

**LAKE OF THE PINES RANCHOS
COMMUNITY SERVICES DISTRICT,
CALIFORNIA**

**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2016**

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LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Annual Financial Report
For the Year Ended June 30, 2016

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INTRODUCTORY SECTION

- **List of Officials**

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LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Board of Directors
For the Year Ended June 30, 2016

Dan Fitzgerald	Chair
Bob Jones	Vice Chair
Glen Fuller	Director
Robert Runne	Director
Benton Seeley	Director

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FINANCIAL SECTION

- **Independent Auditor's Report**
- **Management's Discussion and Analysis**
- **Basic Financial Statements**
- **Required Supplementary Information**

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Lake of the Pines Ranchos Community Services District
Auburn, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Lake of the Pines Ranchos Community Services District, California (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1N to the financial statements, in 2016, the District implemented, if applicable, Governmental Accounting Standards Board (GASB) Statement Nos. 72, 73, 76 and 79. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be 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, 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 Information

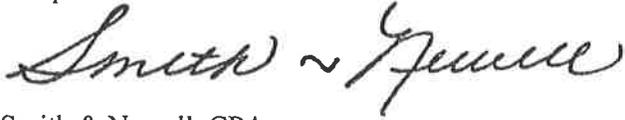
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

The Board of Directors
Lake of the Pines Ranchos Community Services District
Auburn, California

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 13, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



Smith & Newell, CPAs
Yuba City, California
February 13, 2017

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**Management's Discussion and Analysis
(Unaudited)**

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Lake of the Pines Ranchos Community Services District

Management Discussion and Analysis

This discussion of the Lake of the Pines Ranchos Community Services District (CSD) provides an overview of the district's financial activity for the fiscal year ending June 30, 2016. The accompanying report from the District's auditor begins on page 1. The purpose of this discussion is to give context to the District's audited financial statement.

Overview of District Operation

The purpose of the District is to maintain approximately 6.2 miles of paved roads within the District boundaries. The District engages in no other activities (no business-type activities). The District has no sub-divisions (no component units). District assets are composed solely of cash collected for the purpose of road maintenance and associated District support. There are no special purpose District funds. All District funds are unassigned. The District has no debt.

The District is managed by five elected board members. The District has no full time employees. The only paid position of the District is a secretary who is paid on a contract basis to post meetings, record meetings, produce agendas and meeting minutes and handle mailings for the District as well as assist the Treasurer with financial issues as necessary. Board members receive only reimbursement for District authorized out-of-pocket expenses.

Financial Analysis

Below is a comparison of the District net position in 2014-15 as compared to 2015-16.

Summary of the Statement of Net Position

	<u>06/30/16</u>	<u>06/30/15</u>	<u>Increase (Decrease)</u>
Assets			
Cash and Investments	<u>\$138,563</u>	<u>\$ 132,951</u>	<u>\$ 5,612</u>
Total Assets	<u>138,563</u>	<u>132,951</u>	<u>5,612</u>
Liabilities			
Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Position			
Unrestricted	<u>138,563</u>	<u>132,951</u>	<u>5,612</u>
Total Net Position	<u>\$138,563</u>	<u>\$ 132,951</u>	<u>\$ 5,612</u>

Assets increased by \$5,162 for fiscal year 2015-16. Since contracting for small maintenance projects is expensive, the District typically does only critical maintenance over a 2-3 year period and then contracts for major repair/maintenance projects when sufficient funds have been accumulated. Fiscal year 2015-16 was a year in which maintenance projects were undertaken in the amount of \$40,258.

Following is a comparison of revenues and expenses in fiscal years ending in 2015 and 2016. Property tax collections and interest paid on County held District funds were very similar to the previous year. Additional revenue in the amount of \$3,027 came in the form of a reimbursement from the State of California Controller's Office of 2001-02 state mandated costs.

Expenditures for professional services and for road maintenance increased because (a) auditor fees for FY 2013-14 and 2014-15 were both paid in FY 2015-16 and (b) road maintenance in FY 2014-15 was limited to brushing and clearing the roads to keep them safe.

