

**BUZZTAIL COMMUNITY
SERVICES DISTRICT**

Chico, California

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORTS**

June 30, 2014

	Page Number
Independent Auditor's Report	1
Board of Directors	3
Financial Section	
Statement of Net Position	5
Statement of Functional Activities and Changes in Net Position	6
Statement of Cash Flows	7
Notes to the Financial Statements	8
Other Report Section	
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>	15

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Buzztail Community Services District
Chico, California

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of Buzztail Community Services District (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's 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 an opinion 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, and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 not such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient 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, the business-type activities, and the remaining fund information of the District as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis (MD&A) that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 20, 2015, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Holly B. Plakson, CPA

March 20, 2015
Chico, California

BUZZTAIL COMMUNITY SERVICES DISTRICT

2014 BOARD OF DIRECTORS

BOARD MEMBERS

TERM EXPIRATION

Richard Tooker, President

November 2017

Jason Seabrain, Vice-President

November 2017

Robin Wilder, Secretary

November 2015

William J. Ward, Director

December, 2015

Matt Wallen, Director

December, 2015

DISTRICT MANAGER

Scott Armstrong

FINANCIAL SECTION

STATEMENT OF NET POSITION*Buzztail Community
Services District*

<u>June 30, 2014</u>	<u>Total Governmental Funds</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 134,713
Accounts receivable	3,750
Interest receivable	-
Total Current Assets	<u>138,463</u>
CAPITAL ASSETS - NET	<u>60,021</u>
Total Assets	<u>\$ 198,484</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	\$ 2,577
Deferred revenue	254
Total Liabilities	<u>2,831</u>
NET POSITION	
Restricted	500
Unrestricted - Assigned	2,082
Unrestricted - Unassigned	193,071
Total Net Position	<u>195,653</u>
Total Liabilities and Net Position	<u>\$ 198,484</u>

The accompanying notes are an integral part of these financial statements.

**STATEMENT OF FUNCTIONAL ACTIVITIES
AND CHANGES IN NET POSITION**

*Buzztail Community
Services District*

<u>Year Ended June 30, 2014</u>	Total Governmental Funds
OPERATING REVENUES	
Water bills	\$ 37,918
Tax assessments	31,524
Miscellaneous income	63
Total Operating Revenues	69,505
OPERATING EXPENSES	
Administrative and general	25,001
Water treatment	11,747
Road work	5,270
Depreciation	6,669
Total Operating Expenses	48,687
OPERATING INCOME (LOSS)	20,818
NONOPERATING REVENUE (EXPENSES)	
Interest income	423
Increase (decrease) in fair value of cash	436
Total Nonoperating Revenue (Expenses)	859
Change in Net Position	21,677
Net Position - Beginning of Year	173,976
Net Position - End of Year	\$ 195,653

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS*Buzztail Community
Services District*

<u>Year Ended June 30, 2014</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 36,588
Receipts from tax assessments	31,524
Payments for water treatment	(11,747)
Payments for road work	(5,270)
Payments to suppliers	(24,990)
Net Cash Provided by Operating Activities	26,105
CASH FLOWS FROM INVESTING ACTIVITIES	
Change in fair value in cash and cash equivalents	436
Interest income	568
Net Cash Provided by Investing Activities	1,004
Net Increase in Cash and Cash Equivalents	27,109
Cash and Cash Equivalents - Beginning of Year	107,604
Cash and Cash Equivalents - End of Year	\$ 134,713
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 20,818
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,669
Changes in net assets and liabilities:	
Accounts receivable	(715)
Accounts payable	11
Deferred revenue	(678)
Net Cash Provided by Operating Activities	\$ 26,105

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the financial statements.

Reporting Entity The Buzztail Community Services District (the District), formed on March 5, 1985, is a political subdivision of the State of California. The District provides water services, road services, supplemental fire services, and drainage facilities and maintenance for the residents Buzztail Community Services District. The District consists of 67 lots and is considered a governmental agency. The District is governed by a five-member Board of Directors elected by the voters of the District. These financial statements encompass all fiscal activities conducted by the District.

Services are provided for through two different assessments. An assessment to provide for road maintenance is collected by an agreement with the County of Butte, through property tax assessments. Water bill assessments are collected directly from the members.

