

Net Position - Beginning, as restated (Note 11)	7,331,261
Net Position - Ending	\$ 7,383,234

The accompanying notes are an integral part of this statement.

EAST QUINCY SERVICES DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2018

ASSETS	Business-Type Activities		Total
	Water Fund	Sewer Fund	
Current Assets:			
Cash on Hand and in Banks		\$ 312,762	\$ 312,762
Accounts Receivable	51,187	83,059	134,246
Prepaid Interest		13,544	13,544
American Valley Deposit	75,000	175,000	250,000
Total Current Assets	126,187	584,365	710,552
Other Assets:			
Cash - System Facility Reserves	1,305,386	673,748	1,979,134
Total Other Assets	1,305,386	673,748	1,979,134
Property, Plant & Equipment, Net:	1,450,137	5,373,126	6,823,263
Total Assets	\$ 2,881,710	\$ 6,631,239	\$ 9,512,949
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Recognition of Contributions to Pension Plan	\$ 64,097	\$ 67,495	\$ 131,592
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 1,259		\$ 1,259
Accrued Payroll and Related Liabilities	17,483	12,919	30,401
Current Portion of Long Term Debt	-	59,600	59,600
Total Current Liabilities	18,742	72,519	91,260
Long Term Liabilities:			
Bonds Payable		1,469,481	1,469,481
Net OPEB Obligation	213,880	213,879	427,759
Net Pension Liability	127,068	131,353	258,421
Total Liabilities	\$ 359,690	\$ 1,887,232	\$ 2,246,921
DEFERRED INFLOWS OF RESOURCES			
Deferred Recognition of Pension Plan Earnings	\$ 6,429	\$ 7,957	\$ 14,386
NET POSITION			
Net Investment in Capital Assets	\$ 1,450,137	\$ 3,844,045	\$ 5,294,182
Unrestricted	1,129,552	959,501	2,089,052
Total Net Position	\$ 2,579,689	\$ 4,803,546	\$ 7,383,234

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, 2018

	Water <u>Fund</u>	Sewer <u>Fund</u>	<u>Total</u>
Operating Revenues:			
Utility Revenue	\$ 507,968	\$ 887,767	\$ 1,395,735
Other Operating Revenue	6,889	9,938	16,827
Total Operating Revenue	<u>514,857</u>	<u>897,705</u>	<u>1,412,562</u>
Expenses:			
Salaries and Benefits	251,542	221,630	473,172
Insurance	10,185	10,185	20,370
Legal, Accounting and Professional Services	20,923	16,762	37,685
Utilities	68,948	17,476	86,424
Vehicles and Equipment	4,549	5,825	10,374
Permits and Fees	6,933	5,186	12,119
Depreciation	115,733	204,852	320,585
Sewage Treatment		480,647	480,647
Repairs and Maintenance	10,450	10,918	21,368
Office	14,460	9,856	24,316
Director's Fees	3,316	3,275	6,591
Miscellaneous	20,934	24,017	44,951
Total Operating Expenses	<u>527,973</u>	<u>1,010,629</u>	<u>1,538,602</u>
Operating Income (Loss)	<u>(13,116)</u>	<u>(112,924)</u>	<u>(126,040)</u>
Non-Operating Revenues and Expenses:			
Interest Income	20,920	11,830	32,750
Property Taxes	105,647		105,647
System Facility Fees		121,037	121,037
Interest Expense	-	(81,421)	(81,421)
Total Non-Operating Revenues and Expenses	<u>126,567</u>	<u>51,446</u>	<u>178,013</u>
Change in Net Position	<u>\$ 113,451</u>	<u>\$ (61,478)</u>	<u>\$ 51,973</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, 2018