Summary of the Statement of Activities

	<u>06/30/16</u>	<u>06/30/15</u>	Increase (Decrease)
Program Revenues:			
Charges for services	\$ 34,000	\$ 34,000	\$ -
Operating grants and contributions	189	184	5
General Revenues:			
Taxes	19,374	17,940	1,434
Interest and investment earnings	993	584	409
Miscellaneous	3,027	1,006	2,021
Total Revenues	<u>57,583</u>	<u>53,714</u>	<u>3,869</u>
Expenses:			
Public ways and facilities	51,971	8,041	43,930
Total Expenses	<u>51,971</u>	<u>8,041</u>	<u>43,930</u>
Change in Net Position	5,612	45,673	(40,061)
Net Position - Beginning	<u>132,951</u>	<u>87,278</u>	<u>45,673</u>
Net Position - Ending	<u>\$ 138,563</u>	<u>\$ 132,951</u>	<u>\$ 5,612</u>

The following table compares the budgeted expenditures and fund balance to actual expenditures and fund balance for the fiscal year 2015-16. For budget purposes, all funds that are not allocated to District operations are allocated to road maintenance. As mentioned above, in FY 2015-16, road maintenance was limited to clearing brush from the road for safety.

In 2011-12 the Board voted to establish a contingency line item of \$5,000. This assures that the District will always have at least \$5,000 to handle emergency road work.

Budgeted vs. Actual: Expenditures and Fund Balance

	<u>Budgeted Amount</u>	<u>Actual</u>	<u>Over (Under) Estimate</u>
Expenditures			
Public ways and facilities:			
Insurance	\$ 1,250	\$ 956	\$ (294)
Memberships	225	149	(76)
Office Expense	400	304	(96)
Professional Services	11,000	9,050	(1,950)
Road maintenance	170,585	40,258	(130,327)
Fees,Rents,Misc	1,300	1,253	(47)
Contingencies	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total Expenditures	<u>189,760</u>	<u>56,970</u>	<u>(132,790)</u>
Fund Balance Beginning	132,951	132,951	-
Revenue	51,809	57,583	5,774
Expenditures	<u>184,760</u>	<u>51,971</u>	<u>(132,789)</u>
Fund Balance Ending	<u>\$ -</u>	<u>\$ 138,563</u>	<u>\$ 138,563</u>

Basic Financial Statements

- **Government-Wide Financial Statements**

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LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 138,563
Total Assets	<u>138,563</u>
LIABILITIES	
Accounts payable	<u>-</u>
Total Liabilities	<u>-</u>
NET POSITION	
Unrestricted	<u>138,563</u>
Total Net Position	<u><u>\$ 138,563</u></u>

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

LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Statement of Activities
For the Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>	
	<u>Expenses</u>	<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Revenue and</u> <u>Changes in</u> <u>Net Position</u>
					<u>Total</u> <u>Governmental</u> <u>Activities</u>
Governmental activities:					
Public ways and facilities	\$ 51,971	\$ 34,000	\$ 189	\$ -	\$ (17,782)
Total Governmental Activities	<u>51,971</u>	<u>34,000</u>	<u>189</u>	<u>-</u>	<u>(17,782)</u>
Total	<u>\$ 51,971</u>	<u>\$ 34,000</u>	<u>\$ 189</u>	<u>\$ -</u>	<u>(17,782)</u>
General revenues:					
					19,374
					993
					<u>3,027</u>
					<u>23,394</u>
					5,612
					<u>132,951</u>
					<u>\$ 138,563</u>

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

Basic Financial Statements

- **Fund Financial Statements**

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LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Balance Sheet
Governmental Fund
June 30, 2016

	<u>General</u>
ASSETS	
Cash and investments	\$ 138,563
Total Assets	<u>\$ 138,563</u>
LIABILITIES	
Accounts payable	\$ -
Total Liabilities	<u>-</u>
FUND BALANCE	
Unassigned	<u>138,563</u>
Total Fund Balance	<u>138,563</u>
Total Liabilities and Fund Balance	<u>\$ 138,563</u>

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

LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Reconciliation of the Governmental Fund Balance
Sheet to the Government-Wide Statement of
Net Position - Governmental Activities
June 30, 2016

Total Fund Balance - Total Governmental Fund **\$ 138,563**

Amounts reported for governmental activities in the statement of net position are different because:

No adjustments were needed to reconcile the governmental fund balance sheet to the government wide statement of net position.