On November 18, 1980, a separate corporation was created to operate the waterworks under the name of Buzztail Waterworks. On September 24, 1994, this corporation was liquidated and all assets and liabilities were transferred to Buzztail Community Services District.

Basis of Accounting The District utilizes the proprietary fund method of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict or contradict GASB pronouncements.

Proprietary fund financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without directly giving equal value in return, includes property taxes and entitlements. Property taxes are collected for the District by Butte County. Revenue from entitlements are recognized in the fiscal year in which all eligibility requirement have been satisfied.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses include the costs of sales and services, maintenance of capital assets, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*. The object of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with GASB pronouncements: 1) FASB Statements and Interpretations; 2) Accounting Principles Board (APB) Opinions; and 3) Accounting Research Bulletins (ARB) of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The provisions of GASB Statement No. 62 are effective for the District's 2012-13 fiscal year.

Budgetary Control The District's fiscal year is the 12-month period beginning July 1. The District does not operate using budgetary constraints.

Cash and Cash Equivalents Cash and cash equivalents include cash on hand, demand deposits in a financial institution, and deposits in the Butte County Treasury (the County).

The District maintains substantially all of its cash in the County as part of a common investment pool. Deposits in the pool are valued using the amortized cost method (which approximates fair value) in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and includes accrued interest. The pool has deposits and investments with a weighted-average maturity of less than three years. As of June 30, 2014, the fair value of the pool is 99.95% of the carrying value, which amounted to a net decrease of \$47. The change in fair value amounted to an increase of \$436. Information regarding the amount of dollars invested in derivatives with the County was not available. The pool is subject to regulatory oversight by the Treasury Oversight Committee as required by *California Government Code*, Section 27130. The District is considered to be a voluntary participant in the County investment pool.

Uncollectible Accounts The District assumes all accounts to be fully collectible, thus there is no allowance for uncollectible accounts as of June 30, 2014.

Credit/ Market Risk The District provides water and road maintenance services to local residential and commercial customers. As part of normal operating practices, credit is granted to local customers, on an unsecured basis.

Capital Assets Capital assets are reported at historical cost, or in the case of donated items, at fair market value on the date donated. The District's capitalization policy includes all items with a unit cost of \$500 or more. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Useful lives are 10 to 40 years for structures and improvements, and 7 to 25 years for equipment.

Deferred Revenue Water assessment fees paid prior to the utilization of the services are recorded as deferred revenue.

Net Position The District adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the 2012-13 fiscal year. This statement established accounting and financial reporting standards for classifying fund balances into specifically defined classifications. At June 30, 2014, the District's net assets are classified into five categories as follows:

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

*Buzztail Community
Services District*

Non-spendable Fund Balance: The non-spendable fund balance classification includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash (e.g. inventories and prepaid amounts). It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than non-spendable fund balance.

Restricted Fund Balance: Fund balance should be reported as restricted when constraints placed on the use of the resources are either restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed Fund Balance: Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority should be reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (e.g. legislation, resolution, ordinance) it employed to previously commit those amounts.

Assigned Fund Balance: Amounts that are constrained by the government’s *intent* to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance, except for stabilization arrangements, as discussed in paragraph 21 of GASB Statement No. 54.

Unassigned Fund Balance: Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

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, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property Taxes Property taxes are levied by Butte County on the District’s behalf and are intended to support road maintenance and other services. Secured property taxes attach as an enforceable lien on property as of March 1. The amount of property tax received is dependent upon the assessed real property valuations as determined by the Butte County Assessor. Property taxes on the secured roll are due in two equal installments on November 1 and February 1 each year and are delinquent if not paid by December 10 and April 10, respectively. The District received approximately 45% of its operating revenue in 2014 from property taxes.

Use of Restricted Resources When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, and then unrestricted resources as they are needed.

Subsequent Events Subsequent events have been evaluated through March 20, 2015, which is the date the financial statements were available to be issued.

New Accounting Pronouncements

Effective in this Fiscal Year

GASB Statement No. 70 – In April 2013, GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement is effective as of July 1, 2014.

