

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT**

**BASIC FINANCIAL STATEMENTS
AND
SINGLE AUDIT REPORT**

YEAR ENDED JUNE 30, 2018

REISSUED AS OF NOVEMBER 9, 2021

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SINGLE AUDIT REPORT
For the Year Ended June 30, 2018**

TABLE OF CONTENTS

<u>FINANCIAL SECTION</u>	<u>Page</u>
Independent Auditor's Report.....	2-3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	4
Statement of Activities.....	5
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	6
Reconciliation of the Government Fund Balance Sheet to the Government-Wide Statement of Net Position - Governmental Activities.....	7
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Government-Wide Statement of Activities - Governmental Activities.....	9
Notes to the Financial Statements.....	10-22
Required Supplementary Information:	
Budgetary Comparison Schedules:	
General Fund.....	23
Shasta Conservation Special Revenue Fund.....	24
Notes to the Budgetary Comparison Schedules.....	25
 <u>SINGLE AUDIT REPORTS</u>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.....	28-29
Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2018.....	30-31
Notes to the Schedule of Expenditures of Federal Awards.....	32
Schedule of Findings and Questioned Costs.....	33-41
Summary Schedule of Prior Audit Findings.....	42-44
Corrective Action Plan.....	45-47

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Finance Committee
Western Shasta Resource Conservation District
Anderson, CA

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities and each major fund of the Western Shasta Resource Conservation District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Western Shasta Resource Conservation 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Western Shasta Resource Conservation District, as of June 30, 2018, and the respective changes in financial position, for those activities and funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Restatement and Reissuance of the Single Audit Report

The accompanying financial statements have been restated and the Single Audit Report, including the Independent Auditor's Report and audit findings related to the major federal award program, have been reissued as of November 9, 2021, due to the subsequent events described in Footnote #13.

Additionally, these subsequent events have substantially improved the District's ability to continue as a going concern and the conditions causing the substantial doubt of the District's ability to continue as a going concern, as originally reported in the Single Audit Report issued September 9, 2019, have been removed and there is no longer substantial doubt.

My opinion is not modified with respect to those matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* (not presented) and the budgetary comparison information on pages 23–25 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. Management has omitted the *Management's Discussion and Analysis*. My opinion on the basic financial statements is not affected by this missing information. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Western Shasta Resource Conservation District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also **reissued** my report dated November 9, 2021, on my consideration of the Western Shasta Resource Conservation District's internal control over financial reporting and on my 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 my 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 Western Shasta Resource Conservation District's internal control over financial reporting and compliance.



Charles W Pillon, CPA
Anderson, California

November 9, 2021

BASIC FINANCIAL STATEMENTS

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT

Statement of Net Position

June 30, 2018

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 75,957
Restricted cash and investments	1,703,184
Grants and other receivables, net of allowance for doubtful accounts of \$8,273	136,294
Other capital assets being depreciated, net	76,620
Sub-total Assets	<u>1,992,055</u>
Plus: Deferred Outflows of Resources	
Deposits	<u>2,430</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,994,485</u>
LESS:	
Liabilities	
Current liabilities:	
Accounts payable	\$ 58,390
Accrued wages and payroll tax liabilities	1,510
Total Current Liabilities	<u>59,900</u>
Noncurrent liabilities:	
Due within one year	3,727
Due to other governments	616,483
Total Noncurrent Liabilities	<u>620,210</u>
And: Deferred Inflows of Resources	
Unearned revenue-grants and contributions	<u>41,116</u>
Total Deferred Inflows of Resources	<u>41,116</u>
Total Liabilities and Deferred Inflows of Resources	<u>721,226</u>
EQUALS:	
Net Position	
Net investment in capital assets	76,620
Restricted for conservation endowments and easements:	
Expendable	678,550
Nonexpendable	1,054,211
Unrestricted	<u>(536,122)</u>
Total Net Position	<u><u>\$ 1,273,259</u></u>

WESTERN SHASTA 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	\$2,116,146	\$ 560,751	\$ 1,237,668	\$ (317,727)
Total Governmental Activities	\$2,116,146	\$ 560,751	\$ 1,237,668	(317,727)
 General Revenues:				
Use of money				64,890
Investment income				25,246
Total general revenues				90,136
Excess before contributions and special items				(227,591)
 Contributions and special items:				
Contributions to permanent easements				95,000
Contributions to permanent endowments				4,318
Forgiveness of debt				133,377
Total contributions and special items				232,695
Change in net position				5,104
Net position - beginning				1,166,673
Prior period adjustments				101,482
Net position - beginning, as restated				1,268,155
Net position - ending				\$ 1,273,259

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT

**Balance Sheet
Governmental Funds
June 30, 2018**

		Special Revenue Funds		
	General Fund	Conservation Easements Fund	Shasta Conservation Fund	Total Governmental Funds
Assets				
Cash and investments	\$ 75,957	\$ -	\$ -	\$ 75,957
Due from other funds	47,311	-	72,542	119,853
Grants and other receivables, net of allowance for doubtful accounts of \$8,273	131,948	-	4,346	136,294
Restricted cash and investments	-	1,062,249	640,935	1,703,184
Deferred Outflows of Resources				
Deposits	2,430	-	-	2,430
Total Assets and Deferred Outflows of Resources	\$ 257,646	\$ 1,062,249	\$ 717,823	\$ 2,037,718
Liabilities				
Accounts payable	\$ 58,390	\$ -	\$ -	\$ 58,390
Accrued wages and payroll tax liabilities	1,510	-	-	1,510
Due to other funds	72,542	47,311	-	119,853
Deferred Inflows of Resources				
Unearned revenue-grants and contributions	41,116	-	-	41,116
Unavailable revenue-operating grants	20,508	-	-	20,508
Total Liabilities and Deferred Inflows of Resources	194,066	47,311	-	241,377
Fund Balances				
Restricted:				
Conservation easements	-	355,305	-	355,305
Conservation endowments	-	659,633	717,823	1,377,456
Unassigned	63,580	-	-	63,580
Total Fund Balances	63,580	1,014,938	717,823	1,796,341
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 257,646	\$ 1,062,249	\$ 717,823	\$ 2,037,718

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT
Reconciliation of Governmental Funds Balance Sheet to
the Government-Wide Statement of Net Position - Governmental Activities
As of June 30, 2018

Total Fund Balances of governmental funds	\$ 1,796,341
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	76,620
Long-term obligations are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences payable	(3,727)
Due to other governments	(616,483)
Certain revenues received after sixty days from the end of the fiscal year are recorded as deferred revenue in the funds and as revenues in the government wide statement.	<u>20,508</u>
Net position of governmental activities	<u><u>\$ 1,273,259</u></u>

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	Special Revenue Funds			Total Governmental Funds
	General Fund	Resource Conservation Fund	Shasta Conservation Fund	
Revenues:				
Charges for services	\$ 560,751	\$ -	\$ -	\$ 560,751
Intergovernmental and contributions	1,443,522	-	-	1,443,522
Use of money	-	34,831	30,059	64,890
Net increase in the fair value of investments	-	21,182	4,064	25,246
Total Revenues	<u>2,004,273</u>	<u>56,013</u>	<u>34,123</u>	<u>2,094,409</u>
Expenditures:				
Current:				
Salaries and benefits	883,888	-	-	883,888
Operating services and supplies	938,373	20,445	48,875	1,007,693
General services and supplies	154,389	9,203	8,528	172,120
Bad debt expense	46,476	-	-	46,476
Capital outlay	22,880	-	-	22,880
Total Expenditures	<u>2,046,006</u>	<u>29,648</u>	<u>57,403</u>	<u>2,133,057</u>
Excess (deficiency) of revenues over expenditures	<u>(41,733)</u>	<u>26,365</u>	<u>(23,280)</u>	<u>(38,648)</u>
Other Financing Sources (Uses):				
Proceeds from long-term debt borrowing	102,908	-	-	102,908
Endowment and easement contributions	-	95,000	4,318	99,318
Total other financing sources (uses)	<u>102,908</u>	<u>95,000</u>	<u>4,318</u>	<u>202,226</u>
Change in Fund Balance	61,175	121,365	(18,962)	163,578
Fund Balance (Deficit), July 1, 2017	(612,652)	893,573	736,785	1,017,706
Prior period adjustments	615,057	-	-	615,057
Fund Balance, July 1, 2017, as restated	<u>2,405</u>	<u>893,573</u>	<u>736,785</u>	<u>1,632,763</u>
Fund Balance, June 30, 2018	<u>\$ 63,580</u>	<u>\$ 1,014,938</u>	<u>\$ 717,823</u>	<u>\$ 1,796,341</u>

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances Of Governmental Funds
To The Government-Wide Statement of Activities
For the Fiscal Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 163,578

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:

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:

Capital outlay	22,880
Current year depreciation expense	(16,637)

Changes in compensated absences do not effect expenditures in the governmental funds but the change is adjusted through salary expense in the Statement of Net Position. 10,668

Changes in long-term debt do not effect liabilities in the governmental funds, but the change is adjusted through forgiveness of debt or the proceeds from debt borrowing in the Statement of Net Position. The activity is reconciled as follows:

Forgiveness of debt	133,377
Proceeds from long-term debt borrowing	(102,908)

Certain revenues received after sixty days from the end of the fiscal year are recorded as deferred revenue in the funds and as revenues in the government wide statement. This activity is reconciled as follows:

Prior year deferred revenue unavailable recognized in fund statements	(226,362)
Current year deferred revenue unavailable	<u>20,508</u>

Change in net position of governmental activities \$ 5,104

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2018**

Note 1: Summary of Significant Accounting Policies

The District was originally formed as the Western Shasta Soil Conservation District on November 9, 1956, as a subdivision of the State of California under Division 9 defines the State's framework for conducting the business of resource conservation within California and authorizes the formation of resource conservation districts. The District was established pursuant to Public Resource Code Section 9151 et.seq, to provide for the conservation of resources. The District represents a fixed geographical division of 1,743,437 acres of the County of Shasta providing resource conservation services to the inhabitants of Western Shasta County. The District is governed by a Board of Directors, who is selected pursuant to Government Code Section 1780. The basic operations of the District are financed by federal and state pass-through grants.

The accounting policies of Western Shasta Resource Conservation District ("District") conform to accounting principles generally accepted in the United States of America (GAAP), 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, organization, 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 government is financially accountable if it appoints a voting majority of a component unit's governing body and it imposes 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 unit. 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.

In accordance with GASB Statement No. 61, the District's financial reporting entity comprises the following:

Primary Government:

Western Shasta Resource Conservation District

Blended Component Unit:

The Friends of the Western Shasta Resource Conservation District, d.b.a. The Shasta Conservation Fund

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the District's governing board or the component unit provides services entirely to the District. These component units' funds are blended into those of the District by appropriate activity type to compose the primary government presentation.

The component unit that is blended in the reporting activity of the District's report is as follows:

The Shasta Conservation Fund (SCF) is reported as a special revenue fund. The fund's primary focus is the conservation of natural resources in Shasta County by supporting the operations of the District, and is tax-exempt under *Internal Revenue Code* Section 501(c)(3). Separate financial statements for SCF may be obtained by contacting the District.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2018**

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting

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 when the liability is incurred, regardless of the timing of related cash flows. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

In the fund financial statements, 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 within ninety (90) days after year-end 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 unavailable.

Expenditures (including capital outlay) are recorded when the related fund liability is incurred. Principal and interest on general long-term debt, as well as compensated absences, claims and judgments are recorded only when payment is due. Proceeds from general long-term debt are reported as other financial sources.

When applicable, the District reports unearned revenue on its combined balance sheet. Unavailable revenue arises when a potential revenue source does not meet both the measurable and available criteria for recognition in the current period. Unearned revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the occurrences of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has legal claim to the resources, unearned revenue is removed from the combined balance sheet and revenue is recognized.

C. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The Statement of Activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function. Program revenues include 1) charges paid by the recipient of goods and services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented instead as general revenues.

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

In accordance with GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"*, the District will report "Net Position" in the Government-Wide Statement of Net Position as the difference between assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2018**

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Fund Financial Statements

The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in separate columns. All remaining governmental funds are separately aggregated and reported as non-major funds.

The criteria for determining whether a fund is considered major is as follows:

Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10% of the corresponding total for all funds of that category or type; and

Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10% of the corresponding total for all governmental funds combined.

The District reports the following governmental funds:

General Fund - This fund is the general operating fund of the District and is used to account for all financial resources not required to be accounted for in another fund.

Conservation Easements Special Revenue Fund - This fund is established to account for the proceeds from specific resources that are restricted to the financing of particular activities (i.e. endowments and conservation easements).

Shasta Conservation (SCF) Special Revenue Fund - This fund is from a component unit of the District established to account for the proceeds from specific resources that are restricted to the financing of particular activities (i.e. endowments).

These funds are classified as major.

Also in accordance with GASB Statement No. 63, the District will report financial position in a balance sheet format that displays assets plus deferred outflows of resources equal to liabilities plus deferred inflows of resources plus fund balance.

D. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. The District's governing board must approve a tentative budget and adopt a final budget.

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated revenue and expenditures. The original and final revised budgets are presented for the General Fund and the major special revenue funds as required supplemental information.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2018**

Note 1: Summary of Significant Accounting Policies (Continued)

E. 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 expenses during the reporting period. Actual results could differ from those estimates.

F. Cash, Cash Equivalents, and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

G. Restricted Cash, Cash Equivalents, and Investments

Certain restricted cash and cash equivalents are held by a fiscal agency for purposes of endowment and mitigation. Restricted cash and cash equivalents are combined with investments and displayed as restricted cash and investments.

H. Grant and Other Receivables

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. Grant receivables included entitlements and grants from federal, state, and local that the District has earned, but has not received as of June 30, 2018. The District expects to collect on most of the receivables and has established an allowance for doubtful accounts at year-end for certain receivables that might be uncollectible.

Other receivables include amounts due from private persons, firms, or corporations based on contractual agreements or amounts billed for services rendered, but not received as of June 30, 2018.

I. Deferred Outflows and Inflows of Resources

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and revised by Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District has classified certain assets as Deferred Outflows of Resources and certain liabilities as Deferred Inflows of Resources as of June 30, 2018.

Deferred Outflows of Resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. For example, deposits.

Deferred Inflows of Resources are defined as an acquisition of net assets by the government that is applicable to a future reporting period. For example, unavailable revenue and advance "unearned" collections.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2018**

Note 1: Summary of Significant Accounting Policies (Continued)

J. Capital Assets

Capital assets have been acquired for general District purposes. In the Government-wide financial statements, capital assets are accounted for as capital assets. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets that are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the District's buildings.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Capital assets are depreciated using the straight-line method of depreciation over their estimated useful lives. The useful lives are as follows:

Equipment	5-7 years
Vehicles	5 years

In the fund financial statements, capital assets purchased and used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

K. Long-Term Debt

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal is reported as expenditures.

L. Compensated Absences

The liability for earned but unused vacation leave is recorded as a long-term liability for compensated absences in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence payable from expendable available financial resources.

M. Fund Balance/Net Position

Fund Balances - Governmental Funds

The District has yet to adopt a policy to apply the requirements of GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, however, the implementation of this standard would have no effect on the total fund balance or the fund balance classifications. The 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 the governmental funds are as follows:

Nonspendable fund balance includes those amounts that are not in a spendable form (inventory, for example) or are required to be maintained intact. As of June 30, 2018, the District had no nonspendable fund balance.

Restricted fund balance includes amounts that can be spent only for specific purposes stipulated by external resource provider, constitutionally, or through enabling legislation. As of June 30, 2018, the District has restricted fund balance of \$1,732,761 from permanent endowments and conservation easements.

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The District has no committed fund balance.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2018**

Note 1: Summary of Significant Accounting Policies (Continued)

M. Fund Balance/Net Position (Continued)

Assigned 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 no assigned fund balance.

Unassigned 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. All of the District's remaining fund balance at June 30, 2018 is unassigned.

The unassigned fund balances for governmental funds 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 the 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.

Net Position - Government-wide Financial Statements

Invested in Capital Assets consists of capital assets including restricted capital assets, net of accumulated depreciation.

Restricted Net Position consist of net assets with constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws or regulations of other governments, or law through constitutional provisions or enabling legislation. Expendable position is allowed to be spent on current maintenance operations. The nonexpendable portion is not allowed to be spent and must remain permanent indefinitely.

Unrestricted Net Position consist of all other net position of the District that do not meet the definition of "restricted" for any project or any other purpose.

N. Employee Benefits and Indirect Costs

The District's employee benefits and indirect costs are allocated based upon actual expenditures to all grants in accordance with the Office of Management and Budget Circular A-87. The District's employee benefits are allocated to grant projects as a percentage of the District's direct labor cost. Indirect costs necessary to sustain overall operations are allocated as a percentage of total allowable direct salaries and benefits charged to grant projects. Contribution to indirect costs represent revenues that offset certain costs included in the Indirect Cost Pool.