Net Position of Governmental Activities **\$ 138,563**

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

LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures, and
Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2016

	General
REVENUES	
Taxes	\$ 19,374
Assessments	34,000
Use of money and property	993
Intergovernmental revenues	189
Other revenues	3,027
Total Revenues	57,583
EXPENDITURES	
Public ways and facilities	51,971
Total Expenditures	51,971
Net Change in Fund Balance	5,612
Fund Balance - Beginning	132,951
Fund Balance - Ending	\$ 138,563

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

LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of the Governmental Fund to the
Government-Wide Statement of Activities - Governmental Activities
For the Year Ended June 30, 2016

Net Change in Fund Balance - Total Governmental Fund	\$ 5,612
Amounts reported for governmental activities in the statement of activities are different because:	
No adjustments were needed to reconcile the net change in fund balance to the change in net position.	<u>-</u>
Change in Net Position of Governmental Activities	<u>\$ 5,612</u>

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

Basic Financial Statements

- **Notes to Basic Financial Statements**

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LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Lake of the Pines Ranchos Community Services District (District) was formed under Section 26500 of the California Public Resources Code. The District is a special district within the County of Nevada governed by an independent five member Board of Directors and provides road maintenance services. The financial transactions are recorded in the Nevada County accounting system.

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government.

Component Units

Based on the application of the criteria set forth by the Governmental Accounting Standards Board management has determined that there are no component units of the District.

Joint Agencies

The District is a participant in the Special District Risk Management Authority (SDRMA), which is a joint powers agency organized for the purpose of pooled joint-protection coverage to member entities. SDRMA operates public entity pools for auto and general liability coverage, plus workers compensation and errors and omissions coverage and the pool purchases excess insurance for members. Complete audited financial statements of SDRMA can be obtained at 1112 I Street, Suite 300, Sacramento, CA 95814. The District is not financially accountable for this organization and therefore it is not a component unit under Statement Nos. 14, 39, and 61 of the Governmental Accounting Standards Board.

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information on all of the activities of the District. These statements include the financial activities of the overall District. These statements report the governmental activities of the District, which are normally supported by property taxes and special assessments. The District had no business-type activities at June 30, 2016.

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. Program revenues include (1) charges paid by the recipients of goods and services offered by the program, (2) operating grants and contributions, and (3) capital grants and contributions. Taxes and other items not properly included among program revenues are presented instead as general revenues.

LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Fund Financial Statements

Fund financial statements of the District are organized into one fund, which is considered to be a separate accounting entity. The fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. The fund of the District is organized into the governmental category and is treated as a major fund.

The District reports the following major governmental fund:

- The General fund is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the District. For the District, the General fund includes the main activity of road maintenance.

C. Basis of Accounting and Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property tax, assessments, grants, entitlements, and donations. Under the accrual basis, revenue from property taxes and assessments is recognized in the fiscal year for which the taxes and assessments are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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. Taxes, assessments, operating grants, and use of money and property are considered susceptible to accrual and are accrued when their receipt occurs within sixty days after the end of the current fiscal year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds from governmental long-term debt and capital leases are reported as other financial sources.

D. Non-Current Governmental Assets/Liabilities

Non-current governmental assets and liabilities, such as capital assets and long-term liabilities, are reported in the governmental activities column in the government-wide statement of net position.

E. Cash and Investments

The District pools all cash and investments with the County of Nevada. The Nevada County Treasury is an external investment pool for the District and the District is considered an involuntary participant. The District's share in the pool is displayed in the accompanying financial statements as cash and investments.

LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Investments (Continued)

Participant's equity in the investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on an amortized cost basis. Interest payments, accrued interest, accreted discounts, amortized premiums, and realized capital gains and losses, net of administrative fees, are apportioned to pool participants every quarter. This method differs from the fair value method used to value investments in these financial statements as unrealized gains or losses are not apportioned to pool participants.

F. Receivables

Receivables would include revenue accruals such as interest and other similar intergovernmental revenues since they are usually both measurable and available. At June 30, 2016, the District had no receivables.

G. Inventory

Inventories are recorded as expenditures at the time the inventory is purchased rather than when consumed. Records are not maintained of inventory and supplies on hand, although these amounts are not considered material.

H. Capital Assets

Capital assets would be recorded at historical cost, or estimated historical cost if actual historical cost is not available. Contributed capital assets would be recorded at their acquisition value on the date of donation. Major outlays for capital assets and improvements would be capitalized as projects are constructed.

Capital assets used in operations would be depreciated or amortized using the straight line method over the estimated useful life in the government-wide financial statements.

At June 30, 2016, the District did not have any capital assets.

I. Property Tax

Nevada County is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County of Nevada up to 1 percent of the full cash value of taxable property, plus other increases approved by the voter and distributed in accordance with statutory formulas.

The valuation/lien date for all taxes is January 1. Secured property tax is due in two installments, the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Unsecured property tax is due on March 1, and becomes delinquent, if unpaid on August 31.

The County uses the alternative method of property tax apportionment known as the "Teeter Plan". Under this method of property tax apportionment, the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties.

LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assessments

The District levies special assessments on the property owners within the District boundaries. An assessment of \$200 per parcel was levied upon each parcel of land within the District. The special assessments are collected along with property taxes by the County of Nevada.

Nevada County assesses properties, bills, collects, and distributes the assessments to the District.

Assessments are due in two installments (secured roll) on November 1 and March 1 and become delinquent after December 10 and April 10, respectively.

K. Compensated Absences and Postemployment Benefits

The District does not currently have any employees. Therefore there is no liability for compensated absences or postemployment benefits.

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2016, the District did not have any deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2016, the District did not have any deferred inflows of resources.

M. Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Implementation of Governmental Accounting Standards Board Statements (GASB)

The following Governmental Accounting Standards Board (GASB) Statements have been implemented, if applicable, in the current financial statements.

Statement No. 72, Fair Value Measurement and Application. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement and for applying fair value to certain investments and disclosures related to all fair value measurements.

Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement establishes requirements for defined benefit pensions and defined contribution pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions.

Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction is not specified within a source of authoritative GAAP.

Statement No. 79, Certain External Investment Pools and Pool Participants. This statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

NOTE 2: CASH AND INVESTMENTS

A. Financial Statement Presentation

As of June 30, 2016, the District's cash and investments consisted of the following:

Investments:	
Nevada County Treasurer's Pool	\$ <u>138,563</u>
Total	\$ <u>138,563</u>

LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

B. Investments

The District does not have a formal investment policy. At June 30, 2016, all investments of the District were in the County of Nevada investment pool. Under the provisions of the County's investment policy and the California Government Code, the County may invest or deposit in the following:

- U.S. Treasury and Agency Obligations
- California State Registered Warrants, Treasury Notes and Bonds
- Local Agency Obligations
- Banker's Acceptances
- Money Market Funds
- Commercial Paper
- Medium Term Notes
- Negotiable Certificates of Deposit
- Repurchase Agreements
- Reverse Repurchase Agreements
- Certificates of Deposit
- Pass-Through Security
- Local Agency Investment Fund (LAIF)
- California Asset Management Program (CAMP)

Fair Value Measurements - The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs

The District's position in external investment pools is in its self regarded as a type of investment and looking through to the underlying investments of the pool is not appropriate. Therefore, the District's investment in external investment pools are not recognized in the three-tiered fair value hierarchy described above.

At June 30, 2016, the District had the following recurring fair value measurements:

		Fair Value Measurements Using		
Investment Type	Fair Value	Level 1	Level 2	Level 3
Investments by Fair Value Level				
None	\$ -	\$ -	\$ -	\$ -
Total Investments Measured at Fair Value	-	-	-	-
Investments in External Investment Pool				
Nevada County Treasurer's Pool	138,563			
Total Investments	\$ 138,563			

LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. To limit exposure to fair value losses resulting from increases in interest rates, the County's investment policy limits investment maturities to a term appropriate to the need for funds so as to permit the County to meet all projected obligations. The County limits its exposure to interest rate risk inherent in its portfolio by limiting individual maturities to 5 years or less.

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County's investment policy sets specific parameters by type of investment to be met at the time of purchase. As of June 30, 2016, the District's investments were all pooled with the County of Nevada investment pool which is not rated by a nationally recognized statistical rating organization.

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investments in securities through the use of mutual funds or government investment pools.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. State law and the investment policy of the County contains limitations on the amount that can be invested in any one issuer. As of June 30, 2016, all investments of the District were in the County investment pool which contains a diversification of investments.

C. Investments in External Pool

Nevada County Pooled Investment Fund - The Nevada County Pooled Investment Fund is a pooled investment fund program governed by the County which monitors and reviews the management of public funds maintained in the investment pool in accordance with the County investment policy and the California Government Code. The Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the Board of Supervisors every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost and fair value. Investments in the Nevada County Pooled Investment Fund are regarded as highly liquid as deposits and withdrawals can be made at any time without penalty. The Pool does not impose a maximum investment limit. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County of Nevada's financial statements may be obtained by contacting the County of Nevada Auditor-Controller's office at 950 Maidu Ave., Nevada City, CA 95959.

LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 3: NET POSITION

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

- **Net investment in capital assets** - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- **Restricted net position** - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. These principally include restrictions for capital projects and debt service requirements.
- **Unrestricted net position** - all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

Net Position Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted net position are available, it is considered that restricted resources are used first, followed by the unrestricted resources.