2. CASH AND CASH EQUIVALENTS

The District deposits most of its money in the County Treasury, which in turn pays the claims of the District. The County Treasury is limited in its investments by *California Government Code*, Section 53635, pursuant to Section 53601, to invest in demand deposits with financial institutions, savings accounts, certificates of deposits, U.S. Treasury securities, federal agency securities, State of California notes or bonds, notes or bonds of agencies within the State of California, obligations guaranteed by the Small Business Administration, bankers' acceptances, commercial paper, and the Local Agency Investment Fund (LAIF) of the State of California. The deposits in the County Treasury pooled funds are unrated.

Cash and cash equivalents at June 30, 2014, consisted of the following:

	<u>Maturities</u>	<u>Fair Value</u>
CASH AND CASH EQUIVALENTS		
Deposits (1)		\$ 40,130
County Treasury pooled funds (2)	2.5 years average	94,583
Total		\$ 134,713

- (1) **Deposits** The carrying amount of deposits includes checking accounts, savings accounts, and money market accounts at financial institutions, if any. These amounts are unrestricted.
- (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. 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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

*Buzztail Community
Services District***Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District has a collateralization agreement with the bank, which mitigates custodial credit risk. The cash balances in the bank at June 30, 2014, amounted to \$40,130. Deposits amounting to \$250,000 are covered by depository insurance, and the balance is subject to the collateralization agreement.

The LAIF funds do not have a fund rating, as reported by Standard and Poor's as of year end.

3. CAPITAL ASSETS

Changes in capital assets consisted of the following:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
DEPRECIATING CAPITAL ASSETS				
Air rite compressor	\$ 2,428	\$ -	\$ -	\$ 2,428
Astronomical clock	1,980	-	-	1,980
Data logger	1,404	-	-	1,404
Flow meters	2,272	-	-	2,272
Flow meters refurbish	409	-	-	409
Generator shed	1,785	-	-	1,785
Pump house	24,450	-	-	24,450
Steel plumbing manifold	2,884	-	-	2,884
Tank cover	6,400	-	-	6,400
Walking beam sprayer	4,072	-	-	4,072
Water meters	7,650	-	-	7,650
Water pump	13,741	-	-	13,741
Water pump - new	17,198	-	-	17,198
Water tank	41,620	-	-	41,620
Subtotal	128,293	-	-	128,293
Less: Accumulated depreciation	(61,603)	(6,669)	-	(68,272)
Total Capital Assets - Net	\$ 66,690	\$ (6,669)	\$ -	\$ 60,021

Depreciation expense for the year ended June 30, 2014 was \$6,669.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

*Buzztail Community
Services District***4. RISK MANAGEMENT**

The District has obtained general liability, property, boiler and machinery coverage, and public officials' errors and omissions insurance through Alliant Insurance Services, Inc. (Alliant). Alliant has contracted insurance coverage as listed below:

General liability	\$ 350,000,000
Auto liability	\$ 10,000,000
Public officials' errors and omissions	\$ 50,000,000
Property	\$ 25,000,000
Earthquake	\$ 5,000,000
Flood	\$ 5,000,000

The District has a \$1,000 deductible under general liability, \$10,000 for auto liability, \$1,000 deductible for public officials, \$1,000 deductible for boiler and machinery, and \$50,000 deductible per occurrence for earthquake and flood.

5. RELATED PARTIES

The Board members are service and water users of the District. In addition, three of the independent contractors used are also service and water users of the District. The total amount paid during the year ended June 30, 2014 to these three members was \$4,922. All water sales were consummated on terms equivalent to those that prevail in arm's-length transactions.

6. SUBSEQUENT EVENTS

On May 9, 2014, the District entered into an agreement with Del Oro Water Company for Del Oro to purchase Buzztail Community Service District's water rights and well property for \$73,359. Although the sale is finalized, actual transfer of ownership and receipt of money will not happen until regulatory approval from the Public Utilities Commission and LAFCO is secured. As of March 20, 2015, the date the financial statements were available to be issued, the transfer of ownership of the well rights and well property was not completed.

OTHER REPORT SECTION



HOLLY B. PLADSON
Certified Public Accountant

**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
Buzztail Community Services District
Chico, California

I have audited, in accordance with the auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*, the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of Buzztail Community Services District (the District), a political subdivision of the State of California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated March 20, 2015.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

My consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

**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***

Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Holly B. Pladson, CPA

March 20, 2015
Chico, California