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 468,015	\$ 920,796	\$ 1,388,811
Cash Payments to Employees	(248,572)	(221,786)	(470,358)
Cash Payments to Suppliers for Goods and Services	(176,788)	(643,480)	(820,268)
Net Cash Provided (used) by Operating Activities	<u>42,655</u>	<u>55,530</u>	<u>98,185</u>
Cash Flows from Non-Capital Financing Activities:			
Property Taxes	105,647	-	105,647
Net Cash Provided (used) by Non-Capital Financing Activities	<u>105,647</u>	<u>-</u>	<u>105,647</u>
Cash Flows from Capital and Related Financing Activities:			
Purchases of Fixed Assets		(11,007)	(11,007)
Disposition of Fixed Assets		6,826	
Interfund Loans	(162,308)	162,308	
American Valley Deposit	(75,000)	(175,000)	(250,000)
Principal Payments on Long-term Debt		(56,600)	(56,600)
Interest Payments on Long-term Debt		(81,421)	(81,421)
Proceeds from Special Assessment	-	121,037	121,037
Net Cash Provided (used) by Capital Financing Activities	<u>(237,308)</u>	<u>(33,857)</u>	<u>(277,991)</u>
Cash Flows from Investing Activities:			
Interest Received	20,920	11,830	32,750
Net Cash Provided (used) by Investing Activities	<u>20,920</u>	<u>11,830</u>	<u>32,750</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(68,086)	33,503	(34,583)
Cash and Cash Equivalents:			
Balance - July 1	<u>1,373,472</u>	<u>953,007</u>	<u>2,326,479</u>
Balance - June 30	<u>\$ 1,305,386</u>	<u>\$ 986,510</u>	<u>\$ 2,291,896</u>
Reconciliation:			
Operating Income (Loss)	\$ (13,116)	\$ (112,924)	\$ (126,040)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	115,733	204,852	320,585
(Increase)/Decrease in Accounts Receivable	(28,943)	22,174	(6,769)
(Increase)/Decrease in Prepaid Interest		(13,544)	
(Increase)/Decrease in Deferred Outflows	(18,864)	(19,500)	(38,364)
Increase/(Decrease) in Accounts Payable	(16,090)	(45,789)	(61,879)
Increase/(Decrease) in Utility Deposits	(17,899)	917	(16,982)
Increase/(Decrease) in Net OPEB Obligation	27,629	27,628	55,257
Increase/(Decrease) in Net Pension Liability	16,517	17,641	34,158
Increase/(Decrease) in Payroll Liabilities	8,227	5,644	13,871
Increase/(Decrease) in Deferred Inflows	<u>(30,539)</u>	<u>(31,569)</u>	<u>(62,108)</u>
Net Cash Provided (used) by Operating Activities	<u>\$ 42,655</u>	<u>\$ 55,530</u>	<u>\$ 111,729</u>

The accompanying notes are an integral part of this statement.

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District provides water and sewer services to approximately 925 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, 2018**

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, 2018**

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 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. 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, 2018

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, 2018**

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>1,006,755</u>
 Total Unrestricted Net Position	 <u>\$ 1,962,696</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, 2018**

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 6/30/17</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance 6/30/18</u>
Land and Easements	\$ 203,396			\$ 203,396
Water System	3,760,378		(13,253)	3,747,125
Sewer System	9,564,261	11,007	(19,120)	9,556,148
	<u>13,528,035</u>	<u>11,007</u>	<u>(32,373)</u>	<u>13,506,669</u>
Accumulated Depreciation	<u>(6,388,367)</u>	<u>(320,586)</u>	<u>25,547</u>	<u>(6,683,406)</u>
Property, Plant and Equipment, Net	<u>\$ 7,139,668</u>	<u>\$ (309,579)</u>	<u>\$ (6,826)</u>	<u>\$ 6,823,263</u>

Depreciation was charged to functions as follows:

Water	\$ 115,733
Sewer	<u>204,853</u>
Total	<u>\$320,586</u>

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 – BONDS PAYABLE

Long Term Debt is summarized as follows:

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
	<u>6/30/17</u>			<u>6/30/18</u>
5.125% Series 1996 USDA Improvement Bonds, \$2,400,020 Original Issue, Semi-Annual Payments of Principal and Interest	\$ 1,585,681		\$ 56,600	\$ 1,529,081
Total Bonds Payable	<u>\$ 1,585,681</u>	\$ -	<u>\$ 56,600</u>	<u>1,529,081</u>
Less Current Portion				<u>(59,600)</u>
Long-Term Portion of Bonds Payable				<u>\$ 1,469,481</u>