NOTE 4: FUND BALANCES

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2016, fund balance for the governmental fund is made up of the following:

- **Nonspendable fund balance** - amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories and prepaid amounts.
- **Restricted fund balance** - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed fund balance** - amounts that can only be used for the specific purposes determined by formal action of the District’s highest level of decision-making authority. The Board of Directors is the highest level of decision making authority for the District that can, by adoption of an ordinance commit fund balance. Once adopted, the limitation imposed remains in place until a similar action is taken to remove or revise the limitation. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 4: FUND BALANCES (CONTINUED)

- **Assigned fund balance** - amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** - the residual classification for the District's General fund that includes all amounts not contained in the other classifications.

The fund balance for the governmental fund as of June 30, 2016, was distributed as follows:

	General Fund
Unassigned	\$ 138,563
Total	\$ 138,563

Fund Balance Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance), a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted fund balance are available, it is considered that restricted fund balance is depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policy

The Board of Directors adopted a fund balance policy in May 2014. The policy establishes procedures for reporting fund balance classifications, establishes prudent reserve requirements and establishes a hierarchy of fund balance expenditures.

NOTE 5: 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 has joined together with other municipalities to participate in the Special District Risk Authority Management (SDRMA) for general liability, vehicle liability, and errors and omissions purposes. SDRMA is a public entity risk pool which serves as a common risk management and insurance program. The district pays an annual premium to SDRMA for its insurance coverage. The agreement with SDRMA provides that they will be self sustaining through member premiums and will reinsure through commercial companies for excess coverage.

There is no claims liability to be reported based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

There are no significant reductions in insurance coverage from prior years and there have been no settlements exceeding the insurance coverages for each of the past three fiscal years.

LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 6: OTHER INFORMATION

A. Subsequent Event

Management has evaluated events subsequent to June 30, 2016, through February 13, 2017, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

Required Supplementary Information
(Unaudited)

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LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Taxes	\$ 17,021	\$ 17,021	\$ 19,374	\$ 2,353
Assessments	34,000	34,000	34,000	-
Use of money and property	603	603	993	390
Intergovernmental revenues	185	185	189	4
Other revenues	-	-	3,027	3,027
Total Revenues	<u>51,809</u>	<u>51,809</u>	<u>57,583</u>	<u>5,774</u>
EXPENDITURES				
Public ways and facilities	179,760	179,760	51,971	127,789
Contingencies	5,000	5,000	-	5,000
Total Expenditures	<u>184,760</u>	<u>184,760</u>	<u>51,971</u>	<u>132,789</u>
Net Change in Fund Balance	<u>(132,951)</u>	<u>(132,951)</u>	<u>5,612</u>	<u>138,563</u>
Fund Balance - Beginning	<u>132,951</u>	<u>132,951</u>	<u>132,951</u>	<u>-</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,563</u>	<u>\$ 138,563</u>

LAKE OF THE PINES RANCHOS COMMUNITY SERVICES DISTRICT
Required Supplementary Information
Note to Budgetary Comparison Schedule
For the Year Ended June 30, 2016

NOTE 1: BUDGETARY BASIS OF ACCOUNTING

Formal budgetary integration is employed as a management control device during the year. The District presents a comparison of annual budgets to actual results for the General fund. The amounts reported on the budgetary basis are generally on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

The following procedures are performed by the District in establishing the budgetary data reflected in the financial statements:

- (1) The Board of Directors review the recommended budget at regularly scheduled meetings, which are open to the public. The Board also conducts a public hearing on the recommended budget to obtain comments from interested persons.
- (2) Prior to July 1, the budget is adopted through the passage of a resolution.
- (3) From the effective date of the budget, the amounts stated therein, as recommended expenditures become appropriations to the District. The Board of Directors may amend the budget by motion during the fiscal year.

The District does not use encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

OTHER REPORT AND SCHEDULE

- **Other Report**

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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**

To the Board of Directors
Lake of the Pines Ranchos Community Services District
Auburn, California

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 and the major fund of the Lake of the Pines Ranchos Community Services District, California (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 13, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

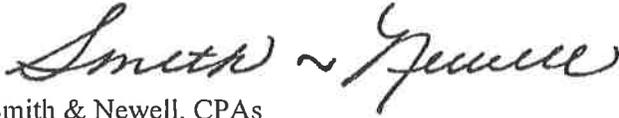
To the Board of Directors
Lake of the Pines Ranchos Community Services District
Auburn, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.



Smith & Newell, CPAs
Yuba City, California
February 13, 2017