Note 2: Cash and Investments

The following is a summary of cash and cash equivalents at June 30, 2018:

Cash in Bank	\$ <u>75,957</u>
--------------	------------------

(1) Deposits - The carrying amount of unrestricted deposits, \$88,977, includes the District's checking account.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2018**

Note 3: Restricted Cash and Investments

The following is a summary of restricted cash and investments with fiscal agents at June 30, 2018:

	<u>Fair Value</u>
Deposits (1)	\$ 608
Investments that are not securities (2):	
Corporate stock/equity securities with fiscal agent	<u>1,702,576</u>
Total Cash and Investments in the Government-wide Statement of Net Position	<u>\$ 1,703,184</u>

(1) **Deposits** - The carrying amount of restricted deposits include checking accounts, savings accounts, nonnegotiable certificates of deposits, and money market accounts at a financial institution, if any.

(2) **Investments that are not securities** - A "security" is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Restricted investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

Custodial Credit Risk - Deposits

For deposits, custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned to it. The District did not have a deposit policy for custodial credit risk. As of June 30, 2018, the District's bank balances were not exposed to custodial credit risk.

Custodial Credit Risk - Investments

For investments, custodial credit risk is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District did not have an investment policy that limits holding of investment securities by counterparties. Restricted cash and investments held with Shasta Regional Community Foundation are not insured or collateralized by FDIC, but are guaranteed by Shasta Regional Community Foundation. As of June 30, 2018, the remaining investments were not exposed to custodial risk.

Credit Risk - Investments

California Government Code Section 53601 limits investments in commercial paper to "prime" quality of the highest ranking, or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSO), and limits investments in medium-term notes to a rating of A or better. At June 30, 2018, the District had no investment policy that would further limit its investment choices. As of June 30, 2018, the District's investments were unrated.

Fair Value Measurements

When available, the District measures fair value using Level 1 hierarchy, which uses inputs to the valuation methodology that are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2018**

Note 3: Restricted Cash and Investments (Continued)

California Government Code Section 53601 places the following concentration limits on the District's investments:

No more than 5% may be invested in the securities of anyone issuer, except the obligations of the U.S. government, U.S. government agencies and U.S. government-sponsored enterprises; no more than 10% may be invested in any one mutual fund; no more than 25% may be invested in commercial paper; no more than 10% of the outstanding commercial paper of any single issuer may be purchased; no more than 30% may be invested in the bankers acceptances of anyone commercial bank; no more than 30% may be invested in negotiable certificates of deposit; no more than 20% may be invested in repurchase agreements or reverse repurchase agreements; and no more than 30% may be invested in medium-term notes.

Interest Rate Risk - Investments

California Government Code Section 53601, limits the District's investments to maturities of five years.

Note 4: Interfund Receivables, Payables and Transfers

The following is a summary of the interfund receivables and payables at June 30, 2018:

	Due from Other Funds	Due to Other Funds	Internal Balances
Governmental Activities			
RCD General Fund	\$ 47,311	\$ 72,542	\$ (25,231)
RCD Conservation Easements Fund	-	47,311	(47,311)
Shasta Conservation Fund	72,542	-	72,542
Total Governmental Activities	\$ 119,853	\$ 119,853	\$ -

The amounts related to operating needs and interfund services and will be repaid from current financial resources.

Note 5: Capital Assets

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

	Balance July 1, 2017	Additions	Retirements/ Adjustments	Balance June 30, 2018
Capital assets, being depreciated:				
Equipment	203,068	-	-	203,068
Vehicles	318,324	22,880	-	341,204
Total capital assets, being depreciated	521,392	22,880	-	544,272
Less: accumulated depreciation	451,015	16,637	-	467,652
Governmental activities, capital assets, net	\$ 70,377	\$ 6,243	\$ -	\$ 76,620

Current year depreciation expense of \$16,637 was charged.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2018**

Note 6: Changes in Noncurrent Liabilities

On April 23, 2014, a District line of credit was converted into a three-year promissory note payable with Tri Counties Bank (formally North Valley Bank) with an effective date of May 1, 2014. The note is due in monthly installments of \$4,598.18 on the first day of each month at an interest rate of 6%. The maturity date was May 1, 2017. The proceeds were used for District operations. For the fiscal year ending June 30, 2018, due to the subsequent event described in Footnote #13, Event 3, the District recognized the forgiveness of this debt as a current special item other financing source of revenue in the Statement of Activities.

Due to the subsequent event described in Footnote #13, event 2, the District has reclassified the balance due to the Bureau of Reclamation (BOR) from a current liability to a long-term liability and the changes for the fiscal year are shown below. At the time of this reissuance, November 2021, the District and the BOR have not agreed on the exact repayment terms.

The following is a summary of changes in noncurrent liabilities reported in the government-wide financial statements for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Retirements/ Adjustments	Balance June 30, 2018	Due Within One Year
<u>Governmental Activities:</u>					
Compensated absences	\$ 14,395	-	\$ (10,668)	\$ 3,727	\$ 3,727
Note payable - TCB	117,295	-	(117,295)	-	-
Due to other governments - BOR	513,575	102,908	-	616,483	-
Totals	<u>\$ 645,265</u>	<u>\$ 102,908</u>	<u>\$ (127,963)</u>	<u>\$ 620,210</u>	<u>\$ 3,727</u>

Note 7: Employee Retirement Plan

The District offers its employees a Savings Incentive Match Plan (SIMPLE) created in accordance with Internal Revenue Code Section 408(p). The plan, available to all District employees who meet the eligibility requirements, permits them to defer a portion of their salary until future years. Eligibility is limited to those employees who earned a minimum of \$5,000 in the current and any calendar year proceeding the current year. Participation in the plan is optional. The District is required to make a matching contribution equal to the employee's salary reduction contribution up to a 3% limit. The District may reduce the percentage limit and make non-elusive contributions as set forth in the plan provisions. During the fiscal year ended June 30, 2018, the District matched employee contributions in the amount of \$7,678 and recorded this as an expense in the current year.

Note 8: Commitments and Contingencies

Grant Contingencies

The District has received federal and state funds for specific purposes that are subject to review and audit by the 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 or contractor cannot be determined at this time for most grants and contracts. However, the **“restated”** current year questioned costs described in the Schedule of Findings and Questioned Costs that has been recorded as a “Due to Other Governments - BOR” long-term liability is \$102,908, due to the amount being known and probable as to repayment of the questioned costs. The **“restated”** total balance in the Due to Other Governments - BOR at June 30, 2018 is \$616,483 and relates entirely to the questioned costs for the Department of Interior Major Program Audit for fiscal years 2016-17 and 2017-18.

Commitments

At June 30, 2018, the District had open contracts related to professional service agreements.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2018**

Note 9: Joint Powers Authority

The District participates in joint ventures under joint powers agreements with Special District Risk Management Authority (SDRMA). The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes. The JPA arranges for and provides coverage protection for workers' compensation, general liability, public officials errors and omissions, employment practices liability, auto, property, and crime and fidelity coverage for its members.

The JPA is governed by a board consisting of representatives from the members. The board controls the operations of the JPA, including selection of management and approval of the board. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. The district's share of year-end asset, liabilities, or fund equity is not calculated by the JPA.

Note 10: Risk Management

The District is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; general liability and workers' compensation; natural disasters; and injuries to employees. Settled claims, if any, resulting from these risks have not exceeded insurance coverage in any of the past three years. No significant reductions in insurance coverage from the prior year have been made. As described above, the District participates in risk pools under joint power agreements for property, liability, workers' compensation, and excess liability coverage.

Note 11: Permanently Restricted Endowments

1) The District's Resource Conservation Special Revenue Fund maintains a conservation easement in perpetuity for the Caltrans Mitigation Project for environmental mitigation and the creation of freshwater wetlands and enhancing riparian habitat. In the fiscal year ending June 30, 2008, the funds to set up this endowment were held by the District. In the fiscal year ending June 30, 2009, \$169,920 was received by the District and placed in a permanent endowment in the special revenue fund. The earnings from the invested proceeds will be used "after acceptance of the mitigation project" to ensure that the created wetlands and enhanced riparian habitat are preserved, protected and maintained in perpetuity. This project has not been officially accepted as of June 30, 2018.

For the year ended June 30, 2018, this permanently restricted endowment appreciated approximately \$16,721, of which all is permanently restricted within the special revenue fund from being used for the District's current general fund expenditures.

2) The District's Resource Conservation Special Revenue Fund maintains a conservation easement in perpetuity for the City of Redding's Turtle Bay East Riparian Mitigation Site. In the fiscal year ending June 30, 2011, \$166,468 was received for a permanent endowment. The earnings from the invested proceeds will be used to fund the annual management, maintenance of the Turtle Bay East Riparian Mitigation Site in perpetuity after the City of Redding mitigation project is finished, and the District is not reimbursed by the City of Redding.

For the year ended June 30, 2018, this permanently restricted endowment appreciated approximately \$14,968, of which all is permanently restricted within the special revenue fund from being used for the District's current general fund expenditures.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2018**

Note 11: Permanently Restricted Endowments (Continued)

3) The District's Resource Conservation Special Revenue Fund maintains a conservation easement in perpetuity for the Land Conservation Commitment for the mitigation of Pacific Gas and Electric Watershed Lands. During the fiscal year ending June 30, 2017, the funds to set up this easement were received by the District in the amount of \$70,900. The principal and earnings from the invested proceeds will be used solely for the operations and maintenance of the easements.

For the year ended June 30, 2018, this permanently restricted easement appreciated approximately \$2,995, of which all is permanently restricted within the special revenue fund from being used for the District's current general fund expenditures.

4) The District's Resource Conservation Special Revenue Fund maintains a perpetual conservation easement for the natural resource preserve in and around the Highland Park residential housing development. This easement provides conservation measures and mitigation impacts located in the City of Redding. During the fiscal year ending June 30, 2017, the funds to set up this easement were received by the District in the amount of \$179,716. The principal and earnings from the invested proceeds will be used solely for the operations and maintenance of the easement.

For the year ended June 30, 2018, this permanently restricted easement appreciated approximately \$8,860, of which all is permanently restricted within the special revenue fund from being used for the District's current general fund expenditures.

5) The District's Special Revenue Fund, a blended component unit of the District, Shasta Conservation Fund (SCF), maintains conservation easements in perpetuity for landowners of developmental areas where there is a nature preserve in or around the common areas. In the fiscal year ending June 30, 2006, \$238,273 was received for a permanent endowment. The earnings from the invested proceeds will be used to fund the annual maintenance of the Rivercrest Estates Open Space Preserve.

For the year ended June 30, 2018, this permanently restricted endowment appreciated approximately \$2,483, which is not permanently restricted, thus making the amount of appreciation entirely available for current expenditures within the SCF special revenue fund.

6) The District's Special Revenue Fund, a blended component unit of the District, Shasta Conservation Fund (SCF), maintains conservation easements in perpetuity for landowners of developmental areas where there is a nature preserve in or around the common areas. In the fiscal year ending June 30, 2016, \$409,384 was received for a permanent endowment. The earnings from the invested proceeds will be used to fund the annual maintenance of the Shastina Ranch Clover Creek Preserve and Eastern and Western Vernal Pool Preserves.

For the year ended June 30, 2018 this permanently restricted endowment appreciated approximately \$17,483, which is not permanently restricted, thus making the amount of appreciation entirely available for current expenditures within the SCF special revenue fund.

Note 12: Fund Balance

The District's General Fund has a **“restated” positive** fund balance of \$63,580 at June 30, 2018.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2018**

Note 13: Subsequent Events and Reissuance of the Audited Financial Statements

Event #1

Subsequent to the balance sheet date of June 30, 2018 (i.e. in October 2021), while in negotiations with the BOR on the repayment of the balance in Due to Other Governments – BOR (originally \$719,883 and restated to \$616,483), the District performed an analysis of the total project payments vs. costs, including advances repaid to BOR, and discovered two errors in the previously stated balance owed to BOR. See Footnote #14, item 2, and Footnote #15, item 1, for a description of these errors. These errors, a total of \$103,400, materially affect the financial statements for the year ended June 30, 2018, as well as the total balance owing BOR, and therefore, the District and the District's auditor, have determined that the independent auditor's report, audit financial statements, footnotes and questioned costs should be restated and reissued for the year ended June 30, 2018. My opinions in the Independent Auditor's Reports are not changed as a result of this reissuance.

Event #2

Due to the understanding between the BOR and the District regarding the repayment of the balance due to the BOR, and the fact that this balance cannot be repaid by the District with the use of current financial resources within the next twelve months, the debt to the BOR has been reclassified from current to long-term and consequently, removed from the modified accrual statements of the District. The balance of this debt as of the prior year, June 30, 2017, has been shown as a prior period adjustment, see prior period adjustment #3 in Footnote #14. The amount of debt incurred for the year ended June 30, 2018, has been restated in the Statement of Revenues, Expenditures and Changes in Fund Balance for the year ended June 30, 2018, see restatement #2 in Footnote #15.

Event #3

As of June 30, 2017, the District had long-term debt owing Tri Counties Bank in the amount of \$133,377, including accrued interest (see Footnote #6). For the fiscal year ended June 30, 2018, the District originally accrued an additional \$8,003 in interest, bringing the balance owing at June 30, 2018 to \$141,380. In November 2019, the statute of limitations for pursuing the default passed, according to legal sources advising the District. The District believes that the bank has formally written off this loan. The District is therefore not considering it a liability of the District and has removed it from the District's long-term liabilities and Statement of Net Position. The balance of this debt as of the prior year, June 30, 2017, \$133,377, has been restated in the Statement of Activities for the year ended June 30, 2018, see restatement #2 in Footnote #15. Interest expense in the current year has been restated to zero and the liability removed.

Note 14: Prior Period Adjustments

The District recorded the following prior period adjustments:

1. Decreasing Due to Other Funds by \$10,000 on one project due to a prior misstatement of funds received, which resulted in an understatement of income. The effect of this adjustment was to increase the change in fund balance on the Statement of Revenues, Expenditures and Changes in Fund Balance and the change in net position on the Statement of Activities for the year ended June 30, 2017;
2. Decreasing Due to Other Governments – BOR by \$91,482 to correct the recording of additional allowable indirect costs on the gravel injection project with the Bureau of Reclamation (BOR) which was due to a change in accounting estimate for the approved indirect cost rates. The effect of this adjustment was to increase the change in fund balance on the Statement of Revenues, Expenditures and Changes in Fund Balance and the change in net position on the Statement of Activities for the year ended June 30, 2017.
3. Decreasing Due to Other Governments – BOR by \$513,575 due to the reclassification of this debt from a current liability to long-term debt based on the subsequent event described in Footnote #13, Event #2. The effect of this adjustment was to increase the change in fund balance on the Statement of Revenues, Expenditures and Changes in Fund Balance for the year ended June 30, 2017.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2018**

Note 14: Prior Period Adjustments (Continued)

The effect of these adjustments on beginning net position and fund balance is shown on page 5 and 8, respectively. The total effect on the change in fund balance on the Statement of Revenues, Expenditures and Changes in Fund Balance for the year ended June 30, 2017 is \$615,057 and the restated change in fund balance would be \$592,186. The total effect on the change in net position on the Statement of Activities for the year ended June 30, 2017 is \$101,482 and the restated change in net position would be \$433,927.

Note 15: Restatements

1. The District restated revenue from intergovernmental sources by increasing revenue by \$11,918 to \$1,443,522 due to finding an error in the recording of unallowable costs on the BOR project. This adjustment has the effect of decreasing the balance in Due to Other Governments – BOR and increasing the change in fund balance in the current fiscal year.
2. Due to subsequent event #2, the amount of debt incurred for the year ended June 30, 2018, which is equal to the restated questioned costs of \$102,908, has been restated as a revenue, “other financing source, proceeds from long-term debt borrowing” in the current year Statement of Revenues, Expenditures and Changes in Fund Balance. There is no impact on the Statement of Net Position or Statement of Activities.
3. Due to subsequent event #3, the amount of interest expense accrual on the long-term note payable for the year ended June 30, 2018, originally reported as \$8,003, was restated to zero since the debt has been forgiven.