Debt service requirements on long term debt at June 30, 2018 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	59,600	78,365	137,965
2020	61,800	75,311	137,111
2021	65,100	72,144	137,244
2022	68,600	68,807	137,407
2023-2027	312,100	238,139	550,239
2028-2032	488,200	198,953	687,153
2032-2036	473,681	61,096	534,777
Totals	<u>\$ 1,529,081</u>	<u>\$ 792,815</u>	<u>\$ 2,321,896</u>

NOTE 5 – EXCESS OF EXPENSES OVER APPROPRIATIONS

<u>Appropriations Category</u>	<u>Amount</u>	<u>Explanation</u>
Water Fund:		
Office	\$ 3,960	Minor cost overruns
Depreciation	115,733	The District does not budget for Depreciation
Director's Fees	816	Minor cost overruns
Sewer Fund:		
Permits and Fees	2,586	Minor cost overruns
Depreciation	204,852	The District does not budget for Depreciation
Director's Fees	775	Minor cost overruns

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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.

The District's attorney estimates that the amount of actual or potential claims against the District as of June 30, 2018, 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.

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

**NOTE 8 – FORMATION OF AMERICAN VALLEY COMMUNITY SERVICE
AUTHORITY (AND SUBSEQUENT MERGER AS OF JUNE 30, 2018)**

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.

Consolidation of the Two Districts

The East Quincy Service District and the Quincy Community Service District are in the process of merging and forming a new community service district to be known as the American Valley Community Service District. This merger was completed as of June 30, 2018. The financial effect of the merger cannot be estimated at this time.

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, 2018 is as follows:

	Water Services	Sewer Services
CONDENSED STATEMENT OF NET POSITION		
Assets:		
Current assets	\$ 126,187	\$ 584,365
Other assets	1,305,386	673,748
Capital assets	1,450,137	5,373,126
Total assets	\$ 2,881,710	\$ 6,631,239
Deferred outflows of resources:		
Recognition of contributions to pension plan	\$ 64,097	\$ 67,495
Liabilities:		
Current liabilities	\$ 18,742	\$ 72,519
Noncurrent liabilities	340,948	1,887,232
Total liabilities	\$ 359,690	\$ 1,959,751
Deferred inflows of resources:		
Recognition of pension plan earnings	\$ 6,429	\$ 7,957
Net Position:		
Net investment in capital assets	\$ 1,450,137	\$ 3,844,045
Unrestricted	1,129,552	959,501
Total net position	\$ 2,579,689	\$ 4,803,546

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

	Water Services	Sewer Services
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	\$ 514,857	\$ 897,705
Depreciation expense	(115,733)	(204,852)
Other operating expense	(412,240)	(805,777)
Operating income (loss)	\$ (13,116)	\$ (112,924)
Nonoperating revenues (expenses):		
Interest income	\$ 20,920	\$ 11,830
Property taxes	105,647	-
System facility fees	-	121,037
Interest expense	-	(81,421)
Change in net position	\$ 113,451	\$ (61,478)
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	\$ 42,655	\$ 55,530
Noncapital financing activities	105,647	-
Capital and related financing activities	(237,308)	(33,857)
Investing activities	20,920	11,830
Net increase (decrease)	(68,086)	33,503
Beginning cash and cash equivalents	1,373,472	953,007
Ending cash and cash equivalents	\$ 1,305,386	\$ 986,510

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 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 \$27,428 for the year ended June 30, 2018.

