



**KEYES COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

**JAMES MARTA & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS**

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KEYES COMMUNITY SERVICES DISTRICT

BOARD OF DIRECTORS

JUNE 30, 2018

| <u>Name</u> | <u>Office</u> | <u>Term Expires December</u> |
|-------------------|----------------|----------------------------------|
| Davie Landers | President | 2019 |
| Timothy Robertson | Vice President | 2022 |
| Mike Bernal | Director | 2019 |
| William Alexander | Director | 2022 |
| Eddie Jones | Director | 2022 |

ADMINISTRATION

Ernie Garza
General Manager

KEYES COMMUNITY SERVICES DISTRICT

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James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Keyes Community Services District
Keyes, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Keyes Community Services District (the District) as of and for the year ended June 30, 2018 and the related notes to the financial statement, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Keyes Community Services District as of June 30, 2018, and the respective changes in financial position and, where applicable, 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

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Street Lighting Fund, Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions 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 (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

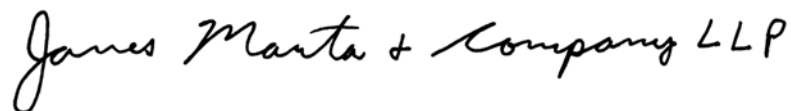
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance), Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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. Such 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 our 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*, we have also issued our report dated November 20, 2018 on our consideration of Keyes Community Services District's internal control over financial reporting and our tests of its compliance with provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Keyes Community Services District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 20, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

KEYES COMMUNITY SERVICES DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2018

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements, and required supplementary information.

This discussion and analysis of the financial performance of the Keyes Community Services District (“KCS D”) provides an overview of the District’s financial activities for the fiscal year ended June 30, 2018. It is management’s view of the District’s financial condition. It should be read in conjunction with the Independent Auditor’s Report, the basic financial statements and the accompanying notes to those financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are District-wide financial statements that provide both short-term and long-term information about the District’s overall financial status. Because these statements include all District funds, it should be noted that certain inter-fund and other types of transactions that net to zero have been eliminated so that District-wide revenues and expenditures are not artificially inflated.

The remaining statements are fund-level financial statements that focus on individual parts of the District, reporting the District’s operations in more detail than the District-wide statements.

These two kinds of statements report the District’s net position and changes in net position. Net Position is the difference between assets and liabilities, which is one way to measure the District’s financial health, or financial position. Generally, over time, increases or decreases in the District’s net position is one indicator of whether its financial health is improving or deteriorating.

The financial statements also include notes that explain some of the information in the statements. These notes are considered to be an integral part of the financial statements and should be considered with them when looking at the District’s financial picture.

The financial statements are followed by a section of required supplementary information presenting required information for governmental funds and pensions.

In the District-wide financial statements the District’s activities are shown as Governmental Activities and Proprietary Activities. The District has two funds that are classified as Business-type, which are called Proprietary Activities. The fund financial statements provide more detailed information about the District’s most significant funds, including the two Business-type activities—but not the District as a whole.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District completed the current year with its funds reporting combined net position of approximately \$15 million, an increase of approximately 48% over last year’s ending net position. The increase in combined net position was the result of a net income from the business-type operations and an excess of revenues over expenditures in the governmental fund.

KEYES COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Table 1 – Ending Fund Balances

| | <u>2018</u> | <u>2017</u> | <u>Change</u> |
|--------------------------|----------------------|----------------------|---------------------|
| Governmental Activities | \$ 287,191 | \$ 235,021 | \$ 52,170 |
| Business-Type Activities | <u>14,737,079</u> | <u>9,889,756</u> | <u>4,847,323</u> |
| Total Net Position | <u>\$ 15,024,270</u> | <u>\$ 10,124,777</u> | <u>\$ 4,899,493</u> |

There were ongoing project construction and acquisition expenditures in the amount of \$6,551,802 during the year ended June 30, 2018. Operating costs and expenses were \$1,632,054 and debt service payments were \$3,904,103. The annual service fees, tax levy collections and interest earnings during the year were more than enough to cover the capital expenditures, operating costs, debt service payments and administrative costs during the year.

Net Position: The Statement of Net Position is shown in Table 2 and net position represents the portion of total assets actually owned free and clear by the District. The District's primary assets are infrastructure including pipelines and related facilities. The District has a positive Net Position value for the year ending June 30, 2018 of \$15 million. This figure represents the amount the District would own if all operations were ceased at June 30, 2018, and all receivables were collected and payables paid.