REQUIRED SUPPLEMENTARY INFORMATION

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
Revenues				
Charges for services	\$ -	\$ -	\$ 560,751	\$ 560,751
Intergovernmental and contributions	4,513,563	4,513,563	1,443,522	(3,070,041)
Proceeds from debt borrowing	-	-	102,908	102,908
Total Revenues	<u>4,513,563</u>	<u>4,513,563</u>	<u>2,107,181</u>	<u>(2,406,382)</u>
Expenditures				
Current:				
Salaries and benefits	766,494	766,494	883,888	(117,394)
Operating services and supplies	3,607,064	3,607,064	938,373	2,668,691
General services and supplies	127,645	127,645	154,389	(26,744)
Bad debt expense	-	-	46,476	(46,476)
Capital outlay	<u>12,360</u>	<u>12,360</u>	<u>22,880</u>	<u>(10,520)</u>
Total Expenditures	<u>4,513,563</u>	<u>4,513,563</u>	<u>2,046,006</u>	<u>2,467,557</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>61,175</u>	<u>\$ 61,175</u>
Fund Balance, July 1, 2017, as restated			<u>2,405</u>	
Fund Balance, June 30, 2018			<u>\$ 63,580</u>	

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
Special Revenue Fund - Shasta Conservation Fund
For the Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
Revenues				
Use of money	\$ 1,000	\$ 1,000	\$ 30,059	\$ 29,059
Net increase in the fair value of investments	11,250	11,250	4,064	(7,186)
Grants	10,000	10,000	-	(10,000)
Contributions and other	6,000	6,000	4,318	(1,682)
Total Revenues	<u>28,250</u>	<u>28,250</u>	<u>38,441</u>	<u>10,191</u>
Expenditures				
Current:				
Operating services and supplies	23,050	23,050	48,875	(25,825)
General services and supplies	3,625	3,625	8,528	(4,903)
Total Expenditures	<u>26,675</u>	<u>26,675</u>	<u>57,403</u>	<u>(30,728)</u>
Change in Fund Balance	<u>\$ 1,575</u>	<u>\$ 1,575</u>	<u>(18,962)</u>	<u>\$ (20,537)</u>
Fund Balance, July 1, 2017			<u>736,785</u>	
Fund Balance, June 30, 2018			<u>\$ 717,823</u>	

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to Required Supplementary Information
June 30, 2018**

Budgets and Budgetary Accounting

The District is required to prepare a budget each year for all major funds based on estimates of revenues and expenditures. The budget is adopted on a basis consistent with U.S. generally accepted accounting principles. The District's governing Board of Directors annually adopts a budget for the General Fund. All changes to the budget during the year are reflected in these financial statements and were approved by the Board. All unencumbered appropriations lapse at the end of each fiscal year.

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

The Board of Directors did not adopt a budget for the Resource Conservation Special Revenue Fund so it is not presented as Required Supplementary Information.

SINGLE AUDIT REPORTS

**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 and those charged with governance
Western Shasta Resource Conservation District
Anderson, CA

I 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 each major fund of the Western Shasta Resource Conservation District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Western Shasta Resource Conservation District's basic financial statements and have **reissued** my report thereon dated November 9, 2021.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Western Shasta Resource Conservation 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Western Shasta Resource Conservation District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as **Findings 2018-001, 2018-002, and 2018-003**, that I consider material weaknesses.

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. I consider the deficiency described in the accompanying schedule of findings and questioned costs as **Findings 2018-004** to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Western Shasta Resource Conservation District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as **Findings 2018-003**.

Western Shasta Resource Conservation District's Response to Findings

Western Shasta Resource Conservation District's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Western Shasta Resource Conservation District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

A handwritten signature in blue ink, appearing to read "Charles W. Pillon, CPA". The signature is stylized and includes a horizontal line at the end.

Charles W Pillon, CPA
Anderson, California

November 9, 2021

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors and those charged with governance
Western Shasta Resource Conservation District
Anderson, CA

Report on Compliance for Each Major Federal Program

I have audited the Western Shasta Resource Conservation District’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Western Shasta Resource Conservation District’s major federal programs for the year ended June 30, 2018. Western Shasta Resource Conservation District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

My responsibility is to express an opinion on compliance for each of the Western Shasta Resource Conservation District’s major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Western Shasta Resource Conservation District’s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the Western Shasta Resource Conservation District’s compliance.

Basis for Qualified Opinion on CFDA 15.512 Sacramento River Salmonid Spawning and Rearing Habitat Restoration

As described in the accompanying schedule of findings and questioned costs, Western Shasta Resource Conservation District did not comply with requirements regarding CFDA 15.512 Sacramento River Salmonid Spawning and Rearing Habitat Restoration in finding numbers **2018-005** for Allowable Costs and Cash Management and **2018-006** for Reporting. Compliance with such requirements is necessary, in my opinion, for Western Shasta Resource Conservation District to comply with the requirements applicable to that program.

Opinion on Each Major Federal Program

In my opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Western Shasta Resource Conservation District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 15.512 Sacramento River Salmonid Spawning and Rearing Habitat Restoration for the year ended June 30, 2018.

Other Matters

The results of my auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items **2018-007** and **2018-008**. My opinion on each major federal program is not modified with respect to these matters.

Western Shasta Resource Conservation District's response to the noncompliance findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Western Shasta Resource Conservation District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

Report on Internal Control over Compliance

Management of the Western Shasta Resource Conservation District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Western Shasta Resource Conservation District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Western Shasta Resource Conservation District's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. I identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs, as items **2018-005**, **2018-006**, **2018-008** and **2018-009**, that I consider material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2018-007** to be a significant deficiency.

Western Shasta Resource Conservation District's response to the internal control over compliance findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Western Shasta Resource Conservation District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Charles W Pillon, CPA
Anderson, California

November 9, 2021

**Western Shasta Resource Conservation District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018**

<u>Federal Grantor/Program or Cluster Title</u>	<u>Passthrough Agency</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
U. S. DEPARTMENT OF INTERIOR				
Direct Funding:				
Bureau of Land Management				
	Interlakes Stewardship Agreement	15.233		\$ 14,373
Bureau of Reclamation				
	Sacramento River Salmonid Spawning and Rearing Habitat Restoration	15.512		874,204
Total U. S. Department of Interior				888,577
U. S. DEPARTMENT OF TRANSPORTATION				
Passthrough Funding:				
	Department of Transportation		Caltrans	
	Dana to Downtown	20.205	02-0094	34,236
	Jelly's Ferry	20.205	02-0131	663
	Jellys Ferry Bakers Curve	20.205	02-0139	2,136
	Jellys Ferry Bella Diddy	20.205	02-0140	881
	Capstone	20.205	02-0144	123,148
	Total 20.205			161,064
Total U. S. Department of Transportation				161,064
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct Funding:				
Federal Emergency Management Agency				
	Technical Service Provider	97.045		42,216
Total U. S. Department of Homeland Security				42,216

**Western Shasta Resource Conservation District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018**

U. S. DEPARTMENT OF AGRICULTURE			
Direct Funding:			
Natural Resources Conservation Service			
Engineering Services	10.912		14,352
 Passthrough Funding:			
U. S. Forest Service	CA Fire Safe Council		
Shasta Lake Fuels Section B	10.664	15SFA37301	21,700
CFSC Shingletown Ridge #2	10.664	17WUI57763	58,040
	Total 10.664		79,740
 Total U. S. Department of Agriculture			94,092
 TOTAL ALL EXPENDITURES			\$ 1,185,949

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018**

NOTE A—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Western Shasta Resource conservation District (District) under programs of the federal government for the fiscal year ended June 30, 2018. The information in this Schedule is presented in accordance with the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial net position or changes in net position of the District.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, when applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Also when applicable, recognition is following the Uniform Guidance for federal awards granted after December 26, 2014.
2. Pass-through entity identifying numbers are presented where available.

NOTE C—SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the District provided none of the federal awards to subrecipients.

NOTE D—INDIRECT COST RATE

The District did not elect to use the 10% de Minimis indirect cost rate on the federal awards presented in this schedule.

**WESTERN SHASTA RESOURCE CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Section 1

Summary of Auditor's Results:

Financial Statements

- | | |
|--|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 3. Noncompliance material to financial statements noted? | Yes |

Federal Awards

- | | |
|---|----------|
| 1. Internal controls over major programs: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 2. Type of auditor's report issued on compliance for major programs: | Modified |
| 3. Any audit findings disclosed that are required to be reported in accordance 2 CFR section 200.516(a) | Yes |

4. Identification of major programs:

CFDA number

Name of Federal Program

15.512

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration

- | | |
|--|------------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs | \$ 750,000 |
| 6. Auditee qualified as a low-risk auditee under 2 CFR section 200.520 | No |

Section 2

Financial Statement Findings Yes

Section 3

Federal Awards Findings and Questioned Costs Yes

Summary Schedule of Prior Year Findings and Questioned Costs Yes

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018**

FINDINGS AND QUESTIONED COSTS – FINANCIAL STATEMENT AUDIT

**Questioned
Costs**

FINDING 2018-001 Control Environment

\$ 0.00

Condition: Entity level controls over the control environment are ineffective in the current business environment and make for a high-risk environment.

Criteria: It is the responsibility of those charged with governance (i.e. Board of Directors) to approve policies and procedures for the District that includes a business environment that effectively reduces the risks of improper behavior by District personnel, such as illegal or dishonest acts, significant abuse and grant noncompliance.

Cause: The history of this District and the decisions of the Board of Directors has created an extremely difficult business environment whereby the cash flows of the District are usually limited which puts an incredible amount of pressure on the management of the District to fulfill cash needs and pay for grant related costs prior to reimbursement. For many years, management and auditors have stressed that the risks of potential improprieties caused by this environment is very high and that they have recommended to the Directors to respond effectively to these risks. The Board of Directors have not effectively responded to the risks of the District. These risks, outlined in a risk assessment the District completed several years ago, has not been updated and have not been effectively reduced to a low level in order to create an environment which reduces or removes incentives that might prompt personnel to engage in dishonest, illegal, or unethical acts. Some of the more critical risks are risks to the entity itself, such as the effectiveness of the governing body or finance committee oversight, complexity of Federal and State regulatory requirements, especially in the area of grant compliance, the results of previous Single audits, the lack of personnel with appropriate accounting and financial reporting skill, knowledge, and experience, and the District continues to have a significant cash flow problems due to the nature of grant, service revenue and cost reimbursement contracts. The Board of Directors has not provided the District with any other sources of revenue (i.e. “General” revenues) to offset higher project costs and indirect costs not covered by grants.

Effect: First, the effects of this cause have been happening throughout the history of the District. Approximately eight years ago, the manager of the District, due to this cash flow pressure, billed grantors for costs before they were incurred and even the auditor at the time had to document material questioned costs in the audit. During this fiscal year, due to this same cash flow pressure, the District has material noncompliance with Federal and/or State grant compliance requirements and material weaknesses in internal controls, which has caused the District to have \$102,908 of questioned costs in the audit for the year ending June 30, 2018, **as restated**, (see Finding **2018-005** below) that will have to be repaid to the grantor and will put extreme pressure on the District to continue operations.

Context: This finding is a repeat of a material weakness in the financial statement audit for the year ended June 30, 2017, **Finding 2017-001**.

Recommendation: The Board of Directors must address the District's cash flow problems that is putting enormous pressure on management and employees. Based on my experience in auditing other resource conservation districts, the citizens of these other districts participate in the funding of those districts by paying property taxes and in some cases participate by purchasing debt of the district for working capital or capital asset purchases. It is reasonable for the citizens of Western Shasta County to pay for the operations of this District that provides such outstanding resources that the citizens get to enjoy.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018**

**Questioned
Costs**

FINDING 2018-001 Control Environment (continued)

Views of responsible officials: The District is in agreement with the auditor's findings. The District has historically experienced issues with cash flow and has survived the past few years in part on debt forgiveness by outside parties. However, the District's Financial Accounting Policies and Procedures Section 211.2 specifically outline how the District shall minimize business and inherent risk, which includes the risks in poor cash flows and insufficient funding for operations.

The District's Financial Accounting Policies and Procedures also specify that the District is allowed to generate any type of revenue as permitted under the California Government Code. However, the Board of Directors has historically restricted the District from pursuing certain types of revenue permitted under the Government Code.

FINDING 2018-002 Financial Statement Close and Reporting

\$ 0.00

Condition: Lack of effective financial close and reporting process, bank reconciliations not done in a timely manner, no timely and effective reviews of financial information, no oversight of person with skills, knowledge and expertise of Generally Accepted Accounting Principles (GAAP) for most of the fiscal year.

Criteria: Management has the responsibility for the preparation and fair presentation of the financial statements in accordance with GAAP and that the financial statements are free from material misstatements.

Cause: Although the District had a contract with an outside CFO for the fiscal year, the District experienced the following deficiencies in internal controls: including, but not limited to: accruals for expenses not being accurate, prepaid expenses not reconciled, "unavailable" deferred revenue not being recorded in the governmental fund statements, bank reconciliations not being done in a timely manner, reporting to grantors not correct and not matching the general ledger, year-end accruals not being done, incorrect recording of indirect costs allocation to projects, and federal and state payroll tax returns not being timely filed and payments were late incurring penalties. Due to the District not ensuring the outside CPA performed the duties under the contract for most of the fiscal year, the District failed to apply appropriate procedures to the month-end and year-end balances to ensure they were reconciled and free of material misstatements. Thus, management had not effectively designated an individual who possesses suitable skill, knowledge, or experience with GAAP in order to fully close the District's books on a monthly basis, as well as prepare and fairly present governmental fund and government-wide financial statements. Therefore, a full review of the monthly close by a designated individual did not happen for most the fiscal year and was thus ineffective.

Effect: Interim governmental fund financial statements contained material misstatements, which resulted in giving the Board of Directors materially incorrect financial reporting packages. In addition, the new CPA hired to prepare the District for the annual audit had to make numerous material adjustments in order to correct the financial statements in order to prepare the trial balance for audit.

Context: This finding is a repeat of a significant deficiency in the financial statement audit for the year ended June 30, 2015, **Finding 2015-001** and a material weakness for June 30, 2017, **Finding 2017-002**.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018**

**Questioned
Costs**

FINDING 2018-002 Financial Statement Close and Reporting (continued)

Recommendation: The District needs to do more in the area of monthly closing the books according to generally accepted accounting principles, perform a more thorough review of the interim financial statements produced by the District and publish a complete set of financial statements which are supportive of monthly and quarterly reports to grantors and contractors. I recommend hiring the services of a qualified internal or outside CPA to oversee and train the RCD staff and produce "fairly presented" interim and annual governmental fund and government-wide financial statements that will be audited and sent to any outside third party.

Views of responsible officials: The District is in agreement with the auditor's findings and terminated the outside CPA's contract in May 2018 and hired a new contract CPA the same month.

FINDING 2018-003 Indirect Cost Rate Proposal

Condition: The District's last prepared and approved ICRP was with the District's Cognizant Agency, the U.S. Department of the Interior, for a "provisional" rate for the year ending June 30, 2013.

\$ 0.00

Criteria: **2 CFR PART 225/OMB Circular A-87** states that in order to recover indirect costs, organizations must prepare indirect cost rate proposals (ICRPs) in accordance with the guidelines provided in the Circular. These guidelines state that the annual ICRP must be prepared and maintained on file for review and that the ICRP rate must support the charge of indirect costs to the grant or contracts.

Cause: Internal controls over financial reporting and the personnel involved in the financial reporting process are lacking effective controls, skills, expertise and knowledge.

Effect: If the ICR is lower than the agreed upon rates, this could result in unallowed costs subject to reimbursement. If the ICR is higher than the agreed upon rates, this could result in unrecovered costs on grants and contracts.

Context: This finding is a repeat of a significant deficiency in the financial statement audit for the year ended June 30, 2017, **Finding 2017-004**.

Recommendation: I recommend that the client calculate the missing fiscal years Indirect Cost Rates and file the ICRP with the Department of the Interior immediately.

Views of responsible officials: The District is in agreement with the auditor's findings, filed the ICRP's with the Department of the Interior and received provisional rate approval in April 2019.

FINDING 2018-004 District Budget

\$ 0.00

Condition: The District has violated Federal and State laws and regulations by not approving a District budget for all major funds until September 2017, thus operating for part of the year without approval to incur District expenditures.

Criteria: According to Federal and State laws and regulations, the District's Board of Directors is responsible for approving an annual budget prior to the start of the fiscal year, which allows the District to operate with approved appropriations for the fiscal year.

Cause: The District did not adopt the annual budget prior to July 1st and failed to adopt a budget for the District's major special revenue fund.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018**

**Questioned
Costs**

FINDING 2018-004 District Budget (continued)

Effect & Context: The District in noncompliance with Federal and State laws and regulations governing local governments. This is a new finding.

Recommendation: The District should ensure the annual budget is adopted prior to July 1st.

Views of responsible officials: The District is in agreement with the auditor’s findings.

Total Financial Statement Audit Questioned Costs

\$ 0.00

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM
AUDIT**

DEPARTMENT OF THE INTERIOR

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

\$ 102,908

2018-005 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

Material Noncompliance: The District received material cash advances from this Federal Agency and did not minimize the time elapsing between the transfer of the funds and their disbursement by the District because the cash advances were disbursed to pay costs incurred that were not allocable to this project and thus not allowable.

Cause: Due to insufficient cash flow and the ability to draw these funds from this program without justification and approval by the Federal Agency, the District felt it was appropriate to use grant funds from this program for a temporary period while the District was being reimbursed for cost incurred on other projects.

Effect: This resulted in a material noncompliance for the two compliance requirements above. This has resulted in unallowable “questioned” costs on this program as of June 30, 2018.

Context: Of the 11 individual Federal projects the District worked on during the fiscal year, only one Federal program was audited as a major program. Due to the large balance in due to other governments (i.e. BOR “Bureau of Reclamation) at year-end, the audit selected all funds drawn from the Federal agency during the fiscal year and compared them to the applicable costs to be reimbursed. It found material noncompliance with the cash management requirement for the drawing of Federal funds and material noncompliance with the allowable costs requirement with questioned costs of \$102,908, **as restated**. For the current year, the test found this situation starting in July 2017 and ending in Dec 2017. The sampling was a statistically valid sample. This finding is a repeat of a material non-compliance for the year ended June 30, 2017, **Finding 2017-006**.