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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

At June 30, 2018, the District reported a net pension liability of \$258,421 for its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. 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, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$27,428. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflow of Resources
Changes of Assumptions	\$ 48,521	\$ 3,700
Differences Between Expected and Actual Experience	391	5,603
Differences Between Projected & Actual Investment Earnings	10,973	
Differences Between Employer's Contributions & Proportionate Share	11,689	
Change in Employer's Proportion	32,590	5,084
Pension Contributions Made Subsequent to Measurement Date	27,428	
Total	\$ 131,592	\$ 14,387

\$27,428 of contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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:

Year Ended June 30:

2019	\$ 38,097
2020	35,220
2021	22,976
2022	(6,515)
2023	-
Total	\$ 89,778

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10¹</u>	<u>Real Return years 11 +²</u>
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

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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 7.15%, 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 (6.15%) or 1 percentage point higher (8.15%) than the current rate:

	Discount Rate - 1% ↙ (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% ↘ (8.15%)
Plan's Net Pension Liability/(Asset)	\$ 418,361	\$ 258,421	\$ 125,956

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>.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The District provides certain postretirement healthcare benefits, as established by board policy, to eligible employees who satisfy the requirements for retirement under CalPERS (attained age 55 with 5 years of State or public agency service). This benefit creates the following types of OPEB liabilities:

Explicit subsidy liabilities: An "explicit subsidy" exists when the employer contributes directly toward the cost of retiree healthcare. In this program, the District pays a portion of retiree medical premiums for qualifying retirees.

Implicit subsidy liabilities: An "implicit subsidy" exists when the premiums charged for retiree coverage are lower than the expected retiree claims for that coverage. In the CalPERS medical program, the same monthly premiums are charged for active employees and for pre-Medicare retirees. CalPERS has confirmed that the claims experience of these members is considered together in setting premium rates.

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Authority to establish and amend the benefit terms and financing requirements lies with the District board of directors. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement NO. 75.

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.

The plan does not issue a standalone report.

Retiree Benefit Provisions

Medical coverage is currently provided through CalPERS as permitted under the Public Employees' Medical and Hospital Care Act (PEMHCA). This coverage requires the employee to satisfy the requirements for retirement under CalPERS, which requires attainment of age 50 (age 52, if a new miscellaneous member on or after January 1, 2013) with 5 years of State or public agency service or approved disability retirement.

The employee must begin his or her retirement benefit within 120 days of terminating employment with the District to be eligible to continue medical coverage through the agency and be entitled to the benefits described below. If an eligible employee is not already enrolled in the medical plan, he or she may enroll within 60 days of retirement, during any future open enrollment period or with a qualifying life event. *It is the timing of initiating retirement benefits and not timing of enrollment in the medical program which determines whether or not a District retiree qualifies for lifetime medical coverage and any benefits defined in the PEMHCA resolution.* Once eligible, coverage may be continued at the retiree's option for his or her lifetime. A surviving spouse and other eligible dependents may also continue coverage.

Benefits provided

As a PEMHCA employer, the District is obligated to contribute toward the cost of retiree medical coverage for the retiree's lifetime or until coverage is discontinued. The District maintains an "unequal" resolution with CalPERS (executed in 2002). This resolution defines the level of the District's contribution toward the cost of medical plan premiums for *active* employees to be the PEMHCA minimum employer contribution (MEC)¹. The MEC is \$133 per month in 2018 and will increase to \$136 per month in 2019. Under the unequal resolution, the District's contribution toward *retiree* medical benefits is determined by multiplying together the following three items:

- 5% *times*
- The number of prior years the employer has been contracted with PEMHCA *times*
- The contribution the employer makes towards active employee health benefits (i.e., the MEC).

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Thus, the District is obligated to contribute \$106.40 per month for any covered retiree during 2018, which will increase to \$115.60 during 2019.

District Funding Policy

The District's funding policy affects the calculation of liabilities by impacting the discount rate used to develop the plan liability and expense. "Pay-as-you-go" is the term used when an agency only contributes the required retiree benefits when due. When an agency finances retiree benefits on a pay-as-you-go basis, GASB 75 requires the use of a discount rate equal to a 20-year high grade municipal bond rate.

The District is currently financing its OPEB liability on a pay-as-you-go basis. With the District's approval, the discount rate used in this valuation is based on the S&P Municipal Bond 20 Year High Grade Index. As of the June 30, 2018 Measurement Date, use of this index results in a discount rate of 2.92%. This same discount rate is expected to be used to develop all liabilities for the current measurement period and those for the fiscal years ending June 30, 2019 and June 30, 2020.

