

**HONEY LAKE VALLEY RESOURCE
CONSERVATION DISTRICT**

**AUDIT REPORT
JUNE 30, 2013**

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
JUNE 30, 2013**

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Honey Lake Valley Resource Conservation District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Honey Lake Valley Resource Conservation District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit 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 entity'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 entity'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Honey Lake Valley Resource Conservation District, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



SingletonAuman PC
Susanville, CA
June 19, 2014

HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Governmental Activities</u>
Assets	
Cash in Banks	\$ 246,308
Accounts Receivable	63,874
Capital Assets:	
Vehicles and Equipment, Net (Note 3)	<u>20,216</u>
Total assets	<u>330,398</u>
 Liabilities	
Accounts Payable	11,974
Deferred Revenue	<u>53,597</u>
Total liabilities	<u>65,571</u>
 Net Position	
Net Investment in Capital Assets	20,216
Restricted	156,957
Unrestricted	<u>87,654</u>
Total Net Position	<u>\$ 264,827</u>

The accompanying notes are an integral part of this statement.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Governmental Activities</u>	Expenses	Program Revenues Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Total Governmental Activities
Resource Conservation	\$ 373,932	\$ 64,787	\$ 275,655	\$ (33,490)
Watermaster	151,502	1,654	-	(149,848)
Total Governmental Activities	\$ 525,434	\$ 66,441	\$ 275,655	(183,338)
General Revenues:				
				98,141
				77
				98,218
				(85,120)
				349,947
				\$ 264,827

The accompanying notes are an integral part of this statement.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2013**

	<u>General Fund</u>	<u>Watermaster Fund</u>	<u>Total</u>
Assets			
Cash in Banks	\$ 91,213	\$ 155,095	\$ 246,308
Accounts Receivable	55,491	8,383	63,874
Total Assets	<u>\$ 146,704</u>	<u>\$ 163,478</u>	<u>\$ 310,182</u>
Liabilities and Fund Balance			
Liabilities:			
Accounts Payable	\$ 5,453	\$ 6,521	\$ 11,974
Deferred Revenue	53,597	-	53,597
Total Liabilities	<u>59,050</u>	<u>6,521</u>	<u>65,571</u>
Fund Balance:			
Restricted	-	156,957	156,957
Unassigned	87,654	-	87,654
Total Fund Balance	<u>87,654</u>	<u>156,957</u>	<u>244,611</u>
Total Liabilities and Fund Balance	<u>\$ 146,704</u>	<u>\$ 163,478</u>	<u>\$ 310,182</u>

The accompanying notes are an integral part of this statement.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balances - Governmental Funds	\$ 244,611
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds	<u>20,216</u>
Total Net Position - Governmental Activities	<u><u>\$ 264,827</u></u>

The accompanying notes are an integral part of this statement

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2013**

	General Fund	Watermaster Fund	Total
Revenue:			
Property Taxes	\$ -	\$ 98,141	\$ 98,141
Grant Revenue	275,655	-	275,655
Intergovernmental Revenue	9,814	-	9,814
Interest Income	34	43	77
Other Income	54,973	1,654	56,627
Total Revenue	<u>340,476</u>	<u>99,838</u>	<u>440,314</u>
Expenditures:			
Salaries	24,032	-	24,032
Contract Labor	-	112,459	112,459
Payroll Taxes	11,565	-	11,565
Insurance	3,740	3,740	7,480
Office Supplies	2,138	251	2,389
Grant Expenditures	282,437	-	282,437
CFDA Swat Expenditures	20,777	-	20,777
Professional Fees	18,387	10,864	29,251
Management Fees	-	9,814	9,814
Travel	2,009	-	2,009
Other Expenditures	3,236	14,054	17,290
Total Expenditures	<u>368,321</u>	<u>151,182</u>	<u>519,503</u>
Revenue Over (Under) Expenditures	<u>(27,846)</u>	<u>(51,344)</u>	<u>(79,190)</u>
Fund Balance, July 1	114,513	-	114,513
Prior Period Adjustment (Note 7)	986	208,302	209,288
Fund Balance, July 1, Restated	<u>115,499</u>	<u>208,302</u>	<u>323,801</u>
Fund Balance, June 30	<u>\$ 87,654</u>	<u>\$ 156,958</u>	<u>\$ 244,611</u>

The accompanying notes are an integral part of this statement.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUE AND EXPENDITURES
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2013**

Net Changes in fund balances - total governmental funds \$ (79,190)

Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:

The depreciation of capital assets used in governmental activities is not reported in the funds. (5,930)

Changes in net position of governmental activities - statement of activities \$ (85,120)

The accompanying notes are an integral part of this statement

HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Honey Lake Valley Resource Conservation District (District) is a special district established in 1954 in Lassen County by the State of California under provisions of Division 9 Chapter 3 of the California Public Resource Code. The District is responsible for soil conservation, water conservation, water distribution, flood control, erosion control, erosion prevention, or erosion stabilization projects, within or adjacent to the District's boundaries. The District was appointed as Watermaster effective January 1, 2007. Substantial funding for the District is from State and Federal Grants, and from property taxes levied on landowners within the District's Boundaries. Lassen County bills and collects the property taxes and subsequently remits the monies to the District.

