

**HONEY LAKE VALLEY RESOURCE  
CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018**

# HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT

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# LARRY BAIN, CPA

An Accounting Corporation

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Honey Lake Valley Resource Conservation District  
Susanville, California

We have audited the accompanying financial statements of the governmental activities and fund information which comprise the basic financial statements of Honey Lake Valley Resource Conservation District as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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.

## **Opinion**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and fund information of the Honey Lake Valley Resource Conservation District as of June 30, 2018, and the changes in financial position, of those activities and funds for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

## **Other Matters**

### *Required Supplementary Information*

The Honey Lake Valley Resource Conservation District has not presented the Management Discussion and Analysis or the Budget to Actual Schedule that the accounting principles generally accepted in the United States has determined are necessary to supplement, although not required to be part of, the basic financial statements.

## **Other Information**

The required supplementary information other than Management Discussion and Analysis, described as the budgetary comparison schedules in the table of contents on pages 16 and 17 are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), 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 July 15, 2019 on our consideration of the Honey Lake Valley Resource Conservation 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 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 Honey Lake Valley Resource Conservation District's internal control over financial reporting and compliance.



*Larry Bain, CPA  
An Accounting Corporation*

July 15, 2019

HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT

STATEMENT OF NET POSITION  
JUNE 30, 2018

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash and investments	\$ 264,322
Grant receivable	77,872
Total current assets	<u>342,194</u>
Capital assets:	
Equipment	38,428
Less: accumulated depreciation	<u>(35,570)</u>
Total Capital Assets	<u>2,858</u>
Total Assets	<u>\$ 345,052</u>
Liabilities	
Current liabilities	
Accounts payable	\$ 37,455
Accrued payroll	4,202
Unearned revenue	<u>26,395</u>
Total Current Liabilities	<u>68,052</u>
Net Position	
Net investment in capital assets	2,858
Unrestricted	<u>274,142</u>
Total Net Position	<u>\$ 277,000</u>

The notes to the financial statements are an integral part of this statement

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
			Total
Governmental Activities:			
Natural resource conservation	\$ 463,730	\$ 180,416	\$ 403,720
Total Governmental Activities	\$ 463,730	\$ 180,416	\$ 403,720
General Revenues:			
Investment income			86
Other			6,211
Total general revenues			6,297
Change in net position			126,703
Net position - beginning			70,029
Prior period adjustment			80,268
Net position - ending			\$ 277,000

The notes to the financial statements are an integral part of this statement

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	<u>General</u>	<u>Watermaster Fund</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>			
Cash	\$ 64,984	\$ 199,338	\$ 264,322
Grants receivable	77,872		77,872
Due from other funds	-	16,701	16,701
	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 142,856</u>	<u>\$ 216,039</u>	<u>\$ 358,895</u>
<b><u>Liabilities</u></b>			
Accounts payable	\$ 36,993	\$ 462	\$ 37,455
Accrued payroll		4,202	4,202
Unearned revenue	90,398		90,398
Due to other funds	16,701		16,701
	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>144,092</u>	<u>4,664</u>	<u>148,756</u>
<b><u>Fund Balances</u></b>			
Fund Balances			
Assigned to next years budget	9,086		9,086
Unassigned	(10,322)	211,375	201,053
	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>(1,236)</u>	<u>211,375</u>	<u>210,139</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities and Fund Balances	<u>\$ 142,856</u>	<u>\$ 216,039</u>	<u>\$ 358,895</u>

The notes to the financial statements are an integral part of this statement

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE**  
**SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET**  
**POSITION-GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2018**

Fund Balances of Governmental Funds	\$	210,139
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported int the funds.		2,858
Certain revenues advanced or received after 120 days from the year end are recorded as deferred revenue in the funds and as revenues in the government wide statement.		<u>64,003</u>
Net position of governmental activities	\$	<u><u>277,000</u></u>