The District has not set aside any funds to accumulate assets for future retiree obligations. Due to the requirements of GASB No. 75, 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.

At June 30, 2018, the following retirees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	0
Active Employees	<u>4</u>
Total Number of Participants	<u>4</u>

Actuarial Assumptions and Other Inputs

GASB 75 allows reporting liabilities as of any fiscal year end based on: (1) a *valuation date* no more than 30 months plus 1 day prior to the close of the fiscal year end; and (2) a *measurement date* up to one year prior to the close of the fiscal year. The following dates were used for the actuarial valuation:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
Measurement Period	June 30, 2017 to June 30, 2018
Fiscal Year End	June 30, 2018

The actuarial demographic assumptions (i.e. rates of retirement, death, disability or other termination of employment) used in the actuarial valuation were chosen, for the most part, to be the same as the actuarial demographic assumptions used for the most recent valuation of the

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

retirement plan(s) covering District employees. Other assumptions, such as age-related healthcare claims, healthcare trend, retiree participation rates and spouse coverage, were selected based on demonstrated plan experience and/or the best estimate of expected future experience. All these assumptions, and more, impact expected future benefits.

This actuarial valuation provides a projection of future results based on many assumptions. Actual results are likely to vary to some extent.

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumption and other inputs, applied to all periods including in the measurement unless otherwise specified.

Funding Method	Entry Age Normal Cost, Level % of Pay
Asset Valuation Method	Market Value of Assets (\$0, as Plan is not funded)
Salary Increases	3.25%
Discount Rate	2.92%
Participants Valued	Current active employees. Future entrants not considered
Healthcare Cost Trend Rates	8%, decreasing to 5% by 2025 and later
General Inflation Rate	2.75%

Other methods and assumptions were considered, such as mortality rates, termination rates, retirement rates, spouse coverage, etc ...

Total OPEB Liability

The District's total OPEB liability of \$427,760 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Schedule of changes in Net OPEB Liability and Related Ratios

Total OPEB Liability	
Service Cost	\$ 43,121
Employer Contributions during Fiscal Year	0
Interest Cost	12,136
Net Change in total OPEB liability	<u>55,257</u>
Total OPEB liability- beginning	<u>372,503</u>
Total OPEB liability- ending (a)	<u>\$ 427,760</u>
Plan Fiduciary Net Position	
Contributions – Employer	\$ 0
Benefit Payments	0
Net Change in Plan Fiduciary Net Position	<u>0</u>
Plan Fiduciary Net Position – beginning	0
Plan Fiduciary Net Position – ending (b)	<u>0</u>
Net OPEB Liability – ending (a) – (b)	<u>\$ 0</u>

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Schedule of OPEB Expense

Employer Contributions during Fiscal Year	\$ 0
Deterioration in Net Position	<u>55,257</u>
OPEB Expense	<u>\$ 55,257</u>

For the year ended June 30, 2018, the District recognized OPEB expense of \$55,257, \$27,628 to both the Water and Wastewater Funds.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presets the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1- percent point lower or 1- percentage- point higher than the current discount rate:

	<u>1% Decrease (1.92%)</u>	<u>Discount Rate (2.92%)</u>	<u>1% Increase (3.92%)</u>
Net OPEB Liability	\$ 491,668	\$ 427,760	\$ 374,685

Sensitivity of the net OPEB liability to change in the healthcare cost trend rates. The following presents the net OPEB liability, as well as what net OPEB liability would be if it were calculated using healthcare cost trend that are 1- percentage-point lower (5.300 percent decreasing to 4.0 percent) or 1- percentage- point higher (7.00 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	<u>1% Decrease (7.0% Decreasing to 4%)</u>	<u>Trend Rate (8% decreasing to 5%)</u>	<u>1% Increase (9.00% decreasing to 6%)</u>
Net OPEB Liability	\$ 347,733	\$ 427,760	\$ 562,151

Change in Accounting Principle and Prior Period Adjustment

In June 2015 The GASB Issued Statement No. 75 Accounting and Reporting for Postemployment Benefits Other Than Pensions (OPEB) which is effective for fiscal year beginning after June 15, 2017. The District has Implemented the provisions of this of this Statement for the year ended June 30, 2018.