Recommendation: The District should develop and implement policies and procedures to restrict advances on grants from being spent on any unrelated project or any cost that is not related to the purpose for which the funds were advanced. In addition, The Board of Directors must address the District's cash flow problems that is putting enormous pressure on management and employees. Based on my experience in auditing other resource conservation districts, the citizens of these other districts participate in the funding of those districts by paying property taxes and in some cases participate by purchasing debt of the district for working capital or capital asset purchases. It is reasonable for the citizens of Western Shasta County to pay for the operations of this District that provides such outstanding resources that the citizens get to enjoy.

Views of responsible officials: The District is in agreement with the auditor’s findings.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018**

**Questioned
Costs**

DEPARTMENT OF THE INTERIOR

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

2018-006 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

Material Noncompliance: Reporting Compliance

\$ 0.00

Condition: Some of the required financial reports were not submitted on time according to the reporting schedule. In addition, there were inaccuracies found on the reports between the cumulative project disbursements (i.e. costs incurred and allowed) and cash on hand at the end of the reporting period and the actual amounts per the District’s financial accounting system.

Criteria: 43 CFR Section 12.80, as well as Section 9 of the Assistance Agreement, states that failure to comply with the reporting requirements contained in the Agreement may be considered a material noncompliance with the terms and conditions of the award. Specifically, financial reports shall be submitted semi-annually on form SF-425 for the reporting periods October 1 through March 31 and April 1 through September 30 and must be supported by the Grantee’s financial reporting system.

Cause: Internal controls over the District’s financial close and reporting (see Financial Statement Audit **Finding 2018-002**) has material weaknesses throughout and the personnel preparing the report did not possess the skills and expertise to prepare the reports.

Effect: Material errors in the financial reporting to the Federal Agency resulting in material noncompliance with the Agreement and the reporting requirement.

Context: The audit examined the cumulative receipts, disbursements and cash on hand reported on the two semi-annual SF-425 Financial Reports filed with the Federal Agency from the reporting period ending September 30, 2017 to the last report filed for the period ending March 31, 2018. Cumulative receipts and disbursements, as reported, were different then the District’s financial reporting system in both of the reporting periods. Cash-on-Hand, as reported, was also different then the District’s financial reporting system in both of the reporting periods. The sampling was a statistically valid sample. This finding is a repeat of a material non-compliance for the year ended June 30, 2017, **Finding 2017-007**.

Recommendations: The District must have effectively designed and implemented internal controls over their financial close and reporting process on a monthly basis and at fiscal year-end.

Views of responsible officials: The District is in agreement with the auditor’s findings.

DEPARTMENT OF THE INTERIOR

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

2018-007 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018**

**Questioned
Costs**

Finding 2018-007 (continued)

Significant Deficiency and Noncompliance:

Condition: The District's last prepared and approved Indirect Cost Rate Proposal (ICRP) was with the District's Cognizant Agency, the U.S. Department of the Interior, for a "provisional" rate for the year ending June 30, 2013. This provisional rate (i.e. 25.54%) was accepted by the Department of the Interior and stipulated as the agreed upon rate in the Assistance Agreement for this Federal award program.

Criteria: This ICR is supposed to be updated annually to the actual figures for the fiscal year. The Uniform Guidance **2 CFR PART 225/OMB Circular A-87** states that the rate should be adjusted each year and if the actual costs exceed the accepted rate, then these costs can be recovered as long as money in the program is still available. However, if the actual costs are lower than the accepted rate than the agency will recover the overpaid indirect costs by factoring it in to the next year of the project.

Cause: Internal controls over financial reporting and the personnel involved in the financial reporting process are lacking effective controls, skills, expertise and knowledge.

Effect: If the ICR is lower than the agreed upon rates, this could result in unallowed costs subject to reimbursement. If the ICR is higher than the agreed upon rates, this could result in unrecovered costs on grants and contracts.

Context: The audit tested no indirect cost rate proposals since none were submitted during the fiscal year, however, the District did submit FY's 13-14 through 17-18 to the Department of the Interior in November 2018 and received acceptance of provisional rates in April 2019. The audit reviewed and tested all of these proposals. The current fiscal year's questioned costs under this major program has been adjusted for the accepted provisional rates retroactively to the effective date of the agreement. This finding is a repeat of a material non-compliance for the year ended June 30, 2017, **Finding 2017-008**.

Recommendation: I recommend that the client calculate the missing fiscal years Indirect Cost Rates and file the ICRP with the Department of the Interior immediately.

Views of responsible officials: The District is in agreement with the auditor's findings, filed the ICRP's with the Department of the Interior and received provisional rate approval in April 2019.

DEPARTMENT OF THE INTERIOR

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

2018-008 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

Material Weakness and Noncompliance:

Condition: There are no written policies and procedures for compliance over federal award programs.

Criteria: Under Uniform Guidance cost principles, all grantees who receive Federal funds must have "specific" written policies and procedures for compliance over federal award programs, especially compliance requirements such as cash management, procurement, suspension and debarment, reporting, and allowable costs.

\$ 0.00

\$ 0.00

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018**

**Questioned
Costs**

Finding 2018-008 (continued)

Cause: The District has failed to comply with this deficiency noted in the prior year audit as a deficiency less serious than a significant deficiency or material weakness.

Effect: Without effectively written and communicated policies and procedures the District will be in noncompliance in the operation of federal programs and employees will not have the direction necessary to stay in compliance with all federal requirements when working on or managing federal award programs.

Context: This finding is a repeat of a significant deficiency and material non-compliance for the year ended June 30, 2017, **Finding 2017-009**.

Recommendation: The District should develop and communicate “specific” written policies and procedures for compliance over federal award programs.

Views of responsible officials: The District is in agreement with the auditor’s findings.

DEPARTMENT OF THE INTERIOR

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

2018-009 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

Material Weakness:

\$ 0.00

Condition: The District’s entity level controls over the control environment are ineffective in the current business environment and make for a high-risk environment.

Criteria: It is the responsibility of those charged with governance (i.e. Board of Directors) to approve policies and procedures for the District that includes a business environment that effectively reduces the risks of improper behavior by District personnel, such as illegal or dishonest acts, significant abuse and grant noncompliance.

Cause: The history of this District and the decisions of the Board of Directors has created an extremely difficult business environment whereby the cash flows of the District are usually limited which puts an incredible amount of pressure on the management of the District to fulfill cash needs and pay for grant related costs prior to reimbursement. For many years, management and auditors have stressed that the risks of potential improprieties caused by this environment is very high and that they have recommended to the Directors to respond effectively to these risks. The Board of Directors have not effectively responded to the risks of the District. The Board of Directors has not provided the District with any other sources of revenue (i.e. “General” revenues) to offset higher project costs and indirect costs not covered by grants.

Effect & Context: Due to the material questioned costs for this Federal program, it is apparent that this material weakness has affected the District’s internal controls over Federal programs resulting in material noncompliance.

Context: This finding is a repeat of a material weakness in internal control over compliance for the year ended June 30, 2017, **Finding 2017-010**.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018**

Finding 2018-009 (continued)

**Questioned
Costs**

Recommendation: The Board of Directors must address the District's cash flow problems that is putting enormous pressure on management and employees. Based on my experience in auditing other resource conservation districts, the citizens of these other districts participate in the funding of those districts by paying property taxes and in some cases participate by purchasing debt of the district for working capital or capital asset purchases. It is reasonable for the citizens of Western Shasta County to pay for the operations of this District that provides such outstanding resources that the citizens get to enjoy.

Views of responsible officials: The District is in agreement with the auditor's findings.

Total – Department of the Interior

\$ 102,908

Total Major Federal Award Program Questioned Costs

\$ 102,908

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2018**

FINANCIAL STATEMENT AUDIT

FINDING 2017-001 – Control Environment

Condition/Context: See current year **Finding 2018-001**

Status: Not corrected during the fiscal year ended June 30, 2018 due to the “initial” late discovery of this prior audit finding during the last months of this fiscal year ended June 30, 2018.

Corrective Actions taken during FY2018-19:

1. The District’s CFO submitted the final indirect cost plans for FY 2012-2013, 2013-2014, 2014-2015, 2015-2016, 2016-2017 and 2017-2018. The District has also submitted a provisional indirect cost plan for 2018-2019. These submissions were sent to Ms. Marilyn Elgar, Indirect Cost Services, Financial Management Directorate, Interior Business Center, US Department of the Interior. The provisional rates were approved by the Department in April 2019.
2. The Board has considered several times in the past and twice since the release of the 2016-17 audit, to consider starting a process to explore a local tax assessment. However, the political climate for a new tax is problematic in Shasta County. The Board asked the District Manager to start moving forward on a plan to ask the voters for approval of a tax assessment. The District formed an advisory committee to discuss alternatives sources of revenue and asked the committee to report back to the Board. The committee met once but no report has been given to the Board by the committee. Shasta County recently experienced the Carr Fire which burned over 280,000 acres and destroyed over 1,200 homes in the Redding area. The District has been engaged by the State Water Resources Control Board (\$2.3 million) and FEMA (\$6.3 million) to perform erosion control work as a result of the fire. The final total contract amount is estimated at approximately \$8.6 million with work to be performed over the next three years and significant coverage of the District’s indirect costs should be obtained.
3. The District now invoices monthly. Existing District Policy 709.1 requires the Board to approve any projects that do not cover all costs. Unfortunately, the Board has not followed this policy in the past. The Board has received training on this policy during a Board meeting held June 28, 2018 by the CFO, and has not accepted any new projects since the training that do not cover all costs. District staff received a memo indicating that the District prohibits the charging of expenditures to closed grants.
4. The District’s Board has terminated the employment of the General Manager and taken a much more positive and substantial role in managing the District and setting a much better tone at the top to reduce the risk of illegal acts, misappropriation of assets and operating in a low integrity environment. They have since hired a new General Manager, Maureen Teubert.

Corrective Actions Remaining: Make a final decision how the District will move forward with general revenues and fee-for-service contracts to reduce the cash flow burdens of the District on the General Manager and staff.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

FINDING 2017-002 – Financial Statement Close and Reporting

Condition/Context: Lack of effective financial close and reporting process, bank reconciliations not done in a timely manner, no timely and effective reviews of financial information, no oversight of person with skills, knowledge and expertise of Generally Accepted Accounting Principles (GAAP) for most of the fiscal year.

Status: Not corrected during the fiscal year ended June 30, 2018 due to the “initial” late discovery of this prior audit finding during the last months of this fiscal year ended June 30, 2018. The District implemented all corrective actions found in the Corrective Action Plan starting on page 45, during FY 2018-2019.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2018**

FINDING 2017-003 – Allowable Costs and Cash Management Non-Compliance

Condition/Context: The District received cash advances from several state and local agencies, including one non-major Federal program, and did not minimize the time elapsing between the transfer of the funds and their disbursement by the District because the cash advances were disbursed to pay costs incurred that were not allocable to each respective project and thus not allowable.

Status: Fully corrected during fiscal year 2017-2018.

FINDING 2017-004 – Indirect Cost Rate Proposals

Condition/Context: The District's last prepared and approved ICRP was with the District's Cognizant Agency, the U.S. Department of the Interior, for a "provisional" rate for the year ending June 30, 2013.

Status: Not corrected during the fiscal year ended June 30, 2018 due to the "initial" late discovery of this prior audit finding during the last months of this fiscal year ended June 30, 2018. The District implemented all corrective actions found in the Corrective Action Plan starting on page 45, during FY 2018-2019.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

FINDING 2017-005 – Payroll Taxes

Condition/Context: The District violated Federal and State laws and regulations by not filing Form 941, Employer's Quarterly Federal Tax Return, for the first quarter of 2017, and filing other quarterly returns late. In addition, as of and for the year ended June 30, 2017, the District also has paid many of the amounts due for Federal and State payroll taxes late or not at all.

Status: Fully corrected during fiscal year 2017-2018 and no longer valid as a current year finding.

MAJOR FEDERAL AWARD PROGRAM AUDIT

DEPARTMENT OF THE INTERIOR

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

FINDING 2017-006 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

Material Noncompliance: The District received material cash advances from this Federal Agency and did not minimize the time elapsing between the transfer of the funds and their disbursement by the District because the cash advances were disbursed to pay costs incurred that were not allocable to this project and thus not allowable.

Status: Not corrected during the fiscal year ended June 30, 2018 due to the "initial" late discovery of this prior audit finding during the last months of this fiscal year ended June 30, 2018. The District implemented all corrective actions found in the Corrective Action Plan starting on page 45, during FY 2018-2019.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

FINDING 2017-007 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

Material Noncompliance: Some of the required financial reports were not submitted on time according to the reporting schedule. In addition, there were inaccuracies found on the reports between the cumulative project disbursements (i.e. costs incurred and allowed) and cash on hand at the end of the reporting period and the actual amounts per the District's financial accounting system.

Status: Not corrected during the fiscal year ended June 30, 2018 due to the "initial" late discovery of this prior audit finding during the last months of this fiscal year ended June 30, 2018. The District implemented all corrective actions found in the Corrective Action Plan starting on page 45, during FY 2018-2019.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2018**

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

FINDING 2017-008 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

Significant Deficiency and Noncompliance: The District’s last prepared and approved ICRP was with the District’s Cognizant Agency, the U.S. Department of the Interior, for a “provisional” rate for the year ending June 30, 2013.

Status: Not corrected during the fiscal year ended June 30, 2018 due to the “initial” late discovery of this prior audit finding during the last months of this fiscal year ended June 30, 2018. The District implemented all corrective actions found in the Corrective Action Plan starting on page 45, during FY 2018-2019.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

FINDING 2017-009 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

Condition: There are no written policies and procedures for compliance over federal award programs.

Status: Not corrected during the fiscal year ended June 30, 2018 due to the “initial” late discovery of this prior audit finding during the last months of this fiscal year ended June 30, 2018. The District implemented all corrective actions found in the Corrective Action Plan starting on page 45, during FY 2018-2019.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

FINDING 2017-010 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

Material Weakness: The District’s entity level controls over the control environment are ineffective in the current business environment and make for a high-risk environment. See full condition/context at **Finding 2018-009**.

Status: Not corrected during the fiscal year ended June 30, 2018 due to the “initial” late discovery of this prior audit finding during the last months of this fiscal year ended June 30, 2018.

Corrective Actions Remaining: See all corrective actions for this finding on page 46, finding **2018-005**.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

CORRECTIVE ACTION PLAN For the Year Ended June 30, 2018

Financial Statement Audit Findings

FINDING 2018-001

The District's Board has ended negotiations with the BOR to determine past and future eligible costs and appropriate reimbursement rates and the Board is presently negotiating the financing arrangement for repayment.

The Board has and will formally consider a mechanism to obtain general revenue. This can include property taxes or bonds designed to be used for operating expenses or repayment of debt. The District has also implemented further outreach efforts to engage partners that obtain their natural resource from Shasta County to provide unencumbered, matching funds and has recently trimmed staff to minimize charges to overhead resulting in improvements to net value.

To improve cash flow the District intends to:

1. Invoice monthly, and no less than quarterly;
2. Minimize or completely halt applying for or accepting grants from slow to pay grantors, or grantors who do not pay the full costs of the project;
3. Not start projects without the District's ability to immediately invoice a grantor for the project;
4. Allow no charging of expenditures to closed grants;
5. Recognize, in the current year, any prior year unrecovered indirect costs;
6. Stop submitting for grants that contain a below actual indirect cost rate unless a supplemental source of revenue is identified; and
7. Be more selective as to customers to serve by following the District's Financial Accounting Policies and Procedures as to grant criteria and risk assessment.

The District Manager, Maureen Teubert, is responsible for these corrections and they have been completed as of the date of this report.

FINDING 2018-002

Beginning in fiscal year 2018-19 the District will implement the following:

1. The District will provide formal accounting training to the Grant Accountant on generally accepted accounting principles.
2. The District will develop policies requiring formal checklists for the monthly and quarterly closing of the accounting records to insure consistency and completeness as well as the timely delivery of financial information.
3. The District will develop policies requiring documents be prepared to support and track general ledger activity, and that these be submitted to the Board on a regular basis.
4. The District did hire a part-time CPA in May 2018 to provide supervision and oversight of the accounting records and be responsible in providing quarterly financial information and the District's Financial Accounting Policies and Procedures Section 305.02 require the District's Finance Committee review the annual budget quarterly and significant budget variances monthly; this will be reinstated and acted upon.

The training for the Grant Accountant (see action 1, above) will be completed by June 2019 and the District Manager is responsible to arrange for the training. The policies identified in actions 2, 3, and 5, above, will be developed by September 30, 2018 and the Board of Directors is responsible for their development.

**CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2018**

Financial Statement Audit Findings (continued)

FINDING 2018-003

The District will submit final Indirect Costs Proposals for FY 2013-14, 2014-15, 2015-16 and 2016-17. The District will also submit a provisional Indirect Cost Proposal for FY 2018-19. The District will recognize, in the current year, any prior year unrecovered indirect costs and pursue the reimbursement of those funds. The District will develop a timetable to be used each year to ensure timely submission of the proposals. This has been fully implemented as of April 2019 with the approval of rates by the Department of Interior. The District's Chief Fiscal Officer, Dave Wallace, CPA, was responsible for these corrections.