The 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.

HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. 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 governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the district except those required to be accounted for in another fund.

Watermaster Fund: This is the program fund of the District. It represents resources restricted for the administration and management of the Watermaster Service, which was transferred from the Department of Water Resources.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

b. Measurement Focus, Basis of Accounting

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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.

3. Assets, Liabilities, and Equity

a. Deposits & Investments

Cash and investments are composed of the following amounts as of June 30, 2013:

	Restricted	Unrestricted	Total
Cash on hand and in banks	\$ 155,095	\$ 91,213	\$ 246,308

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

HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

b. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical 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. The District does not have a formal capitalization policy.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Vehicles	10
Office Equipment	4-7
Field Equipment	4-7

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

c. 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.

d. Budgetary Accounting

The District adopts its budget by July 1st of each year. Supplemental appropriations are adopted throughout the year as necessary.

e. Use of Estimates

The preparation of financial statements in conformity with Accounting Principles Generally Accepted in the United States of America requires the use of management's estimates. Actual results could differ from those estimates.

HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

f. 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 the 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 “invested in capital assets, net of related debt.”

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.

The District can assign balances for specific future uses; however, these assignments are not disclosed on the Statement of Net Position.

g. Equity Classifications

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spend because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the District’s governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Assigned Fund Balance – represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debts service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund’s primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

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

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 – CAPITAL ASSETS

A summary of changes in fixed assets follows:

	Balance <u>06/30/12</u>	<u>Additions</u>	<u>Dispositions</u>	Balance <u>06/30/13</u>
Equipment	\$ 27,328	\$ -	\$ -	\$ 27,328
Vehicles	11,435	-	-	11,435
	<u>38,763</u>	<u>-</u>	<u>-</u>	<u>38,763</u>
Accumulated Depreciation	<u>(12,617)</u>	<u>(5,930)</u>	<u>-</u>	<u>(18,547)</u>
Property, Plant and Equipment, Net	<u>\$ 26,146</u>	<u>\$ (5,930)</u>	<u>\$ -</u>	<u>\$ 20,216</u>

Depreciation was charged to funds as follows:

General Fund	<u>\$ 5,611</u>
Watermaster Fund	<u>\$ 319</u>
Total	<u>\$ 5,930</u>

NOTE 4 – COMMITMENTS AND CONTINGENCIES

Litigation

The District is currently involved in litigation, however any adverse outcomes are expected to be completely covered by the Districts liability insurance. In the opinion of management and legal council, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

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

HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 – RISK MANAGEMENT AND LITIGATION

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and customers; and natural disasters. The District has managed these risks by obtaining coverage from commercial insurance companies as well as providing employee education and prevention programs. All risk management activities are accounted for in the General 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, 2013 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 6 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 19, 2014, which is the date the financial statements were available to be issued.

NOTE 7 – PRIOR PERIOD ADJUSTMENT

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

Governmental Activities: In the Government-Wide and Governmental statements, unrestricted and restricted equity balances were improperly classified as deferred income. If reported correctly the balance reported as deferred income would have been allocated across unrestricted and restricted equity increasing Net Position by \$209,288.

	<u>Fund Balance As Previously Reported</u>	<u>Deferred Revenue Restatement</u>	<u>Fund Balance As Restated</u>
Governmental Activities:			
General Fund Balance	\$ 114,513	\$ 986	\$ 115,499
Watermaster Fund Balance	-	208,302	208,302
Total Fund Balance	<u>\$ 114,513</u>	<u>\$ 209,288</u>	<u>\$ 323,801</u>
	<u>Net Postion As Previously Reported</u>	<u>Deferred Revenue Restatement</u>	<u>Net Postion As Restated</u>
Governmental Activities			
Total Net Postion	\$ 140,659	\$ 209,288	\$ 349,947
Total Governmental Activities	<u>\$ 140,659</u>	<u>\$ 209,288</u>	<u>\$ 349,947</u>

OTHER SUPPLEMENTARY INFORMATION

**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
Honey Lake Valley Resource Conservation District
Susanville, CA 96130

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Honey Lake Valley Resource Conservation District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 19, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-1 to 2013-4 to be material weaknesses.