The notes to the financial statements are an integral part of this statement



**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	General	Watermaster Fund	Total Governmental Funds
Revenues			
Intergovernmental	\$ 339,717	\$ -	\$ 339,717
Use of money and property	47	39	86
Charges for services	924	179,492	180,416
Other	6,211		6,211
Total Revenues	<u>346,899</u>	<u>179,531</u>	<u>526,430</u>
Expenditures			
Salaries and benefits	47,656	135,603	183,259
Services and supplies	253,392	25,935	279,327
Capital outlay			-
Total Expenditures	<u>301,048</u>	<u>161,538</u>	<u>462,586</u>
Net Change in Fund Balances	<u>45,851</u>	<u>17,993</u>	<u>63,844</u>
Fund Balances, July 1, 2017	<u>(59,778)</u>	<u>125,805</u>	<u>66,027</u>
Prior Period Adjustment	<u>12,691</u>	<u>67,577</u>	<u>80,268</u>
Fund Balances, June 30, 2018	<u>\$ (1,236)</u>	<u>\$ 211,375</u>	<u>\$ 210,139</u>

The notes to the financial statements are an integral part of this statement

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUND STATEMENT**  
**OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**TO THE STATEMENT OF ACTIVITIES**  
**JUNE 30, 2018**

Net Change in Fund Balances - Total Governmental Funds	\$ 63,844
<p>Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities. The costs of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:</p>	
Depreciation expense	(1,144)
<p>Certain revenues received after 90 days from the end of the fiscal year are recorded as deferred revenue in the funds and as revenues in the government wide statement.</p>	64,003
Change in net position of governmental activities	\$ 126,703

The notes to the financial statements are an integral part of this statement

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2018**

Note 1: Summary of Significant Accounting Policies

The Honey Lake Valley Resource Conservation District (District) was organized on 1954, under Chapter 3, Division 9 of the Public Resources Code of the State of California. 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 Watermaster Assessments levied on landowners within the District's Boundaries. Lassen County bills and collects the assessments and subsequently remits the monies to the District.

The accounting policies of the Honey Lake Valley Resource Conservation District conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The District has defined its reporting entity in accordance with U. S. generally accepted accounting principles, which provides guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The primary criterion for including a potential component unit within the reporting entity is the governing body's financial accountability. A primary governmental entity is financially accountable if it appoints a voting majority of a component unit's governing body and it is able to impose its will on the component unit, or if there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if a component unit is fiscally dependent on the primary governmental entity regardless of whether the component unit has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

No operations of other entities met the aforementioned oversight criteria for inclusion or exclusion from the accompanying financial statements in accordance with GASB Statement No. 61.

B. Basis of Accounting

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the primary government (District). These statements include the financial activities of the overall District.

The statement of activities presents a comparison between direct expenses and program revenues for the District's governmental activity. Direct expenses are those that are specifically associated with the District. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of the District. Revenues that are not classified as program revenues, including all taxes and investment income, are presented instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and 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.

When both restricted and unrestricted net position are available, unrestricted resources are used only after the restricted resources are depleted.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2018**

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting (Continued)

Fund Financial Statements

The fund financial statements provide information about the District's funds. Separate statements for each fund category are presented. At June 30, 2018, the District's fund is of the governmental fund type.

The governmental fund financial statements 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 to finance expenditures of the current period. A 90 day availability period is used for revenue recognition for governmental fund revenues. Revenues considered susceptible to accrual include intergovernmental revenues (grants), charges for services and interest revenues. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) value in exchange, include grants, entitlements and donations. On a modified accrual basis, revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied and the availability criteria has been met.

A fund reports deferred revenue on its balance sheet. Deferred revenues arise when potential revenue does not meet the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the fund before it has a legal claim to them, as when grant funding is received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the fund has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The District reports the following major governmental funds:

General Fund - This fund accounts for all the financial resources not required to be accounted for in another fund. This fund consists primarily of general government type activities.

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.