FINDING 2018-004

The District Manager, Maureen Teubert, is responsible for this correction. The District approved the 2020-2021 general fund and special revenue funds' budgets in August 2020. The District will attempt to approve the 2021-2022 budgets by July 1, 2021.

Major Federal Award Program Audit Findings

FINDING 2018-005

The District's Board has ended negotiations with the BOR to determine past and future eligible costs and appropriate reimbursement rates and the Board is presently negotiating the financing arrangement for repayment.

The Board has and will formally consider a mechanism to obtain general revenue. This can include property taxes or bonds designed to be used for operating expenses or repayment of debt. The District has also implemented further outreach efforts to engage partners that obtain their natural resource from Shasta County to provide unencumbered, matching funds and has recently trimmed staff to minimize charges to overhead resulting in improvements to net value.

To improve cash flow the District intends to:

1. Invoice monthly, and no less than quarterly;
2. Minimize or completely halt applying for or accepting grants from slow to pay grantors, or grantors who do not pay the full costs of the project;
3. Not start projects without the District's ability to immediately invoice a grantor for the project;
4. Allow no charging of expenditures to closed grants;
5. Recognize, in the current year, any prior year unrecovered indirect costs;
6. Stop submitting for grants that contain a below actual indirect cost rate unless a supplemental source of revenue is identified; and
7. Be more selective as to customers to serve by following the District's Financial Accounting Policies and Procedures as to grant criteria and risk assessment.

The District Manager, Maureen Teubert, is responsible for these corrections and they have been completed as of the date of this report.

FINDING 2018-006

The District's Financial Accounting Policies and Procedures Section 201.1 already require the District to prepare factually accurate and complete reports. The District has assigned the preparation of the reports to a different employee who will be receiving training on the preparation of the reports. The District will also require procedural checklists to ensure consistency and completeness as well as the timely delivery of the reports. Reports will be reviewed by the District Manager and documented in writing prior to submission.

The checklists will be developed and the review procedures implemented for the first quarter of the 2018-19 fiscal year. The District Manager is responsible for implementation.

**CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2018**

Major Federal Award Program Audit Findings (Continued)

FINDING 2018-007

The District will be revising the budget for the Grant to reflect actual anticipated salaries and wages and fringe benefit costs. The District will revise the indirect cost rate budget to reflect the current year anticipated indirect costs as well as unrecovered prior year indirect costs.

The revised budget will be submitted by August 31, 2018 and the Project Manager is responsible for the submission.

FINDING 2018-008

The District will be developing specific written policies and procedures for compliance with federal programs. The policies will be developed by October 31, 2018 and the Board of Directors is responsible for the new policies. The District's Chief Fiscal Officer, Dave Wallace, CPA, is responsible for developing the written policies and procedures and submitting them to the Board for approval.

FINDING 2018-009

The District's corrective action plan is found in the Corrective Action Plan of **2018-005**.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT**

**BASIC FINANCIAL STATEMENTS
AND
SINGLE AUDIT REPORT**

YEAR ENDED JUNE 30, 2019

REISSUED AS OF NOVEMBER 9, 2021

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SINGLE AUDIT REPORT**
For the Year Ended June 30, 2019

TABLE OF CONTENTS

<u>FINANCIAL SECTION</u>	<u>Page</u>
Independent Auditor's Report.....	2-3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	4
Statement of Activities.....	5
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	6
Reconciliation of the Government Fund Balance Sheet to the Government-Wide Statement of Net Position - Governmental Activities.....	7
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Government-Wide Statement of Activities - Governmental Activities.....	9
Notes to the Financial Statements.....	10-22
Required Supplementary Information:	
Budgetary Comparison Schedules:	
General Fund.....	23
Shasta Conservation Special Revenue Fund.....	24
Notes to the Budgetary Comparison Schedules.....	25
<u>SINGLE AUDIT REPORTS</u>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.....	28-29
Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2019.....	30-31
Notes to the Schedule of Expenditures of Federal Awards.....	32
Schedule of Findings and Questioned Costs.....	33-41
Summary Schedule of Prior Audit Findings.....	42-44
Corrective Action Plan.....	45-46

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Finance Committee
Western Shasta Resource Conservation District
Anderson, CA

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities and each major fund of the Western Shasta Resource Conservation District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Western Shasta Resource Conservation 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Western Shasta Resource Conservation District, as of June 30, 2019, and the respective changes in financial position, for those activities and funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Restatement and Reissuance of the Single Audit Report

The accompanying financial statements have been restated and the Single Audit Report, including the Independent Auditor's Report and audit findings related to the major federal award program, have been reissued as of November 9, 2021, due to the subsequent events described in Footnote #13.

Additionally, these subsequent events have substantially improved the District's ability to continue as a going concern and the conditions causing the substantial doubt of the District's ability to continue as a going concern, as originally reported in the Single Audit Report issued September 11, 2020, have been removed and there is no longer substantial doubt.

My opinion is not modified with respect to those matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* (not presented) and the budgetary comparison information on pages 23–25 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. Management has omitted the *Management's Discussion and Analysis*. My opinion on the basic financial statements is not affected by this missing information. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Western Shasta Resource Conservation District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also **reissued** my report dated November 9, 2021, on my consideration of the Western Shasta Resource Conservation District's internal control over financial reporting and on my 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 my 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 Western Shasta Resource Conservation District's internal control over financial reporting and compliance.



Charles W Pillon, CPA
Anderson, California

November 9, 2021

BASIC FINANCIAL STATEMENTS

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT

Statement of Net Position

June 30, 2019

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 51,971
Restricted cash and investments	1,810,806
Grants and other receivables, net of allowance for doubtful accounts of \$5,697	2,288,868
Other capital assets being depreciated, net	59,564
Sub-total Assets	<u>4,211,209</u>
Plus: Deferred Outflows of Resources	
Deposits	<u>2,430</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 4,213,639</u>
LESS:	
Liabilities	
Current liabilities:	
Accounts payable	<u>\$ 2,080,923</u>
Total Current Liabilities	<u>2,080,923</u>
Noncurrent liabilities:	
Due within one year	4,176
Due to other governments - BOR	616,483
Total Noncurrent Liabilities	<u>620,659</u>
And: Deferred Inflows of Resources	
Unearned revenue-grants and contributions	<u>79,418</u>
Total Deferred Inflows of Resources	<u>79,418</u>
Total Liabilities and Deferred Inflows of Resources	<u>2,781,000</u>
EQUALS:	
Net Position	
Net investment in capital assets	59,564
Restricted for conservation endowments and easements:	
Expendable	841,313
Nonexpendable	1,091,591
Unrestricted	<u>(559,829)</u>
Total Net Position	<u><u>\$ 1,432,639</u></u>

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2019

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Total
Governmental Activities:				
Natural resource conservation	\$3,404,802	\$ 227,893	\$ 3,120,116	\$ (56,793)
Total Governmental Activities	\$3,404,802	\$ 227,893	\$ 3,120,116	(56,793)
 General Revenues:				
Interest income				74,910
Rentals income				10,922
Investment income				28,623
Miscellaneous				3,118
Total general revenues				117,573
Excess before contributions				60,780
 Contributions:				
Contributions to permanent easements				98,600
Total contributions				98,600
Change in net position				159,380
Net position - beginning, as reissued				1,273,259
Net position - ending				\$ 1,432,639

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT

**Balance Sheet
Governmental Funds
June 30, 2019**

		Special Revenue Funds		
	General Fund	Conservation Easements Fund	Shasta Conservation Fund	Total Governmental Funds
Assets				
Cash and investments	\$ 51,971	\$ -	\$ -	\$ 51,971
Due from other funds	28,458	73,974	61,314	163,746
Grants and other receivables, net of allowance for doubtful accounts of \$5,697	2,273,600	-	15,268	2,288,868
Restricted cash and investments	-	1,132,185	678,621	1,810,806
Deferred Outflows of Resources				
Deposits	2,430	-	-	2,430
Total Assets and Deferred Outflows of Resources	\$ 2,356,459	\$ 1,206,159	\$ 755,203	\$ 4,317,821
Liabilities				
Accounts payable	\$ 2,080,923	\$ -	\$ -	\$ 2,080,923
Accrued wages and payroll tax liabilities	-	-	-	-
Due to other funds	135,288	28,458	-	163,746
Deferred Inflows of Resources				
Unearned revenue-grants and contributions	79,418	-	-	79,418
Unavailable revenue-operating grants	297,398	-	-	297,398
Total Liabilities and Deferred Inflows of Resources	2,593,027	28,458	-	2,621,485
Fund balances (deficit)				
Restricted:				
Conservation easements	-	355,305	-	355,305
Conservation endowments	-	822,396	755,203	1,577,599
Unassigned (Deficit)	(236,568)	-	-	(236,568)
Total Fund Balances (Deficit)	(236,568)	1,177,701	755,203	1,696,336
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)	\$ 2,356,459	\$ 1,206,159	\$ 755,203	\$ 4,317,821

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT
Reconciliation of Governmental Funds Balance Sheet to
the Government-Wide Statement of Net Position - Governmental Activities
June 30, 2019

Total Fund Balances of governmental funds	\$ 1,696,336
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	59,564
Long-term obligations are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences payable	(4,176)
Due to other governments - BOR	(616,483)
Certain revenues received after sixty days from the end of the fiscal year are recorded as deferred revenue in the funds and as revenues in the government wide statement.	<u>297,398</u>
Net position of governmental activities	<u><u>\$ 1,432,639</u></u>

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2019

	Special Revenue Funds			Total Governmental Funds
	General Fund	Resource Conservation Fund	Shasta Conservation Fund	
Revenues:				
Charges for services	\$ 227,893	\$ -	\$ -	\$ 227,893
Intergovernmental and contributions	2,843,226	-	-	2,843,226
Use of money and property	-	41,230	44,602	85,832
Net increase in the fair value of investments	-	11,094	17,529	28,623
Miscellaneous	3,118	-	-	3,118
Total Revenues	<u>3,074,237</u>	<u>52,324</u>	<u>62,131</u>	<u>3,188,692</u>
Expenditures:				
Current:				
Salaries and benefits	679,810	-	-	679,810
Operating services and supplies	2,472,620	17,285	28,512	2,518,417
General services and supplies	96,265	7,014	7,184	110,463
Office rent	24,000	-	-	24,000
Bad debt expense (recovery)	(2,576)	-	-	(2,576)
Interest on payables to vendors	57,183	-	-	57,183
Total Expenditures	<u>3,327,302</u>	<u>24,299</u>	<u>35,696</u>	<u>3,387,297</u>
Excess (deficiency) of revenues over expenditures	<u>(253,065)</u>	<u>28,025</u>	<u>26,435</u>	<u>(198,605)</u>
Other Financing Sources (Uses):				
Endowment and easement contributions	-	98,600	-	98,600
Total other financing sources (uses)	<u>-</u>	<u>98,600</u>	<u>-</u>	<u>98,600</u>
Change in Fund Balance	(253,065)	126,625	26,435	(100,005)
Fund Balance, July 1, 2018, as reissued	63,580	1,014,938	717,823	1,796,341
Prior period adjustments	(47,083)	36,138	10,945	-
Fund Balance, July 1, 2018, as restated	<u>16,497</u>	<u>1,051,076</u>	<u>728,768</u>	<u>1,796,341</u>
Fund Balance (Deficit), June 30, 2019	<u>\$ (236,568)</u>	<u>\$ 1,177,701</u>	<u>\$ 755,203</u>	<u>\$ 1,696,336</u>

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances Of Governmental Funds
To The Government-Wide Statement of Activities
For the Fiscal Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds	\$ (100,005)
<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>	
Current year depreciation expense	(17,056)
<p>Changes in compensated absences do not effect expenditures in the governmental funds but the change is adjusted through salary expense in the Statement of Net Position.</p>	
	(449)
<p>Certain revenues received after sixty days from the end of the fiscal year are recorded as deferred revenue in the funds and as revenues in the government wide statement. This activity is reconciled as follows:</p>	
Prior year deferred revenue unavailable recognized in fund statements	(20,508)
Current year deferred revenue unavailable	<u>297,398</u>
Change in net position of governmental activities	<u><u>\$ 159,380</u></u>

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2019**

Note 1: Summary of Significant Accounting Policies

The District was originally formed as the Western Shasta Soil Conservation District on November 9, 1956, as a subdivision of the State of California under Division 9 defines the State's framework for conducting the business of resource conservation within California and authorizes the formation of resource conservation districts. The District was established pursuant to Public Resource Code Section 9151 et.seq, to provide for the conservation of resources. The District represents a fixed geographical division of 1,743,437 acres of the County of Shasta providing resource conservation services to the inhabitants of Western Shasta County. The District is governed by a Board of Directors, who is selected pursuant to Government Code Section 1780. The basic operations of the District are financed by federal and state pass-through grants.

The accounting policies of Western Shasta Resource Conservation District ("District") conform to accounting principles generally accepted in the United States of America (GAAP), 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, organization, 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 government is financially accountable if it appoints a voting majority of a component unit's governing body and it imposes 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 unit. 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.

In accordance with GASB Statement No. 61, the District's financial reporting entity comprises the following:

Primary Government:

Western Shasta Resource Conservation District

Blended Component Unit:

The Friends of the Western Shasta Resource Conservation District, d.b.a. The Shasta Conservation Fund

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the District's governing board or the component unit provides services entirely to the District. These component units' funds are blended into those of the District by appropriate activity type to compose the primary government presentation.

The component unit that is blended in the reporting activity of the District's report is as follows:

The Shasta Conservation Fund (SCF) is reported as a special revenue fund. The fund's primary focus is the conservation of natural resources in Shasta County by supporting the operations of the District, and is tax-exempt under *Internal Revenue Code* Section 501(c)(3). Separate financial statements for SCF may be obtained by contacting the District.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2019**

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting

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 when the liability is incurred, regardless of the timing of related cash flows. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

In the fund financial statements, 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 within ninety (90) days after year-end 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 unavailable.

Expenditures (including capital outlay) are recorded when the related fund liability is incurred. Principal and interest on general long-term debt, as well as compensated absences, claims and judgments are recorded only when payment is due. Proceeds from general long-term debt are reported as other financial sources.

When applicable, the District reports unearned revenue on its combined balance sheet. Unavailable revenue arises when a potential revenue source does not meet both the measurable and available criteria for recognition in the current period. Unearned revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the occurrences of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has legal claim to the resources, unearned revenue is removed from the combined balance sheet and revenue is recognized.

C. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The Statement of Activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function. Program revenues include 1) charges paid by the recipient of goods and services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented instead as general revenues.

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

In accordance with GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"*, the District will report "Net Position" in the Government-Wide Statement of Net Position as the difference between assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2019**

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Fund Financial Statements

The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in separate columns. All remaining governmental funds are separately aggregated and reported as non-major funds.

The criteria for determining whether a fund is considered major is as follows:

Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10% of the corresponding total for all funds of that category or type; and

Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10% of the corresponding total for all governmental funds combined.

The District reports the following governmental funds:

General Fund - This fund is the general operating fund of the District and is used to account for all financial resources not required to be accounted for in another fund.

Conservation Easements Special Revenue Fund - This fund is established to account for the proceeds from specific resources that are restricted to the financing of particular activities (i.e. endowments and conservation easements).

Shasta Conservation (SCF) Special Revenue Fund - This fund is from a component unit of the District established to account for the proceeds from specific resources that are restricted to the financing of particular activities (i.e. endowments).

These funds are classified as major.

Also in accordance with GASB Statement No. 63, the District will report financial position in a balance sheet format that displays assets plus deferred outflows of resources equal to liabilities plus deferred inflows of resources plus fund balance.

D. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. The District's governing board must approve a tentative budget and adopt a final budget.

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated revenue and expenditures. The original and final revised budgets are presented for the General Fund and the major special revenue funds as required supplemental information.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2019**

Note 1: Summary of Significant Accounting Policies (Continued)

E. 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 expenses during the reporting period. Actual results could differ from those estimates.

F. Cash, Cash Equivalents, and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

G. Restricted Cash, Cash Equivalents, and Investments

Certain restricted cash and cash equivalents are held by a fiscal agency for purposes of endowment and mitigation. Restricted cash and cash equivalents are combined with investments and displayed as restricted cash and investments.

H. Grant and Other Receivables

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. Grant receivables included entitlements and grants from federal, state, and local that the District has earned, but has not received as of June 30, 2019. The District expects to collect on most of the receivables and has established an allowance for doubtful accounts at year-end for certain receivables that might be uncollectible.

Other receivables include amounts due from private persons, firms, or corporations based on contractual agreements or amounts billed for services rendered, but not received as of June 30, 2019.

I. Deferred Outflows and Inflows of Resources

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and revised by Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District has classified certain assets as Deferred Outflows of Resources and certain liabilities as Deferred Inflows of Resources as of June 30, 2019.

Deferred Outflows of Resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. For example, deposits.