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

A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-1 to 2013-4 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the finding 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

June 19, 2014

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
COMBINED SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013**

EXECUTIVE SUMMARY

The Honey Lake Valley Resource Conservation District (District) is a special district established in 1954 in Lassen County by the State of California under provisions of Division 9 Chapter 3 of the California Public Resource Code. The District is responsible for soil conservation, water conservation, water distribution, flood control, erosion control, erosion prevention, or erosion stabilization projects, within or adjacent to the District's boundaries. The District was appointed as Watermaster effective January 1, 2007.

The quality of the District's internal controls is highly dependent upon involvement in the day to day operations by the District employees. 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:** Unqualified
2. **Internal Control Findings:** 4 Significant Deficiencies, 4 being Material Weaknesses.
3. **Material Noncompliance Noted:** None

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013**

**YELLOW BOOK SECTION
Internal Control – Material Weakness**

Finding 2013-1: Lack of Segregation of Duties

Criteria upon which audit finding is based (Legal Citation):

Yellow Book paragraphs 5.10 – 5.14 and Appendix I, SAS No. 122.

Finding (Condition):

An inadequate segregation of duties exists.

Amount of Questioned Cost, How Computed and Prevalence:

None.

Effect:

The Honey Lake Valley Resource Conservation District has exposure to risk of financial statement misstatement and the potential risk for fraud.

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 Honey Lake Valley Resource Conservation District employees and board maintain diligence for the potential 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 accountability of assets is separated. The District does however, believe that being aware of this weakness will insure that existing employees and District members will maintain diligence to potential risks of not having an adequate segregation of duties.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013**

**YELLOW BOOK SECTION
Internal Control – Material Weakness**

Finding 2013-2: Accounting Processes and Financial Statement Preparation

Criteria upon which audit finding is based (Legal Citation):

In accordance with Statement on Auditing Standards No. 122 (SAS 122), 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).

Finding (Condition):

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 significant and numerous 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 material financial statement misstatement during the fiscal year, which is not being corrected by the District, nor detected by the accounting systems and processes.

Cause:

The District has not devoted sufficient resources to ensuring that financial records are accurate. Specifically, the district does not account correctly for grant revenue, receivables, deferred revenue or accounts payable. A prior period adjustment of more than \$200k had to be recorded to properly report beginning fund balances.

Recommendation:

The District should consider how it might devote/reallocate sufficient resources to its accounting and financial reporting.

District's Response:

None.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013**

**YELLOW BOOK SECTION
Internal Control – Material Weakness**

Finding 2013-3: Noncompliance with Annual Budget, Apportionment and Collection Rules and Regulations

Criteria upon which audit finding is based (Legal Citation):

The Honey Lake Valley Resource Conservation District – Susan River Watermaster Rules and Regulations adopted pursuant to the Order granting Petition for Substitution of Susan River Watermaster and Modifying Decree Case No. 4573.

Finding (Condition):

The District has not complied with Article II, Administration, Section 2.20, Annual Administrative Budget or Article V, Budget Apportionment and Collection in its Rules and Regulations. These Articles provide the framework for timely preparing a meaningful budget, that is designed to act as form of control and serve as a financial planning tool. The Budget also proposes reserves for contingencies, as well as distribution of water and the associated costs of that distribution among water rights holders. The budget and an annual statement apportioning the amount of the budget among the water rights holders are required to be mailed to all the water rights holders and filed with the court before June 15th of each year. These procedures provide for a process whereby water rights holders may lodge their objections to the budget or apportionment.

Amount of Questioned Cost, How Computed and Prevalence:

None.

Effect:

The District has not complied with its Rules and Regulations, nor has the District provided water rights holders the appropriate process to lodge any objections to the distribution of water, annual budget or budget apportionment.

Cause:

The District did not adequately implement procedures to ensure that it complied with its Rules and Regulations adopted pursuant to the Judgement.

Recommendation:

The District should consider how it might devote/reallocate sufficient resources to maintaining compliance with its Rules and Regulations. District employees and contractors should be evaluated for their aptitude and held accountable for maintaining compliance with the Rules and Regulations.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013**

**YELLOW BOOK SECTION
Internal Control – Material Weakness**

Finding 2013-4: Board Leadership and Oversight

Criteria upon which audit finding is based (Legal Citation):

The Board of Directors is responsible for providing oversight to management personnel and contractors, and ensuring that internal controls are established and effective in protecting the financial health, funds, assets, and financial reporting systems. The Board is also responsible for maintaining compliance with applicable laws and regulations and making certain that resources are used for their specified purposes.