C. Basis of Accounting

The District records revenues when received and expenditures when paid. The District capitalizes and depreciates capital assets in accordance with Governmental Accounting Standards Board, GASB 34.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or as a reservation of fund balance. The District considers Watermaster assessments available if they are collected within sixty-days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt, as well as compensated absences and claims and judgments are recorded only when payment is due. General capital acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financial sources.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2018**

Note 1: Summary of Significant Accounting Policies (Continued)

D. Grants Receivable

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

E. Capital Assets

Capital assets have been acquired for general District purposes. Assets purchased are recorded as expenditures in the governmental funds and capitalized at cost or estimated cost where no historical records are available. The District defines capital assets as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Capital assets are depreciated using the straight-line method over their estimated useful lives. The useful lives are as follows:

General Plant/Structure	50 years
Vehicles	10 years
Office Equipment	5-7 years
Field Equipment	5-7 years

F. Fund Equity

The unassigned fund balances for governmental fund represents the amount available for budgeting future operations. Unrestricted net position represents the net position available for future operations.

Restrictions of fund balances of governmental funds are established to either (1) satisfy legal covenants that require a portion of fund balance to be segregated or (2) identify the portion of the fund balance that is not appropriate for future expenditures.

Restricted net position represents the net position legally identified for specific purposes.

G. Compensated Absences

The District's policy regarding compensated absences is to permit employees to accumulate long-term earned but unused vacation and sick leave. The liability for these compensated absences is recorded as debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absences liability payable from expendable available financial resources. The District includes its share of social security and medicare taxes payable on behalf of employees in the accrual for compensated absences.

H. Budgetary Reporting

The District prepares an annual operating and capital budget, which is approved and adopted by the Board of Directors. The budget serves as an approved plan to facilitate financial control and operational evaluation.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2018**

Note 2: Cash and Investments

Cash and investments at June 30, 2018, consisted of the following:

Cash and investments	\$ 264,322
Total cash and investments	\$ 264,322
Checking accounts	\$ 204,113
Money market accounts	60,209
Total cash and investments	\$ 264,322

A. Investments Authorized by the California Government Code

The District invests their funds in accordance with California Government Code sections 53600.6 and 53630.1.

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District investments are not subject to interest rate risk.

C. Concentrations of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. There are no investments to one issuer exceeding those limits.

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secured deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

The District maintains checking and money market accounts with tri counties bank for the purpose of depositing grant and assessment revenue from the county and for operations of the district. At June 30, 2018 the District's bank balance was \$208,653 and the carrying amount was \$264,322. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance \$250,000 was covered by the Federal Depository Insurance or by collateral held in the bank's trust department in the District's name.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2018**

Note 3: Capital Assets

A summary of changes in capital assets for the year ended June 30, 2018, is as follows:

	Balance 7/1/2017	Additions	Retirements/ Adjustments	Balance 6/30/2018
Equipment and vehicle	\$ 37,422	\$ -	\$ -	\$ 37,422
Total capital assets, being depreciated	37,422	-	-	37,422
Less accumulated depreciation	(33,420)	(1,144)		(34,564)
Governmental activities capital assets, net	<u>\$ 4,002</u>	<u>\$ (1,144)</u>	<u>\$ -</u>	<u>\$ 2,858</u>

Note 4: Interfund Transactions

During the course of operations, transactions occur between funds to account for goods received or services rendered. These receivables and payables are classified as due from or due to other funds. In addition, when funds overdraw their share of pooled cash, the receivables and payables are also classified as due from or due to other funds. The following are due from and due to balances as of June 30, 2018.

	Due to Other Funds	Due from Other Funds
General Fund	\$ 16,701	\$ -
Watermaster fund	-	16,701
Totals	<u>\$ 16,701</u>	<u>\$ 16,701</u>

Note 5: Net Position/Fund Balances

Net Position – Government-Wide Financial Statements

The government-wide financial statements utilize a net position presentation. Net position are categorized as net investment in capital assets, restricted and unrestricted.

- *Net Investment in Capital Assets* – This category groups all capital assets, into one component of net position. Accumulated depreciation and the outstanding balance of debt that are attributable to capital assets reduce the balance in this category.
- *Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents net position of the District, not restricted for any project or any other purpose.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2018**

Note 5: Net Position/Fund Balances (Continued)

Fund Balances – Governmental Funds

The District is required to comply with Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting. GASB 54 establishes fund balance classifications that comprise a hierarchy based on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. While the classifications of fund balance in the District's various governmental funds were revised, the implementation of this standard had no effect on total fund balance.