The Statement requires numerous new OPEB disclosures in the notes to the financial statements and three new 10-year schedules as required supplementary information. Also, for the first time the District is required to recognize OPEB expense and a net OPEB liability for its proportionate shares of the collective OPEB expense. The reporting of these new amounts on the government-

**EAST QUINCY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

wide financial statements, along with the effect of the restatement of the beginning net position will affect the District's government- wide net position as follows:

	<u>June 30, 2017 Net Position as Previously Stated</u>	<u>GASB 75 Restatement</u>	<u>June 30, 2017 Net Position as Restated</u>
Business-Type Activities	\$ 7,149,648	\$ 181,613	\$ 7,331,261

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 4, 2019, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**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, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2018</u>
District's Proportion of the Net Pension Liability/(Asset)	0.0077%	0.0063%	0.0064%	0.0065%
Districts Proportionate Share of the Net Pension Liability/(Asset)	\$ 173,137	\$ 173,008	\$ 224,463	\$ 258,421
District's Covered-Employee Payroll	\$ 194,588	\$ 247,723	\$ 258,480	\$ 278,520
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	88.98%	69.84%	86.84%	92.78%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's total Net Pension Liability	74.78%	79.28%	75.75%	76.60%

Notes to Schedule:

Only four 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)**

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Actuarially Determined Contribution	\$ 30,690	\$ 34,480	\$ 37,545	\$ 27,428
Actual Contributions	<u>(37,013)</u>	<u>(26,128)</u>	<u>(42,328)</u>	<u>(27,428)</u>
Contribution Deficiency (Excess)	<u>\$ (6,323)</u>	<u>\$ 8,352</u>	<u>\$ (4,783)</u>	<u>\$ -</u>
Covered Employee Payroll	\$ 194,588	\$ 247,723	\$ 258,480	\$ 278,520
Contributions as a Percentage of Covered-Employee Payroll	19.02%	10.55%	16.38%	9.85%

Notes to Schedule:

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

EAST QUINCY COMMUNITY SERVICES DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

	Measurement Year Ended 2018
District's proportion of the collective net OPEB liability	100%
District's proportionate share of the collective net OPEB liability	<u>\$ 427,760</u>
Total	<u>\$ 427,760</u>
District's covered-employee payroll	\$ 293,012
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	145.99%
Plan fiduciary net position as a percentage of the total OPEB liability	N/A

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

EAST QUINCY COMMUNITY SERVICES DISTRICT
SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS

	Measurement Year Ended 2018
Statutorily or contractually required District contribution	\$ 55,257
Contributions recognized by OPEB in relation to statutorily or contractually required contribution	-
Contribution deficiency (excess)	\$ 55,257
District's covered-employee payroll	\$ 293,012
Contributions as a percentage of covered-employee payroll	18.86%

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

OTHER SUPPLEMENTARY INFORMATION

**EAST QUINCY SERVICES DISTRICT
STATEMENT OF OPERATIONS - WATER FUND BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
Operating Revenues:				
Utility Revenue	\$ 514,500	\$ 514,500	\$ 507,968	\$ (6,532)
Other Operating Revenue	3,300	3,300	6,889	3,589
Total Operating Revenue	<u>517,800</u>	<u>517,800</u>	<u>514,857</u>	<u>(2,943)</u>
Expenses:				
Salaries and Benefits	264,706	280,665	251,542	29,123
Insurance	14,000	16,000	10,185	5,815
Legal, Accounting and Professional Services	50,750	50,750	20,923	29,827
Utilities	80,500	80,700	68,948	11,752
Vehicles and Equipment	8,500	8,500	4,549	3,951
Permits and Fees	12,000	12,000	6,933	5,067
Depreciation			115,733	(115,733)
Repairs and Maintenance	40,000	40,000	10,450	
Office	9,000	10,500	14,460	(3,960)
Director's Fees	2,500	2,500	3,316	(816)
Miscellaneous	23,300	23,300	20,934	2,366
Total Operating Expenses	<u>505,256</u>	<u>524,915</u>	<u>527,973</u>	<u>(3,058)</u>
Operating Income (Loss)	<u>12,544</u>	<u>(7,115)</u>	<u>(13,116)</u>	<u>(6,001)</u>
Non-Operating Revenue (Expense):				
Interest Income	4,000	4,000	20,920	16,920
Property Taxes	80,000	80,000	105,647	25,647
System Facility Fees	7,200	7,200	-	(7,200)
Total Non-Operating Revenues (Expenses)	<u>91,200</u>	<u>91,200</u>	<u>126,567</u>	<u>35,367</u>
Net Income (Loss)	<u>\$ 103,744</u>	<u>\$ 84,085</u>	<u>\$ 113,451</u>	<u>\$ 29,366</u>