Finding (Condition):

There appears to have been a breakdown in leadership and oversight provided by the Board of Directors, which has resulted in several areas of non-compliance with Rules and Regulations, potential non-compliance with applicable laws and regulations, and general mismanagement.

1. The District was not approved for Grant funding due to the perceived ineffectiveness of the Board by the Grantor Agency.
2. Attorney Fees were paid from District funds for water rights holders legal fees. Even though the District may have received indirect future benefit from this, this could be considered a gift of public funds.
3. Contrary to Article II, Section 2.25 of the Rules and Regulations, attorney fees for the Watermaster were paid from the RCD General Fund.
4. A bank account was opened for the District by a individual Boardmember, without proper approval by the whole Board.
5. Equipment of an estimated value of more than \$2,000 was given to the Contracted Watermaster without going through the formal public surplus process.
6. The Watermaster Fund appears to be underpaying for the services which the RCD General Fund provides. A more appropriate charge for services would assist in reallocating resources to ensure compliance with Rules and Regulations and complete accounting processes more accurately.
7. The District has not implemented proper training and oversight to ensure that staff possesses an adequate understanding of accounting, financial reporting, and maintaining proper internal controls.

Amount of Questioned Cost, How Computed and Prevalence:

None.

Effect:

A fractured Board resulted in a breakdown in leadership and oversight.

Cause:

Boardmembers do not have a proper understanding of their roles and responsibilities as a governing body of a Special District which is subject to a Judicial Decree.

Recommendation:

We recommend that the Board obtain training to help them become more effective as the governing body.

District's Response:

None.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
(FINDINGS FROM THE JUNE 30, 2012 AUDIT REPORT)
JUNE 30, 2013**

There were no Findings reported in the June 30, 2012 Audit Report.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2013**

Persons Monitoring Corrective Action Plan

Board of Directors

Finding 2013-1: Lack of Segregation of Duties

Finding (Condition)

Due to the number of employees 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 District members will maintain diligence to potential risks of not having an adequate segregation of duties.

Expected Completion Date

Ongoing.

Finding 2013-2: Financial Statement Preparation

Finding (Condition)

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 significant and numerous adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Corrective Action Planned

Corrective Action Plan not indicated.

Expected Completion Date

Ongoing.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2013**

Finding 2013-3: Preparation of Annual Budget

Finding (Condition):

The District has not complied with Article II, Administration, Section 2.20, Annual Administrative Budget or Article V, Budget Apportionment and Collection in its Rules and Regulations. These Articles provide the framework for timely preparing a meaningful budget, that is designed to act as form of control and serve as a financial planning tool. The Budget also proposes reserves for contingencies, as well as distribution of water and the associated costs of that distribution among water rights holders. The budget and an annual statement apportioning the amount of the budget among the water rights holders are required to be mailed to all the water rights holders and filed with the court before June 15th of each year. These procedures provide for a process whereby water rights holders may lodge their objections to the budget or apportionment.

Corrective Action Planned

Corrective Action Plan not indicated.

Expected Completion Date

Ongoing.

Finding 2013-4: Understanding of GAAP

Finding (Condition):

There appears to have been a breakdown in leadership and oversight provided by the Board of Directors, which has resulted in several areas of non-compliance with Rules and Regulations, potential non-compliance with applicable laws and regulations, and general mismanagement.

1. The District was not approved for Grant funding due to the perceived ineffectiveness of the Board by the Grantor Agency.
2. Attorney Fees were paid from District funds for water rights holders legal fees. Even though the District may have received indirect future benefit from this, this could be considered a gift of public funds.
3. Contrary to Article II, Section 2.25 of the Rules and Regulations, attorney fees for the Watermaster were paid from the RCD General Fund.
4. A bank account was opened for the District by a individual Boardmember, without proper approval by the whole Board.
5. Equipment of an estimated value of more than \$2,000 was given to the Contracted Watermaster without going through the formal public surplus process.
6. The Watermaster Fund appears to be underpaying for the services which the RCD General Fund provides. A more appropriate charge for services would assist in reallocating

resources to ensure compliance with Rules and Regulations and complete accounting processes more accurately.

7. The District has not implemented proper training and oversight to ensure that staff possesses an adequate understanding of accounting, financial reporting, and maintaining proper internal controls.

Corrective Action Planned

Corrective Action Plan not indicated.

Expected Completion Date

Ongoing.