Deferred Inflows of Resources are defined as an acquisition of net assets by the government that is applicable to a future reporting period. For example, unavailable revenue and advance "unearned" collections.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2019**

Note 1: Summary of Significant Accounting Policies (Continued)

J. Capital Assets

Capital assets have been acquired for general District purposes. In the Government-wide financial statements, capital assets are accounted for as capital assets. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets that are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the District's buildings.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Capital assets are depreciated using the straight-line method of depreciation over their estimated useful lives. The useful lives are as follows:

Equipment	5-7 years
Vehicles	5 years

In the fund financial statements, capital assets purchased and used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

K. Long-Term Debt

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal is reported as expenditures.

L. Compensated Absences

The liability for earned but unused vacation leave is recorded as a long-term liability for compensated absences in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

M. Fund Balance/Net Position

Fund Balances - Governmental Funds

The District has yet to adopt a policy to apply the requirements of GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, however, the implementation of this standard would have no effect on the total fund balance or the fund balance classifications. The 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 the governmental funds are as follows:

Nonspendable fund balance includes those amounts that are not in a spendable form (inventory, for example) or are required to be maintained intact. As of June 30, 2019, the District had no nonspendable fund balance.

Restricted fund balance includes amounts that can be spent only for specific purposes stipulated by external resource provider, constitutionally, or through enabling legislation. As of June 30, 2019, the District has restricted fund balance of \$1,932,904 from permanent endowments and conservation easements.

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The District has no committed fund balance.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2019**

Note 1: Summary of Significant Accounting Policies (Continued)

M. Fund Balance/Net Position (Continued)

Assigned 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 no assigned fund balance.

Unassigned 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. All of the District's remaining fund balance at June 30, 2019 is unassigned.

The unassigned fund balances for governmental funds 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 the 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.

Net Position - Government-wide Financial Statements

Invested in Capital Assets consists of capital assets including restricted capital assets, net of accumulated depreciation.

Restricted Net Position consist of net assets with constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws or regulations of other governments, or law through constitutional provisions or enabling legislation. Expendable position is allowed to be spent on current maintenance operations. The nonexpendable portion is not allowed to be spent and must remain permanent indefinitely.

Unrestricted Net Position consist of all other net position of the District that do not meet the definition of "restricted" for any project or any other purpose.

N. Employee Benefits and Indirect Costs

The District's employee benefits and indirect costs are allocated based upon actual expenditures to all grants in accordance with the Office of Management and Budget Circular A-87. The District's employee benefits are allocated to grant projects as a percentage of the District's direct labor cost. Indirect costs necessary to sustain overall operations are allocated as a percentage of total allowable direct salaries and benefits charged to grant projects. Contribution to indirect costs represent revenues that offset certain costs included in the Indirect Cost Pool.

Note 2: Cash and Investments

The following is a summary of cash and cash equivalents at June 30, 2019:

Cash in Bank	<u>\$ 51,971</u>
--------------	------------------

(1) Deposits - The carrying amount of unrestricted deposits, \$55,323, includes the District's checking account.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2019**

Note 3: Restricted Cash and Investments

The following is a summary of restricted cash and investments with fiscal agents at June 30, 2019:

	<u>Fair Value</u>
Deposits (1)	\$ 408
Investments that are not securities (2):	
Corporate stock/equity securities with fiscal agent	<u>1,810,398</u>
Total Cash and Investments in the Government-wide Statement of Net Position	<u>\$ 1,810,806</u>

(1) **Deposits** - The carrying amount of restricted deposits include checking accounts, savings accounts, nonnegotiable certificates of deposits, and money market accounts at a financial institution, if any.

(2) **Investments that are not securities** - A "security" is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Restricted investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

Custodial Credit Risk - Deposits

For deposits, custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned to it. The District did not have a deposit policy for custodial credit risk. As of June 30, 2019, the District's bank balances were not exposed to custodial credit risk.

Custodial Credit Risk - Investments

For investments, custodial credit risk is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District did not have an investment policy that limits holding of investment securities by counterparties. Restricted cash and investments held with Shasta Regional Community Foundation are not insured or collateralized by FDIC, but are guaranteed by Shasta Regional Community Foundation. As of June 30, 2019, the remaining investments were not exposed to custodial risk.

Credit Risk - Investments

California Government Code Section 53601 limits investments in commercial paper to "prime" quality of the highest ranking, or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSO), and limits investments in medium-term notes to a rating of A or better. At June 30, 2019, the District had no investment policy that would further limit its investment choices. As of June 30, 2019, the District's investments were unrated.

Fair Value Measurements

When available, the District measures fair value using Level 1 hierarchy, which uses inputs to the valuation methodology that are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2019**

Note 3: Restricted Cash and Investments (Continued)

California Government Code Section 53601 places the following concentration limits on the District's investments:

No more than 5% may be invested in the securities of anyone issuer, except the obligations of the U.S. government, U.S. government agencies and U.S. government-sponsored enterprises; no more than 10% may be invested in any one mutual fund; no more than 25% may be invested in commercial paper; no more than 10% of the outstanding commercial paper of any single issuer may be purchased; no more than 30% may be invested in the bankers acceptances of anyone commercial bank; no more than 30% may be invested in negotiable certificates of deposit; no more than 20% may be invested in repurchase agreements or reverse repurchase agreements; and no more than 30% may be invested in medium-term notes.

Interest Rate Risk - Investments

California Government Code Section 53601, limits the District's investments to maturities of five years.

Note 4: Interfund Receivables, Payables and Transfers

The following is a summary of the interfund receivables and payables at June 30, 2019:

	Due from Other Funds	Due to Other Funds	Internal Balances
Governmental Activities			
RCD General Fund	\$ 28,458	\$ 135,288	\$ (106,830)
RCD Conservation Easements Fund	73,974	28,458	45,516
Shasta Conservation Fund	61,314	-	61,314
Total Governmental Activities	\$ 163,746	\$ 163,746	\$ -

The amounts related to operating needs and interfund services and will be repaid from current financial resources.

Note 5: Capital Assets

A summary of changes in capital assets for the year ended June 30, 2019, is as follows:

	Balance July 1, 2018	Additions	Retirements/ Adjustments	Balance June 30, 2019
Capital assets, being depreciated:				
Equipment	203,068	-	-	203,068
Vehicles	341,204	-	-	341,204
Total capital assets, being depreciated	544,272	-	-	544,272
Less: accumulated depreciation	467,652	17,056	-	484,708
Governmental activities, capital assets, net	\$ 76,620	\$ (17,056)	\$ -	\$ 59,564

Current year depreciation expense of \$17,056 was charged.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2019**

Note 6: Changes in Noncurrent Liabilities

On April 23, 2014, a District line of credit was converted into a three-year promissory note payable with Tri Counties Bank (formally North Valley Bank) with an effective date of May 1, 2014. The note is due in monthly installments of \$4,598.18 on the first day of each month at an interest rate of 6%. The maturity date was May 1, 2017. The proceeds were used for District operations. For the fiscal year ending June 30, 2018, due to the subsequent event described in Footnote #13, Event 3, the District recognized the forgiveness of this debt as a special item other financing source of revenue in the Statement of Activities for the year ended June 30, 2018. The following summary of changes will not include this note payable as there is no activity for the year ended June 30, 2019.

Due to the subsequent event described in Footnote #13, event 2, the District reclassified the balance due to the Bureau of Reclamation (BOR) from a current liability to a long-term liability as of June 30, 2018 as found in the reissued audited financial statements for the year ended June 30, 2018. The current fiscal year activity is shown below. At the time of this reissuance, November 9, 2021, the District and the BOR have not agreed on the exact repayment terms.

The following is a summary of changes in noncurrent liabilities reported in the government-wide financial statements for the year ended June 30, 2019:

	Restated Balances		Retirements/		Balance	Due Within
	July 1, 2018	Additions	Adjustments		June 30, 2019	One Year
<u>Governmental Activities:</u>						
Compensated absences	\$ 3,727	449	\$ -	\$ 4,176	\$ 4,176	
Due to other governments - BOR	616,483	-	-	616,483	-	
Totals	\$ 620,210	\$ 449	\$ -	\$ 620,659	\$ 4,176	

Note 7: Employee Retirement Plan

The District offers its employees a Savings Incentive Match Plan (SIMPLE) created in accordance with Internal Revenue Code Section 408(p). The plan, available to all District employees who meet the eligibility requirements, permits them to defer a portion of their salary until future years. Eligibility is limited to those employees who earned a minimum of \$5,000 in the current and any calendar year proceeding the current year. Participation in the plan is optional. The District is required to make a matching contribution equal to the employee's salary reduction contribution up to a 3% limit. The District may reduce the percentage limit and make non-eligible contributions as set forth in the plan provisions. During the fiscal year ended June 30, 2019, the District matched employee contributions in the amount of \$5,173 and recorded this as an expense in the current year.

Note 8: Commitments and Contingencies

Grant Contingencies

The District has received federal and state funds for specific purposes that are subject to review and audit by the 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 or contractor cannot be determined at this time for most grants and contracts.

Commitments

At June 30, 2019, the District had open contracts related to professional service agreements.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2019**

Note 9: Joint Powers Authority

The District participates in joint ventures under joint powers agreements with Special District Risk Management Authority (SDRMA). The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes. The JPA arranges for and provides coverage protection for workers' compensation, general liability, public officials errors and omissions, employment practices liability, auto, property, and crime and fidelity coverage for its members.

The JPA is governed by a board consisting of representatives from the members. The board controls the operations of the JPA, including selection of management and approval of the board. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. The district's share of year-end asset, liabilities, or fund equity is not calculated by the JPA.

Note 10: Risk Management

The District is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; general liability and workers' compensation; natural disasters; and injuries to employees. Settled claims, if any, resulting from these risks have not exceeded insurance coverage in any of the past three years. No significant reductions in insurance coverage from the prior year have been made. As described above, the District participates in risk pools under joint power agreements for property, liability, workers' compensation, and excess liability coverage.

Note 11: Permanently Restricted Endowments

1) The District's Resource Conservation Special Revenue Fund maintains a conservation easement in perpetuity for the Caltrans Mitigation Project for environmental mitigation and the creation of freshwater wetlands and enhancing riparian habitat. In the fiscal year ending June 30, 2008, the funds to set up this endowment were held by the District. In the fiscal year ending June 30, 2009, \$169,920 was received by the District and placed in a permanent endowment in the special revenue fund. The earnings from the invested proceeds will be used "after acceptance of the mitigation project" to ensure that the created wetlands and enhanced riparian habitat are preserved, protected and maintained in perpetuity. This project has not been officially accepted as of June 30, 2019.

For the year ended June 30, 2019, this permanently restricted endowment appreciated approximately \$14,278, of which all is permanently restricted within the special revenue fund from being used for the District's current general fund expenditures.

2) The District's Resource Conservation Special Revenue Fund maintains a conservation easement in perpetuity for the City of Redding's Turtle Bay East Riparian Mitigation Site. In the fiscal year ending June 30, 2011, \$166,468 was received for a permanent endowment. The earnings from the invested proceeds will be used to fund the annual management, maintenance of the Turtle Bay East Riparian Mitigation Site in perpetuity after the City of Redding mitigation project is finished, and the District is not reimbursed by the City of Redding.

For the year ended June 30, 2019, this permanently restricted endowment appreciated approximately \$12,808, of which all is permanently restricted within the special revenue fund from being used for the District's current general fund expenditures.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2019**

Note 11: Permanently Restricted Endowments (Continued)

3) The District's Resource Conservation Special Revenue Fund maintains a conservation easement in perpetuity for the Land Conservation Commitment for the mitigation of Pacific Gas and Electric Watershed Lands. During the fiscal year ending June 30, 2017, the funds to set up this easement were received by the District in the amount of \$70,900. The principal and earnings from the invested proceeds will be used solely for the operations and maintenance of the easements.

For the year ended June 30, 2019, this permanently restricted easement appreciated approximately \$2,841, of which all is permanently restricted within the special revenue fund from being used for the District's current general fund expenditures.

4) The District's Resource Conservation Special Revenue Fund maintains a perpetual conservation easement for the natural resource preserve in and around the Highland Park residential housing development. This easement provides conservation measures and mitigation impacts located in the City of Redding. During the fiscal year ending June 30, 2017, the funds to set up this easement were received by the District in the amount of \$179,716. The principal and earnings from the invested proceeds will be used solely for the operations and maintenance of the easement.

For the year ended June 30, 2019, this permanently restricted easement appreciated approximately \$6,541, of which all is permanently restricted within the special revenue fund from being used for the District's current general fund expenditures.

5) The District's Special Revenue Fund, a blended component unit of the District, Shasta Conservation Fund (SCF), maintains conservation easements in perpetuity for landowners of developmental areas where there is a nature preserve in or around the common areas. In the fiscal year ending June 30, 2006, \$238,273 was received for a permanent endowment. The earnings from the invested proceeds will be used to fund the annual maintenance of the Rivercrest Estates Open Space Preserve.

For the year ended June 30, 2019, this permanently restricted endowment appreciated approximately \$11,360, which is not permanently restricted, thus making the amount of appreciation entirely available for current expenditures within the SCF special revenue fund.

6) The District's Special Revenue Fund, a blended component unit of the District, Shasta Conservation Fund (SCF), maintains conservation easements in perpetuity for landowners of developmental areas where there is a nature preserve in or around the common areas. In the fiscal year ending June 30, 2016, \$409,384 was received for a permanent endowment. The earnings from the invested proceeds will be used to fund the annual maintenance of the Shastina Ranch Clover Creek Preserve and Eastern and Western Vernal Pool Preserves.

For the year ended June 30, 2019 this permanently restricted endowment appreciated approximately \$25,314, which is not permanently restricted, thus making the amount of appreciation entirely available for current expenditures within the SCF special revenue fund.

Note 12: Deficit Fund Balance

The District's General Fund had a **“restated” (deficit)** fund balance of (\$236,568) at June 30, 2019.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2019**

Note 13: Subsequent Events and Restatement of the Audited Financial Statements

Event #1

Subsequent to the balance sheet date of June 30, 2018 (i.e. in October 2021), while in negotiations with the BOR on the repayment of the balance in Due to Other Governments – BOR (originally \$719,883 and restated to \$616,483), the District performed an analysis of the total project payments vs. costs, including advances repaid to BOR, and discovered two errors in the previously stated balance owed to BOR. See Footnote #14, item 2, and Footnote #15, item 1, for a description of these errors. These errors, a total of \$103,400, materially affected the financial statements for the year ended June 30, 2018, as well as the total balance owing BOR, and therefore, the District and the District’s auditor, restated and reissued the independent auditor’s report, audit financial statements, footnotes and questioned costs for the year ended June 30, 2018. My opinions in the Independent Auditor’s Reports were not changed as a result of this reissuance. The “**restated**” opening balances for the year ended June 30, 2019 are reflected in this reissued audit report.

Event #2

Due to the understanding between the BOR and the District regarding the repayment of the balance due to the BOR, and the fact that this balance cannot be repaid by the District with the use of current financial resources within the next twelve months, the debt to the BOR has been reclassified from current to long-term and consequently, was removed from the modified accrual statements of the District as of the year ended June 30, 2018. The “**restated**” opening balances for the year ended June 30, 2019 are reflected in this reissued audit report.

Event #3

As of June 30, 2017, the District had long-term debt owing Tri Counties Bank in the amount of \$133,377, including accrued interest (see Footnote #6). For the fiscal year ended June 30, 2018, the District originally accrued an additional \$8,003 in interest, bringing the balance owing at June 30, 2018 to \$141,380. In November 2019, the statute of limitations for pursuing the default passed, according to legal sources advising the District. The District believes that the bank has formally written off this loan. The District is therefore not considering it a liability of the District and has removed it from the District’s long-term liabilities and Statement of Net Position as of the year ended June 30, 2018. The “**restated**” opening balances for the year ended June 30, 2019 are reflected in this reissued audit report.

Event #4

Subsequent to the balance sheet date of June 30, 2019, the District performed an analysis of the personnel costs billed to the Hazard Mitigation Grant that was funded by the Federal Emergency Management Agency and the California State Water Resources Control Board. It was discovered that the District incorrectly billed the State portion of this grant, personnel costs using a marked-up “contract” rate that included indirect costs. The originally issued audit made an audit **Finding 2019-004** for material weaknesses in internal controls over grants, contracts and major programs and a material noncompliance related to the audited major Federal award program and identified questioned costs of \$356,406. An audit adjustment was recorded to show this as a balance due to other governments.

However, since the issuance of the original audit on September 11, 2020, the District has been in discussions with the State Water Board (SWB) regarding the billing of contract rates and the billing of indirect costs. In September 2021, the SWB and the District agreed that no contract rates could be billed but the District would be allowed to bill indirect costs using the Federally approved indirect cost rates for the fiscal years covered by the grant. The District revised all of the billings for FY18-19 through 20-21 and has issued them to the SWB. As part of reissuing the audit, I have audited those revisions and agreed with the adjustment to previously billed revenue of \$255,138 for the year ended June 30, 2019. Due to this material change, intergovernmental revenue has been restated to \$2,843,226, questioned costs and the due to other governments in the amount of \$356,406 have been eliminated, and unavailable revenue has been restated to \$297,398 based on the change to receivables and amounts due the SWB.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to the Financial Statements
June 30, 2019**

Note 13: Subsequent Events and Restatement of the Audited Financial Statements (Continued)

Event #5

While holding discussions with the SWB regarding the allowable costs to bill the grant, an error of \$24,600 was discovered in a previous payable established to pay a penalty to the SWB due to a prevailing wage dispute. This is not due to the State and the payable and expense have been restated to eliminate the penalty.