**EAST QUINCY SERVICES DISTRICT
STATEMENT OF OPERATIONS - SEWER FUND BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Operating Revenues:				
Utility Revenue	\$ 887,200	\$ 887,200	\$ 887,767	\$ 567
Other Operating Revenue	1,050	1,050	9,938	8,888
Total Operating Revenue	<u>888,250</u>	<u>888,250</u>	<u>897,705</u>	<u>9,455</u>
Expenses:				
Salaries and Benefits	214,464	230,342	221,630	8,712
Insurance	15,000	17,000	10,185	6,815
Legal, Accounting and Professional Services	42,050	42,050	16,762	25,288
Utilities	20,500	20,700	17,476	3,224
Vehicles and Equipment	7,000	7,000	5,825	
Permits and Fees	2,600	2,600	5,186	(2,586)
Depreciation			204,852	(204,852)
Sewage Treatment	525,000	527,000	480,647	46,353
Repairs and Maintenance	20,000	20,000	10,918	9,082
Office	8,000	10,500	9,856	644
Director's Fees	2,500	2,500	3,275	(775)
Miscellaneous	3,800	3,800	24,017	(20,217)
Total Operating Expenses	<u>860,914</u>	<u>883,492</u>	<u>1,010,629</u>	<u>(127,137)</u>
Operating Income (Loss)	<u>27,336</u>	<u>4,758</u>	<u>(112,924)</u>	<u>(117,682)</u>
Non-Operating Revenue (Expense):				
Interest Income	3,000	3,000	11,830	8,830
System Facility Fees	2,800	2,800	121,037	118,237
Interest Expense	-	-	(81,421)	(81,421)
Total Non-Operating Revenues (Expenses)	<u>5,800</u>	<u>5,800</u>	<u>51,446</u>	<u>45,646</u>
Net Income (Loss)	<u>\$ 33,136</u>	<u>\$ 10,558</u>	<u>\$ (61,478)</u>	<u>\$ (50,920)</u>

**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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 4, 2019.

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

Susanville:

1740 Main Street, Suite A, Susanville, CA 96130
530.257.1040 Fax: 530.257.8876

sa@sa-cpas.com
www.sa-cpas.com
- 38 -

Chester:

PO Box 795, Chester, CA 96020
530.258.2272 Fax: 530.258.2282

control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. See Findings 2018-1 to 2018-3.

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,



Singleton Auman PC
Susanville, CA
February 4, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**EAST QUINCY SERVICES DISTRICT
COMBINED SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

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, 2018**

**YELLOW BOOK SECTION
Material Weakness**

Finding 2018-1 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, 2018**

**YELLOW BOOK SECTION
Material Weakness**

Finding 2018-2 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, 2018**

**YELLOW BOOK SECTION
Material Weakness**

Finding 2018-3 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, 2018**

Finding 2017-1

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

Status - Not implemented. See current year finding 2018-1.

Finding 2017-2

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 2018-2.

Finding 2017-3

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 2018-3.

**EAST QUINCY SERVICES DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2018**

Person Monitoring Corrective Action Plan

General Manager, Mike Green

Finding 2018-1 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 2018-2 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, 2018**

Finding 2018-3 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, 2019.