- *Nonspendable* – The fund balance includes those amounts that are not in a spendable form or are required to be maintained intact. The District has recorded prepaid expense as nonspendable fund balance.
- *Restricted* fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.
- *Committed* – The fund balance includes amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision-making authority. The District has no committed fund balance.
- *Assigned* – The fund balance includes amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official, or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. The District has assigned fund balance for next years budget.
- *Unassigned* – The fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

Note 6: Stewardship, Compliance and Accountability

A. Deficit Fund Balances/Net Position

The general fund had a deficit fund balance of \$1,236 at June 30, 2018. The deficit fund balance is expected to be eliminated upon receipt of funding from granting agencies.

B. Prior Period Adjustments

A prior period adjustment was made increasing beginning general fund, fund balance \$70,190 to recognize receivables that should have been accrued at June 30, 2017, and increased \$3,685.48 to adjust the checking account balance at June 30, 2017. Prior period adjustments were made reducing beginning general fund, fund balance \$53,481.91 to record accounts payable that should have been accrued at June 30, 2017 and to record an interfund payable due to the Watermaster fund for \$7,703.

A prior period adjustment was made increasing the Watermaster fund, fund balance \$648 to write off an accounts payable that did not exist at June 30, 2017, \$7,703 to recognize an interfund receivable due from the general fund at June 30, 2017, \$58,570.39 to recognize Watermaster fund fees that should have been accrued as accounts receivable at June 30, 2017, and \$655.93 to adjust the bank balance at June 30, 2017.

The beginning net position in the statement of activities increased \$128,760.39 to recognize accounts receivable that should have been recorded at June 30, 2017, increased \$4,341.41 to adjust the checking account balance at June 30, 2017, and decreased \$54,129.91 to recognize accounts payable that should have been accrued at June 30, 2017



**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2018**

Note 7: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is exposed to various risks of loss related to general liability and workers' compensation. Insurance for the District is secured through commercial insurance for both general liability and workers' compensation. Settlements have not exceeded insurance coverage in any of the last three years.

Note 8: Commitments and Contingencies

Grant Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time.

Contingent Liabilities

In the normal course of business, the District is subject to various lawsuits. Defense of lawsuits is typically handled by the District's insurance carrier and losses, if any, are expected to be covered by insurance.

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Intergovernmental	\$ 713,709	\$ 713,709	\$ 339,717	\$ (373,992)
Use of money			47	47
Charges for services			924	924
Other			6,211	6,211
Total Revenues	<u>713,709</u>	<u>713,709</u>	<u>346,899</u>	<u>(366,809)</u>
Expenditures				
Salaries and benefits	198,432	198,432	47,656	150,776
Service and supplies	635,510	635,510	253,392	382,118
Capital outlay	8,000	8,000		8,000
Total Expenditures	<u>841,942</u>	<u>841,942</u>	<u>301,048</u>	<u>540,894</u>
Net Change in Fund Balances	<u>\$ (128,233)</u>	<u>\$ (128,233)</u>	45,851	<u>\$ 174,085</u>
Fund Balances, July 1, 2017			(59,778)	
Prior Period Adjustment			<u>12,691</u>	
Fund Balances, June 30, 2018			<u>\$ (1,236)</u>	

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
WATERMASTER-  
MAJOR SPECIAL REVENUE FUND  
JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Use of Money and Property	\$ -	\$ -	\$ 39	\$ 39
Charges for services	182,225	182,225	179,492	(2,733)
Total Revenues	<u>182,225</u>	<u>182,225</u>	<u>179,531</u>	<u>(2,694)</u>
Expenditures				
Salaries and benefits	121,905	121,905	135,603	(13,698)
Service and supplies	53,586	53,586	25,935	27,651
Capital outlay	8,000	8,000		8,000
Total Expenditures	<u>183,491</u>	<u>183,491</u>	<u>161,538</u>	<u>21,953</u>
Net Change in Fund Balances	<u>\$ (1,266)</u>	<u>\$ (1,266)</u>	17,993	<u>\$ 19,259</u>
Fund Balances, July 1, 2017			125,805	
Prior Period Adjustment			<u>67,577</u>	
Fund Balances, June 30, 2018			<u>\$ 211,375</u>	

**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT**  
**Note to Required Supplementary Information**  
**June 30, 2018**

Budgets and Budgetary Accounting

As required by State law the District prepares and legally adopts a final operating budget. Public hearings were conducted on the proposed and final budget to review all appropriations and the source of financing.