Event #6

As mentioned in Event #1, while analyzing and revising the balance owed the BOR, it was discovered that the District had booked revenue and decreased the balance owing the BOR for project costs incurred for the year ended June 30, 2019, however, the project was terminated by the BOR as of June 30, 2018 so not costs could be billed to the grant. Therefore, grant revenue and due to other governments have been restated by \$12,673.

Note 14: Prior Period Adjustment

The District recorded a prior period adjustment increasing due to other funds by \$47,083 on several endowment and easement projects to correctly restate the amounts due to the District's and the blended component unit's special revenue funds. This adjustment effects the Governmental Funds only and the impact on beginning fund balance can be found on page 8. The change in fund balance for the year ended June 30, 2018 would be restated to \$14,092 for the General Fund, \$157,503 for the Resource Conservation Fund SRF, and (\$8,017) for the Shasta Conservation Fund SRF.

REQUIRED SUPPLEMENTARY INFORMATION

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
Revenues				
Charges for services	\$ 406,124	\$ 406,124	\$ 227,893	\$ (178,231)
Intergovernmental and contributions	2,782,373	2,782,373	2,843,226	60,853
Miscellaneous	-	-	3,118	3,118
Total Revenues	<u>3,188,497</u>	<u>3,188,497</u>	<u>3,074,237</u>	<u>(114,260)</u>
Expenditures				
Current:				
Salaries and benefits	753,386	753,386	679,810	73,576
Operating services and supplies	2,078,936	2,078,936	2,472,620	(393,684)
General services and supplies	85,951	85,951	96,265	(10,314)
Office rent	24,000	24,000	24,000	-
Bad debt expense (recovery)	-	-	(2,576)	2,576
Interest on payables to vendors	-	-	57,183	(57,183)
Total Expenditures	<u>2,942,273</u>	<u>2,942,273</u>	<u>3,327,302</u>	<u>(385,029)</u>
Net Change in Fund (Deficit)	<u>\$ 246,224</u>	<u>\$ 246,224</u>	<u>(253,065)</u>	<u>\$ (499,289)</u>
Fund (Deficit), July 1, 2018, as restated			<u>16,497</u>	
Fund (Deficit), June 30, 2019			<u>\$ (236,568)</u>	

WESTERN SHASTA RESOURCE CONSERVATION DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
Special Revenue Fund - Shasta Conservation Fund
For the Fiscal Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
Revenues				
Use of money	\$ 1,000	\$ 1,000	\$ 44,602	\$ 43,602
Net increase in the fair value of investments	11,250	11,250	17,529	6,279
Grants	10,000	10,000	-	(10,000)
Contributions and other	6,000	6,000	-	(6,000)
Total Revenues	<u>28,250</u>	<u>28,250</u>	<u>62,131</u>	<u>33,881</u>
Expenditures				
Current:				
Operating services and supplies	23,050	23,050	28,512	(5,462)
General services and supplies	<u>3,625</u>	<u>3,625</u>	<u>7,184</u>	<u>(3,559)</u>
Total Expenditures	<u>26,675</u>	<u>26,675</u>	<u>35,696</u>	<u>(9,021)</u>
Net Change in Fund Balance	<u>\$ 1,575</u>	<u>\$ 1,575</u>	<u>26,435</u>	<u>\$ 24,860</u>
Fund Balance, July 1, 2018, as restated			<u>728,768</u>	
Fund Balance, June 30, 2019			<u>\$ 755,203</u>	

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
Notes to Required Supplementary Information
June 30, 2019**

Budgets and Budgetary Accounting

The District is required to prepare a budget each year for all major funds based on estimates of revenues and expenditures. The budget is adopted on a basis consistent with U.S. generally accepted accounting principles. The District's governing Board of Directors annually adopts a budget for the General Fund. All changes to the budget during the year are reflected in these financial statements and were approved by the Board. All unencumbered appropriations lapse at the end of each fiscal year.

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

The Board of Directors did not adopt a budget for the Resource Conservation Special Revenue Fund so it is not presented as Required Supplementary Information.

Significant Budget Variances

Operating services and supplies and interest on payables to vendors were over budget due to:

1. Construction services were greater than anticipated and the budget was not amended
2. Interest was charged by a vendor for unexpected delays in payment due to the District waiting on grant funds. This was not budgeted for.

SINGLE AUDIT REPORTS

**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 and those charged with governance
Western Shasta Resource Conservation District
Anderson, CA

I 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 each major fund of the Western Shasta Resource Conservation District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Western Shasta Resource Conservation District's basic financial statements and have **reissued** my report thereon dated November 9, 2021.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Western Shasta Resource Conservation 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Western Shasta Resource Conservation District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as **Findings 2019-001, 2019-003, and 2019-004**, that I consider material weaknesses.

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. I consider the deficiencies described in the accompanying schedule of findings and questioned costs as **Findings 2019-002 and 2019-005** to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Western Shasta Resource Conservation District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed an instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as **Findings 2019-001, 2019-002, 2019-003, 2019-004, and 2019-006.**

Western Shasta Resource Conservation District's Response to Findings

Western Shasta Resource Conservation District's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Western Shasta Resource Conservation District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

A handwritten signature in blue ink, appearing to read "Charles W Pillon, CPA".

Charles W Pillon, CPA
Anderson, California

November 9, 2021

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors and those charged with governance
Western Shasta Resource Conservation District
Anderson, CA

Report on Compliance for Each Major Federal Program

I have audited the Western Shasta Resource Conservation District’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Western Shasta Resource Conservation District’s major federal programs for the year ended June 30, 2019. Western Shasta Resource Conservation District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

My responsibility is to express an opinion on compliance for each of the Western Shasta Resource Conservation District’s major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Western Shasta Resource Conservation District’s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the Western Shasta Resource Conservation District’s compliance.

Opinion on Each Major Federal Program

In my opinion Western Shasta Resource Conservation District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA No. 97.039 Hazard Mitigation Grant Program for the year ended June 30, 2019.

Other Matters

Western Shasta Resource Conservation District’s response to the noncompliance findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Western Shasta Resource Conservation District’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

Report on Internal Control over Compliance

Management of the Western Shasta Resource Conservation District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Western Shasta Resource Conservation District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Western Shasta Resource Conservation District's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. I identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as **Finding 2019-008**, that I consider a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as **Findings 2019-007** and **2019-009** to be significant deficiencies.

Western Shasta Resource Conservation District's response to the internal control over compliance findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Western Shasta Resource Conservation District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Charles W Pillon, CPA
Anderson, California

November 9, 2021

**Western Shasta Resource Conservation District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019**

<u>Federal Grantor/Program or Cluster Title</u>	<u>Passthrough Agency</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
U. S. DEPARTMENT OF INTERIOR				
Direct Funding:				
Bureau of Reclamation				
	Sacramento River Salmonid Spawning and Rearing Habitat Restoration	15.512		\$ 12,673
Total U. S. Department of Interior				12,673
U. S. DEPARTMENT OF TRANSPORTATION				
Passthrough Funding:				
	Department of Transportation		Caltrans	
	Dana to Downtown	20.205	02-0094	6,426
	Jellys Ferry Bella Diddy	20.205	02-0140	12,479
	Capstone	20.205	02-0144	56,857
	Total 20.205			75,762
Total U. S. Department of Transportation				75,762
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct Funding:				
Federal Emergency Management Agency				
	Technical Service Provider	97.045		41,322
Passthrough Funding:				
	Federal Emergency Management Agency		California State Water Resources Control Board	
	Hazard Mitigation Grant	97.039	FEMA-5189- DR-CA	1,328,820
Total U. S. Department of Homeland Security				1,370,142

**Western Shasta Resource Conservation District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019**

<u>Federal Grantor/Program or Cluster Title</u>	<u>Passthrough Agency</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE				
Direct Funding:				
Natural Resources Conservation Service				
Engineering Services		10.912		<u>36,080</u>
Passthrough Funding:				
U. S. Forest Service	CA Fire Safe Council			
Shasta Lake Fuels Section B		10.664	15SFA37301	1,392
Shasta Lake Fuels Section A		10.664	Not available	13,978
SFV Firewise		10.664	Not available	<u>13,765</u>
	Total 10.664			<u>29,135</u>
Total U. S. Department of Agriculture				<u><u>65,215</u></u>
TOTAL ALL EXPENDITURES				<u><u>\$ 1,523,792</u></u>

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT**
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

NOTE A—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Western Shasta Resource conservation District (District) under programs of the federal government for the fiscal year ended June 30, 2017. The information in this Schedule is presented in accordance with the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial net position or changes in net position of the District.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, when applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Also when applicable, recognition is following the Uniform Guidance for federal awards granted after December 26, 2014.
2. Pass-through entity identifying numbers are presented where available.

NOTE C—SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the District provided none of the federal awards to subrecipients.

NOTE D—INDIRECT COST RATE

The District did not elect to use the 10% de Minimis indirect cost rate on the federal awards presented in this schedule.

NOTE E—SUBSEQUENT EVENTS: RESTATEMENT AND REISSUANCE

The District has restated and reissued the Schedule of Expenditures of Federal Awards, as well as the independent auditor's report and opinion in relation to the basic financial statements as a whole, due to the subsequent events explained in Footnote #15 of the notes to the financial statements in the Single Audit Report.

**WESTERN SHASTA RESOURCE CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

Section 1

Summary of Auditor's Results:

Financial Statements

- | | |
|--|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 3. Noncompliance material to financial statements noted? | Yes |

Federal Awards

- | | |
|---|------------|
| 1. Internal controls over major programs: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 2. Type of auditor's report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance 2 CFR section 200.516(a) | Yes |

4. Identification of major programs:

<u>CFDA number</u>	<u>Name of Federal Program</u>
97.039	Hazard Mitigation Grant

- | | |
|--|------------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs | \$ 750,000 |
| 6. Auditee qualified as a low-risk auditee under 2 CFR section 200.520 | No |

Section 2

Financial Statement Findings and Questioned Costs Yes

Section 3

Federal Awards Findings Yes

Summary Schedule of Prior Year Findings and Questioned Costs Yes

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019**

FINDINGS AND QUESTIONED COSTS – FINANCIAL STATEMENT AUDIT

**Questioned
Costs**

FINDING 2019-001 Unallowed Costs and Contract Compliance

\$ 0.00

Condition: The District used \$73,974 in restricted conservation easement funds for projects unrelated to the easement activities permitted in the McCloud easement agreement and without the knowledge or approval of the Board of Directors (“Board”).

Criteria: According to the conservation easement agreement, the funds are restricted solely for the purpose of paying for the costs of performing the conservation easement activities described in the agreement. The Board is required to approve all cash disbursements.

Cause: The former District Manager used these funds to pay a contractor for spawning gravel and other expenses on unrelated projects. It is not known why these funds were used. In addition, the District Manager over-rode the controls in place in bypassing Board approval. The disbursements occurred outside the normal cash disbursement process and without knowledge of the accounting staff.

Effect: There is material noncompliance with the conservation easement agreement.

Context: This finding is considered isolated incidents as one invoice was paid directly from the easement funds and another was a cash transfer made to pay another unrelated expense through the District. However, the former District Manager had a history of overriding controls and acting against District policy.

Recommendation: The District should return these funds immediately and ensure, through proper internal controls, that investment funds for all conservation easements and endowments are strictly controlled and spent only for the purposes outlined in the agreement.

Views of responsible officials: The District agrees with the auditor’s finding.

FINDING 2019-002 Investment Compliance

\$ 0.00

Condition: The District violated its own accounting policy that states that investments shall be in cash on hand, cash in deposits (IE checking account), and short-term investments with original maturity of three months or less.

Criteria: California Government Code Section 53601 places limits on local government investments. Local government investments are restricted to obligations of the US government, US government agencies and US government sponsored enterprises, mutual funds, commercial paper, and certificates of deposits.

Cause: The District has a written investment policy that requires adherence to the California Government Code, however the District Manager did not follow the California Government Code or the policy. Therefore, endowment and conservation easement funds were invested in unallowed investment types, such as equity securities.

Effect: There is material noncompliance with local laws and regulations and a significant deficiency in the District’s lack of adherence to the written investment policy.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019**

**Questioned
Costs**

FINDING 2019-002 Continued

Recommendation: The District should ensure that all investment policies are followed and all investments are allowed under the California Government Code.

Context: This finding is considered an isolated incident but all restricted investments were impacted.

Views of responsible officials: The District agrees with the auditor's finding.

FINDING 2019-003 Procurement, Suspension and Debarment

\$ 51,358

Condition: The District did not perform, as per policy, the required "informal competitive bid process" for the procurement of Pacific Watershed Consultants. The District failed to document the reasonableness of the contract price, allowed the vendor to influence the grant and procurement process and it could not be determined if the Board approved the contract as a sole source agreement. The contract failed to include clauses related to Equal Opportunity, labor law compliance and arbitration. The District failed to determine the source of a required match. The Board failed to determine the sufficiency of the procurement process.

Criteria: The District's own internal policies and procedures follow the State's cost accounting policies and procedures manual which sets the limits for purchase of services that require an informal competitive bid process. These limits, set at services over \$45,000 but less than \$175,000, require this process for all purchases within those limits. The consultant on this project had a budget not to exceed \$139,175 for their services.

In the informal competitive bid process, the District is required to ascertain the reasonableness of a price, determine if alternatives were available, minimize the impacts of vendor influence in the procurement process and the Board must specifically approve a contract as sole source. In addition, contracts must contain the required language, determine in advance the source of the required match and the Board must determine the sufficiency of the procurement process.

Cause: The consultant in this situation was also the writer of this grant with the State Water Board, the consultant stipulated in the grant that the consultant would be the provider of the services and the consultant convinced the District to hire the consultant as a result of obtaining approval of the grant. The District's former District Manager and Board of Directors did not adhere to the District's policies and procedures in this situation.

Effect: The entire amount of this contract is a questioned cost due to the procurement being invalid. The impact for the fiscal year ended June 30, 2019 is \$51,358, which is equal to the cost of the services performed through that date.

Context: This finding is not a repeat finding and is considered an isolated incident. Testing for this procurement covered 100% of the population for this project.

Recommendation: The District should train the staff and the Board on compliance requirements relating to grants and contracts, especially in the area of procurement and allowable costs, as these areas consists of the highest risks of material noncompliance with grants and contracts and misstatement in the financial statements.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019**

**Questioned
Costs**

FINDING 2019-003 Continued

Views of responsible officials: The District agrees with the auditor's findings.

FINDING 2019-004 Financial Management System, Grant Invoicing

\$ 0.00

Condition: The District does maintain GAAP-compliant project accounts and an appropriate financial management system, however, the District failed to support the requests for grant funds with the accounting records, failed to adequately review disbursement requests for errors in requesting eligible project costs before the requests were made and funded, failed to correctly record certain project costs that resulted in delayed disbursement requests for these costs, and requested a disbursement of funds for ineligible project costs related to District personnel.

Specifically, the District failed to record \$93,000 of vendor invoices in the correct accounting period, failed to record \$188,000 of vendor invoices on a timely basis and invoiced a grantor twice for certain expenses. In addition, the District requested \$356,000 reimbursement of personnel costs in excess of actual cost and failed to seek a \$75,800 reimbursement from a grantor for an eligible cost. Lastly, employee errors and omissions in the District's timekeeping system required management to make changes to employee time sheets without employee approval.

Criteria: Pursuant to the grant agreement, section C-1, and **2 CFR 200.302**, the District must maintain a financial management system (i.e. GAAP-compliant Project accounts) to account for and track funds. Additionally, pursuant to section B-5 of the grant agreement, the District cannot use grant funds for indirect cost reimbursement.

Cause: The District has specific grant management policies and procedures in place. The District, under the leadership of the former District Manager, failed to follow these policies when accepting a contract with the State Water Resources Control Board that contained conflicting language, failed to identify procedures for reimbursement and failed to follow federal guidance and regulations. The former District Manager failed to address trained and experienced staff concerns over the deficiencies in the contract prior to signing.

The inadequacies in the contract resulted in invoicing delays, invoicing errors, and questions on grantor documentation standards. In addition, the District did not review the grant specialist's reimbursement requests during the fiscal year under audit to ensure that internal controls were in place to maintain the accounting records correctly. Lastly, the District invoiced a grant for personnel costs using a "contract" rate that included a mark-up for indirect costs.

Effect: Material weaknesses in internal controls over grant, contracts and major programs and a material noncompliance with the provisions of Federal and State statutes, regulations, or the terms and conditions of State grants and Federal awards related to a major program. The lack of timely reimbursements from the grantor resulted in the District incurring approximately \$53,000 in un-reimbursable interest.

Context: This finding is not a repeat finding. The material weakness in internal controls over the financial management system is pervasive throughout all projects. The material noncompliance related to invoicing contract rates rather than direct costs is isolated to one major Federal and State award program that was funded only by State funds.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019**

**Questioned
Costs**

FINDING 2019-004 Continued

Recommendation: The District should follow the adopted grant management policies and procedures. The District should implement an internal review of all disbursement requests and activity performed by the grant specialist by the Fiscal Officer. In addition, the District should ensure that all disbursement requests are fully and adequately supported by the accounting records for all projects and reviewed on a quarterly basis, at a minimum.

Views of responsible officials: The District agrees with the auditor's findings. As stated in Event #4 of Footnote #13, the District negotiated with the State Water Board for indirect costs and has requested reimbursement under the grant. Consequently, the questioned costs have been eliminated.

FINDING 2019-005 Payroll Processing

Condition: District management was required to complete and or correct, to the best of their knowledge, numerous employee time sheets that were incomplete or in error. The District is also not performing a crucial payroll reconciliation of the hourly input by project into the outside payroll service company (ADP) to the similar input of the payroll results into the financial management system. Additionally, the employee timesheets are not signed by the employee and supervisor and kept for future review and verification of allocated project hours in the financial management system.

Criteria: Best practice internal control activity controls would require this reconciliation in order to prevent or detect material misstatements in the financial statements. Additionally, to prevent changes and manipulation of timesheet hours charged to various projects, the timesheet should be signed by the employee and supervisor, printed and locked to all significant subsequent changes.

Cause: These controls were not designed or implemented by the District.

Effect & Context: Material misstatements could go undetected and material noncompliance with grants or contracts could happen if personnel costs were recorded to the wrong project and reimbursements were requested from the wrong project. This is not a repeat finding and is pervasive across all projects.

Recommendation: I recommend the District design an internal reconciliation and review of the input of personnel hours into the financial management system, and that employees' and supervisors' sign the timesheets and they are kept for future review, to ensure that the personnel hours are charged to the correct project.

Views of responsible officials: The District agrees with the auditor's findings.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019**

**Questioned
Costs**

FINDING 2019-006 District Budget

Condition: The District has violated Federal and State laws and regulations by not approving a District budget for all major funds until January 2019, thus operating for part of the year without approval to incur District expenditures.

Criteria: According to Federal and State laws and regulations, the District's Board of Directors is responsible for approving an annual budget prior to the start of the fiscal year, which allows the District to operate with approved appropriations for the fiscal year.

Cause: The District did not adopt the annual budget prior to July 1st and failed to adopt a budget for the District's major special revenue fund.

Effect & Context: The District is in noncompliance with Federal and State laws and regulations governing local governments. This is a new finding.

Recommendation: The District should ensure the annual budget is adopted prior to July 1st.

Views of responsible officials: The District agrees with the auditor's findings.

Total Financial Statement Audit Questioned Costs

\$ 51,358

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019**

**Questioned
Costs**

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM
AUDIT**

FEDERAL EMERGENCY MANAGEMENT AGENCY

Hazard Mitigation Grant Program – CFDA No. 97.039

\$0.00

2019-007 Federal Emergency Management Agency; Pass-through Agency: California State Water Resources Control Board; Pass-through Entity Award No. FEMA-5189-DR-CA – Year ended June 30, 2019

Criteria: Pursuant to the procurement procedures found in **2 CFR 200.318-323** and the pass-through agreement, the procurement should be 1) supported by a contract file, when required, that documented the history of the procurement, including the rationale for the method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract; 2) supported by a cost or price analysis (for all procurement actions exceeding the simplified acquisition threshold); and 3) determine that, before entering into a covered transaction, the entity followed its procedures for verifying that an entity is not debarred, suspended, or otherwise excluded.

Condition: On the procurement for \$936,955 in hydroseeding from a contractor and \$55,000 for a consultant on the Carr Fire Project, the District failed to adequately document and summarize an organized procurement process, the rationale for the method of procurement, the selection of the contract type, and the basis for the contract. In addition, the procurements were not supported by a cost or price analysis, there were no procedures followed verifying that the entities were not debarred, suspended, or otherwise excluded, and contract provisions, such as the scope of work, costs and timetable.

The District, in the procurement of a hydro seeder, backdated the contract, accepted bids to use products that did not meet the required specifications and failed to consider the differences in methodology and timetables proposed by bidders.

The District developed the scope of the work, costs and timetable after the consultant was selected. There was also the appearance of a conflict of interest in the hiring of the consultant who was formerly a consultant for the company chosen by the District to provide the hydroseeding material for the project and received a small fee from the company after the company was chosen to provide the product. The Board approved a contract that did not agree to the actual contract and paid the consultant for service hours while the procurement process was being performed. The consultant drafted the sole source justification presented to the Board.

Cause: The former District Manager and Board failed to follow District policies and procedures for procurement. The former District Manager overrode the District's own policies and procedures for procurement and failed to address staff concerns during the procurement process. Additionally, the District has poorly designed and incomplete procurement procedures required to implement the policies and the staff in charge of the procurement process is not adequately trained in these procedures in order to adhere to the Federal and State procurement standards. Finally, the District does not adequately organize and document the procurement process according to the standards.

Effect: The override of internal controls over procurement results in significant deficiencies in internal controls over major programs but is less than a material noncompliance with the provisions of federal statutes, regulations, or the terms and conditions of federal awards related to a major program. **There were no questioned costs related to this finding.**

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019**

**Questioned
Costs**

2019-007 Continued

Context: In terms of procurements for this major program, the audit tested 75% of the construction contractors (2), consultants (3) and material providers (3), representing a combined dollar value of \$1,874,908, and found that the internal control deficiencies existed in only 2 of those procurement processes. This is not a repeat finding.

Recommendations: The District should train the staff and the Board on compliance requirements relating to grants and contracts, especially in the area of procurement and allowable costs, as these areas consists of the highest risks of material noncompliance with grants and contracts and misstatement in the financial statements. In addition, the District should require and oversee the procurement documentation to ensure it meets the standards of documentation required for Federal awards.

Views of responsible officials: The District agrees with the auditor's findings.

Hazard Mitigation Grant Program – CFDA No. 97.039

2019-008 Federal Emergency Management Agency; Pass-through Agency: California State Water Resources Control Board; Pass-through Entity Award No. FEMA-5189-DR-CA – Year ended June 30, 2019

\$ 0.00

Material Weakness and Noncompliance:

Condition: The District does maintain GAAP-compliant project accounts and an appropriate financial management system, however, the District failed to support the requests for grant funds with the accounting records, failed to adequately review disbursement requests for errors in requesting eligible project costs before the requests were made and funded, failed to correctly record certain project costs that resulted in delayed disbursement requests for these costs, and requested a disbursement of funds for ineligible project costs related to District personnel.

Specifically, the District failed to record \$93,000 of vendor invoices in the correct accounting period, failed to record \$188,000 of vendor invoices on a timely basis and invoiced a grantor twice for certain expenses. In addition, the District requested \$356,000 reimbursement of personnel costs in excess of actual cost and failed to seek a \$75,800 reimbursement from a grantor for an eligible cost. Lastly, employee errors and omissions in the District's timekeeping system required management to make changes to employee time sheets without employee approval.

Criteria: Pursuant to the grant agreement, section C-1, and **2 CFR 200.302**, the District must maintain a financial management system (i.e. GAAP-compliant Project accounts) to account for and track funds. Additionally, pursuant to section B-5 of the grant agreement, the District cannot use grant funds for indirect cost reimbursement.

Cause: The District has specific grant management policies and procedures in place. The District, under the leadership of the former District Manager, failed to follow these policies when accepting a contract with the State Water Resources Control Board that contained conflicting language, failed to identify procedures for reimbursement and failed to follow federal guidance and regulations. The former District Manager failed to address trained and experienced staff concerns over the deficiencies in the contract prior to signing.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019**

**Questioned
Costs**

2019-008 Continued

The inadequacies in the contract resulted in invoicing delays, invoicing errors, and questions on grantor documentation standards. In addition, the District did not review the grant specialist's reimbursement requests during the fiscal year under audit to ensure that internal controls were in place to maintain the accounting records correctly. Lastly, the District invoiced a grant for personnel costs using a "contract" rate that included a mark-up for indirect costs.

Effect: Material weaknesses in internal controls over grant, contracts and major programs and a material noncompliance with the provisions of Federal and State statutes, regulations, or the terms and conditions of State grants and Federal awards related to a major program. The lack of timely reimbursements from the grantor resulted in the District incurring approximately \$53,000 in un-reimbursable interest.

Context: This finding is not a repeat finding. The material weakness in internal controls over the financial management system is pervasive throughout all projects. The material noncompliance related to invoicing contract rates rather than direct costs is isolated to one major Federal and State award program that was funded only by State funds.

Recommendation: The District should follow the adopted grant management policies and procedures. The District should implement an internal review of all disbursement requests and activity performed by the grant specialist by the Fiscal Officer. In addition, the District should ensure that all disbursement requests are fully and adequately supported by the accounting records for all projects and reviewed on a quarterly basis, at a minimum.

Views of responsible officials: The District agrees with the auditor's findings. As stated in Event #4 of Footnote #13, the District negotiated with the State Water Board for indirect costs and has requested reimbursement under the grant. Consequently, the questioned costs have been eliminated.

Hazard Mitigation Grant Program – CFDA No. 97.039

2019-009 Federal Emergency Management Agency; Pass-through Agency: California State Water Resources Control Board; Pass-through Entity Award No. FEMA-5189-DR-CA – Year ended June 30, 2019

\$0.00

Significant Deficiency:

Condition: District management was required to complete and or correct, to the best of their knowledge, numerous employee time sheets that were incomplete or in error. The District is also not performing a crucial payroll reconciliation of the hourly input by project into the outside payroll service company (ADP) to the similar input of the payroll results into the financial management system. This nonperformance could potentially affect the personnel costs charged to any Federal award programs, causing unallowed costs to be reimbursed from the award(s).

Criteria: Best practice internal control activity controls would require this reconciliation in order to prevent or detect material misstatements in the financial statements. Additionally, to prevent changes and manipulation of timesheet hours charged to various projects, the timesheet should be signed by the employee and supervisor, printed and locked to all significant subsequent changes.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019**

2019-009 Continued

**Questioned
Costs**

Cause: These controls were not designed or implemented by the District.

Effect & Context: Material misstatements could go undetected and material noncompliance with grants or contracts could happen if personnel costs were recorded to the wrong project and reimbursements were requested from the wrong project. This is not a repeat finding and is pervasive across all projects.

Recommendation: I recommend the District design an internal reconciliation and review of the input of personnel hours into the financial management system, and that employees' and supervisors' sign the timesheets and they are kept for future review, to ensure that the personnel hours are charged to the correct project.

Views of responsible officials: The District agrees with the auditor's findings.

Total – Federal Emergency Management Agency

\$ 0.00

Total Major Federal Award Program Questioned Costs

\$ 0.00

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2019**

FINANCIAL STATEMENT AUDIT

FINDING 2018-001 – Control Environment

Condition/Context: Entity level controls over the control environment are ineffective in the current business environment and make for a high-risk environment.

Status: The District implemented most corrective actions during FY 2018-2019.

Corrective Actions Remaining: Make a final decision how the District will move forward with general revenues and fee-for-service contracts to reduce the cash flow burdens of the District on the General Manager and staff.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

FINDING 2018-002 – Financial Statement Close and Reporting

Condition/Context: Lack of effective financial close and reporting process, bank reconciliations not done in a timely manner, no timely and effective reviews of financial information, no oversight of person with skills, knowledge and expertise of Generally Accepted Accounting Principles (GAAP) for most of the fiscal year.

Status: The District implemented all corrective actions during FY 2018-2019.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

FINDING 2018-003 – Indirect Cost Rate Proposals

Condition/Context: The District's last prepared and approved ICRP was with the District's Cognizant Agency, the U.S. Department of the Interior, for a "provisional" rate for the year ending June 30, 2013.

Status: The District implemented all corrective actions during FY 2018-2019.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

FINDING 2018-004 – District Budget

Condition/Context: The District has violated Federal and State laws and regulations by not approving a District budget for all major funds until September 2017, thus operating for half the year without approval to incur District expenditures.

Status: This was a new finding for FY 2017-2018, but the District failed to implement any corrective action during FY 2018-2019.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2019**

MAJOR FEDERAL AWARD PROGRAM AUDIT
DEPARTMENT OF THE INTERIOR

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

2018-005 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

Material Noncompliance: The District received material cash advances from this Federal Agency and did not minimize the time elapsing between the transfer of the funds and their disbursement by the District because the cash advances were disbursed to pay costs incurred that were not allocable to this project and thus not allowable.

Status: The District implemented all corrective actions during FY 2018-2019.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

2018-006 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

Some of the required financial reports were not submitted on time according to the reporting schedule. In addition, there were inaccuracies found on the reports between the cumulative project disbursements (i.e. costs incurred and allowed) and cash on hand at the end of the reporting period and the actual amounts per the District's financial accounting system.

Status: The District implemented all corrective actions during FY 2018-2019.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

2018-007 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

Significant Deficiency and Noncompliance: As discussed at **Finding 2018-003**

Status: The District implemented all corrective actions during FY 2018-2019.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

2018-008 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

Condition: There are no written policies and procedures for compliance over federal award programs.

Status: The District implemented all corrective actions during FY 2018-2019.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.

**WESTERN SHASTA RESOURCE
CONSERVATION DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2019**

Sacramento River Salmonoid Spawning and Rearing Habitat Restoration – CFDA No. 15.512

2018-009 Award No. R14AC00096 Bureau of Reclamation – Year ended June 30, 2018

Material Weakness: As discussed at **Finding 2018-001**, the District’s entity level controls over the control environment over Federal Award Programs are ineffective in the current business environment and make for a high-risk environment. It is the responsibility of those charged with governance (i.e. Board of Directors) to approve policies and procedures for the District that includes a business environment that effectively reduces the risks of improper behavior by District personnel, such as illegal or dishonest acts, significant abuse and grant noncompliance. Due to the material questioned costs for this Federal program, it is apparent that this material weakness has affected the District’s internal controls over Federal programs resulting in material noncompliance.

Status: The District implemented most corrective actions during FY 2018-2019.

Corrective Actions Remaining: Make a final decision how the District will move forward with general revenues and fee-for-service contracts to reduce the cash flow burdens of the District on the General Manager and staff.

There are no significant differences between the above corrective actions and the previously reported corrective action plan.



6270 Parallel Road, Anderson, CA

(530) 365-7332

96007-4833 · Phone:

CORRECTIVE ACTION PLAN For the Year Ended June 30, 2019

Financial Statement Audit Findings

2019-001

The District has a payable to the endowment fund and will return the funds to the endowment. The former District Manager was terminated in April 2020 and has no access to the endowments. The District Manager, Maureen Teubert, is responsible for this correction and the transfer will be completed by September 30, 2020. The District changed brokers and will change the process for accessing funds from the endowments by November 30, 2020.

2019-002

The District Manager, Maureen Teubert, is responsible for these corrections. The District completed the transfers of all funds held in investment outside the California Government Code to acceptable investments by February 2020. The District codified, in an agreement with the new broker, the District's policies and the requirements of the California Government Code after engaging the broker in June 2019.

2019-003

The District will develop specific procedures for staff and management to follow regarding the procurement process. Employees will be trained on these procedures. Checklists will be developed to assist employees in following procedures. In addition, Federal guidelines will be added to District's procurement procedures. The District's Chief Fiscal Officer, Dave Wallace, CPA, is responsible for these corrections and they will be completed by November 30, 2020.

2019-004

The District will complete and approve the job duties and responsibilities of the CFO and Grant Accounting Specialist. Review of the Specialist's work on invoicing will be reviewed by management. The District will encourage project managers to work with the Specialist and management on vendor invoices and timely reimbursements from grantors. The District Manager, Maureen Teubert, is responsible for these corrections and they will be completed by November 30, 2020.

2019-005

The District Manager, Maureen Teubert, is responsible for these corrections. The District changed the payroll process by requiring employees to sign time sheets and the District to retain those time sheets in September 2020. The District has begun to reconcile employee hours per the payroll processor to the accounting records in September 2020.

2019-006

The District Manager, Maureen Teubert, is responsible for this correction. The District approved the 2020-2021 general fund and special revenue funds' budgets in August 2020. The District will attempt to approve the 2021-2022 budgets by July 1, 2021.

Major Federal Award Program Audit Findings

2019-007

The District will develop specific procedures for staff and management to follow regarding the procurement process. Employees will be trained on these procedures. Checklists will be developed to assist employees in following procedures. In addition, Federal guidelines will be added to District's procurement procedures. The District's Chief Fiscal Officer, Dave Wallace, CPA, is responsible for these corrections and they will be completed by November 30, 2020.

CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2019

Major Federal Award Program Audit Finding (Continued)

2019-008

The District will complete and approve the job duties and responsibilities of the CFO and Grant Accounting Specialist. Review of the Specialist's work on invoicing will be reviewed by management. The District will encourage project managers to work with the Specialist and management on vendor invoices and timely reimbursements from grantors. The District Manager, Maureen Teubert, is responsible for these corrections and they will be completed by November 30, 2020.

2019-009

The District Manager, Maureen Teubert, is responsible for these corrections. The District changed the payroll process by requiring employees to sign time sheets and the District to retain those time sheets in September 2020. The District has begun to reconcile employee hours per the payroll processor to the accounting records in September 2020.