The budgets for the general fund and Watermaster fund are adopted on the modified accrual basis of accounting. The budget for the general fund and Watermaster fund are the only legally adopted budgets. Appropriations lapse at fiscal year-end.

The budgetary data presented in the final budgeted amount in the accompanying financial statements includes all revisions approved by the Board of Directors

# LARRY BAIN, CPA

An Accounting Corporation

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## **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  
Honey Lake Valley Resource Conservation District  
Susanville, California

We have audited, 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, the financial statements of the governmental activities of Honey Lake Valley Resource Conservation District (the "District") as of and for the fiscal 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 July 15, 2019.

### ***Internal Control over Financial Reporting***

In planning and performing our audit, we considered Honey Lake Valley Resource Conservation District's (District) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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, on a timely basis. The deficiencies in internal control that we consider to be material weaknesses are identified as Findings FS 18-1 and FS 18-2 as described in the accompanying Schedule of Findings.

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. We consider the deficiencies Findings FS 18-3 through FS 18-8 as described in the accompanying Schedule of Findings.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

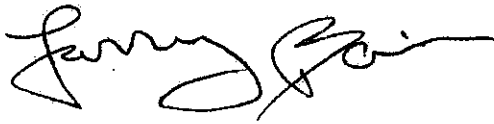
## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Honey Lake Valley Resource Conservation District's financial statements are free from 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 or other matters that are required to be reported under Government Auditing Standards.

## Purpose of this Report

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

This report is intended solely for the information and use of the board of directors, management, Lassen County Auditor Controllers Office and the Controller's Office of the State of California.



Larry Bain, CPA,  
An Accounting Corporation  
July 15, 2019

# HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT

## SCHEDULE OF FINDINGS FOR THE FISCAL YEAR EDED JUNE 30, 2018

### SIGNIFICANT DEFICIENCIES CONSIDERED MATERIAL WEAKNESSES

**FS 18-1:** During our audit we noted that the beginning balances did not agree to the underlying support. The beginning balances were the ending balances from the prior year audit, which was materially misstated.. Multiple journal entries were required to agree the beginning balances to the underlying support. We also noted during our initial review of the financial statements that the prior year audit entries had not been posted to the District general ledger, the accrued payroll was not properly clearing in the general ledger, the accounts receivables and payables had not been recorded, cash had not been reconciled, and the due to, due from accounts had not been balanced.

The District also did not provide us with the information to record prior year donated assets from the BLM.

**Recommendations:** We recommended the District hire an outside accountant experienced with governmental generally accepted accounting principles to assist with cleaning up the general ledger and closing the year-end books. The District retained an outside firm and made the necessary adjustments.

**Management Response:** The District has begun the conversation and is considering hiring an outside accountant to assist with account management/procedures and policies.

**FS 18-2:** During our review of the District record keeping we noted there was no centralized location for the District to maintain and retain original records. There were no vendor files, payroll files with timesheets, payroll registers and employee information, banking files, invoice files and other record keeping files that we would expect from the District. We were informed that much of this information was maintained on line, but the District was unable to demonstrate that the documents were kept in an on line data base. The District was able to recreate much of the data that was discovered in various locations.

**Recommendation:** We recommend the District work with a qualified accounting professional to determine what records should be maintained as a hard copy and what records can be maintained electronically in a computer database. The District should then take steps to ensure that all supporting documents required to support financial activities of the District are maintained and retained for the required length of time.

We recommend the District take an inventory of all assets that meet the definition of a capital asset. We recommend for capital assets that are not on the current depreciation schedule the District determine the historical value and update the depreciation schedule for those assets.

**Management Response:** The District has begun the conversation and is considering hiring an outside accountant to assist with account management/procedures and policies.

# HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT

## SCHEDULE OF FINDINGS FOR THE FISCAL YEAR EDED JUNE 30, 2018

### SIGNIFICANT DEFICIENCIES NOT CONSIDERED MATERIAL WEAKNESSES

**FS 18-3 (Prior Year Finding):** Due to the small size of the District and limited number of personnel involved in the accounting function, the District had a lack of segregation of duties, as one person is capable of handling all aspects of processing transactions from beginning to end. A lack of segregation of duties increases the risk of potential errors or irregularities; however, due to a limited number of personnel an adequate segregation of duties is not possible without incurring additional costs.

Management Response: Limited resources prevent the District from hiring additional personnel, although with new management, new procedures will be utilized by current staff to keep more efficient records. In addition, the District is considering hiring an outside accountant.

**FS 18-4 (Prior Year Finding):** The District does not have accounting processes 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.

Recommendation: We recommend the District consider hiring an outside accountant to prepare GAAP financial statements and the related notes to the financial statements. The District could opt to take no action if it determines the cost will outweigh the benefit.

Management Response: The District is considering hiring an outside accountant.

**FS 18-5:** During our review of the District policies we noted discrepancies between the District policy manual and the employee handbook. The policy manual indicates that an employee will accrue sick leave, whereas the employee handbook does not address sick leave accruals. We also noted reference to Louisiana State Law in the employee handbook. Furthermore it appears that some new and or updated policies are not contained in a central policy manual.

We also did not observe an accounting policy and procedures manual that describes the internal controls for each accounting function. The purpose of that manual would be to provide an accountant with reasonable experience the step by step procedures for processing accounting functions from beginning to end.

Recommendation: We recommend the District review the employee handbook and policy manual and update the documents so they are consistent and up to date. The District should also update the manuals so they reference the appropriate state law. The District should also add the sick leave policy to the employee handbook.

We also recommend the District develop an accounting policy and procedures manual.

Management Response: The District is in the process of updating their Employee Handbook and it will be reviewed and approved by the policy committee for consistency.



**HONEY LAKE VALLEY RESOURCE CONSERVATION DISTRICT**

**SCHEDULE OF FINDINGS  
FOR THE FISCAL YEAR EDED JUNE 30, 2018**

**SIGNIFICANT DEFICIENCIES NOT CONSIDERED MATERIAL WEAKNESSES (Continued)**

**FS 18-6:** During our review of the budget we noted that the general fund budget included some of the budgetary information for the Watermaster fund.

Recommendation: We recommend the District segregate the general fund and Watermaster fund budgets into their own budgetary units.

Management Response: Accounts are separate budgetary units, except for payroll transfers and services. Transfer from the General Fund to the WM account is a necessary procedure at this time via Singleton Auman (bookkeeping service).

**FS 18-7:** During our review of compensated absences we noted instances where employee's were not receiving the amount of accruals for sick leave specified in the District policy manual. Furthermore we noted discrepancies in certain areas between the employee handbook and the District policy manual.

Recommendation: We recommend the District review each employee's vacation and sick leave accrual and verify that it conforms with District policy. We recommend reconciling from the date of hire to current and adjusting any errors. We also recommend review the employee handbook and the District policy manual for consistency between the two policies and approving needed changes so the two documents are in agreement.

Management Response: The District's bookkeeping service, Singleton Auman currently tracks employee leave and ensures conformity with current District policy. In addition, the District will review employee leave and reconcile accruals, if necessary.

**FS 18-8:** During our testing of disbursements we noted an employee was paid \$2,100.98 for a health insurance reimbursement with check 7046. This was paid through normal accounts payable and not through payroll therefore no payroll taxes were withheld. Because the District has not adopted a cafeteria plan it does not appear that this should have been exempt from payroll taxes.

Recommendation: We recommend the District review if this payment was made to comply with District policy for health insurance benefits and if payroll taxes should have been withheld from the check and take corrective action as needed to comply with District policies and IRS tax codes.

Management Response: This payment was back pay to an employee that was not receiving health insurance payments on their paycheck and was made in compliance with District Health Insurance policy. Although, it was brought to the District's attention that the amount issued for the 7months of health insurance did not have payroll taxes taken out, as it normally does. Corrective action will need to be taken.