Table 2 – Statement of Net Position

| | <u>2018</u> | <u>2017</u> | <u>Change</u> |
|---------------------------------------|----------------------|----------------------|---------------------|
| Assets | | | |
| Current assets | \$ 5,502,540 | \$ 5,942,152 | \$ (439,612) |
| Capital assets, net | <u>11,237,125</u> | <u>4,866,296</u> | <u>6,370,829</u> |
| Total assets | <u>16,739,665</u> | <u>10,808,448</u> | <u>5,931,217</u> |
| Deferred outflows of resources | <u>339,966</u> | <u>403,334</u> | <u>(63,368)</u> |
| Liabilities | | | |
| Current liabilities | 1,189,768 | 258,675 | 931,093 |
| Long-term liabilities | <u>835,585</u> | <u>806,604</u> | <u>28,981</u> |
| Total liabilities | <u>2,025,353</u> | <u>1,065,279</u> | <u>960,074</u> |
| Deferred inflows of resources | <u>30,008</u> | <u>21,726</u> | <u>8,282</u> |
| Net position | | | |
| Net investment in capital assets | 11,237,125 | 4,866,296 | 6,370,829 |
| Restricted | 287,191 | 235,021 | 52,170 |
| Unrestricted | <u>3,499,954</u> | <u>5,023,460</u> | <u>(1,523,506)</u> |
| Total net position | <u>\$ 15,024,270</u> | <u>\$ 10,124,777</u> | <u>\$ 4,899,493</u> |

KEYES COMMUNITY SERVICES DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Changes in Net Position: Revenues are generated by an annual tax levy, service charges and related fees, and interest on investments. Expenses and expenditures include administration, debt service, operation of the infrastructure facilities, and delivery of services.

Table 3 – Statement of Activities

| | <u>2018</u> | <u>2017</u> | <u>Change</u> |
|----------------------------------|----------------------|----------------------|---------------------|
| Program revenues | | | |
| Charges for services | \$ 2,732,191 | \$ 2,364,944 | \$ 367,247 |
| Capital grants and contributions | 3,618,016 | 766,880 | 2,851,136 |
| General revenues | | | |
| Property taxes | 1,288 | 1,230 | 58 |
| Interest income | 63,031 | 40,749 | 22,282 |
| Miscellaneous revenue | 135,816 | 623,742 | (487,926) |
| Total revenues | <u>6,550,342</u> | <u>3,797,545</u> | <u>2,752,797</u> |
| Program expenses | | | |
| Street lighting | 18,795 | 14,272 | 4,523 |
| Water | 721,788 | 656,929 | 64,859 |
| Sewer | 910,266 | 924,856 | (14,590) |
| Total expenses | <u>1,650,849</u> | <u>1,596,057</u> | <u>54,792</u> |
| Change in net position | | | |
| Net position - beginning | <u>10,124,777</u> | <u>7,923,289</u> | <u>2,201,488</u> |
| Net position - ending | <u>\$ 15,024,270</u> | <u>\$ 10,124,777</u> | <u>\$ 4,899,493</u> |

As shown in Table 3, the District’s total net position value increased by \$4.9 million over the prior year.

Activities: Total revenues for the year ended June 30, 2018 were \$6,550,342, increasing from \$3,797,545 in the prior year. Table 3 displays total Program and General revenues by major source, total program expenses by function, and total expenses. Total expenses for the year ended June 30, 2018 were \$1,650,849, increasing slightly from \$1,596,057 in the prior year.

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

The District’s funds are divided into two categories for financial statement representation purposes – governmental and proprietary funds. The major funds are the Proprietary Activities Funds. The Governmental Activities Fund finances streetlight service.

Each of the District’s funds realized an increase in Net Position for the year, as a result of recent increases in assessments, rates and fees.

KEYES COMMUNITY SERVICES DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The District’s Governmental Activities fund budget variance was minimal and positive. The anticipated revenue came in slightly over budget, and the expenditures were under budget because of a delay of the District's streetlight installation project. This action resulted in an excess of Revenues over Expenditures significantly more than the budgeted amount.

CAPITAL ASSETS

Significant capital asset additions consisted of work-in-process on the First Drinking Water project during the year ended June 30, 2018 including the construction and design of the Arsenic Treatment Facility (ATF), and design of well head modifications (activity). Land acquisition has been completed and the project is on schedule for completion in May of 2019.

LONG-TERM LIABILITIES

The District’s most significant long-term liability was its net pension liability, which decreased from \$806,604 at June 30, 2017 to \$764,414 as of June 30, 2018. The District also secured a bridge loan for its grant projects under construction during the year. The District drew down approximately \$3.9 million dollars during the year and repaid all amounts during the year. The only remaining balance on the bridge loan is the loan fees of \$71,171.

FACTORS BEARING ON THE DISTRICT’S FINANCIAL FUTURE

The housing market and the economy in the surrounding area and in California have experienced a significant downturn, resulting in fewer new service connections. In spite of the bad economy, the District has seen steady revenues and a slight decline in receivables. This is mostly due to a water and sewer rate study completed in 2011. Rate increases went into effect beginning in July 2011. A new subdivision was recently approved by Stanislaus County and may impact future connections and revenues.

The construction design, plans and specifications for the Arsenic Mitigation Project have been completed and are under current review for approval and acceptance by the State of California. The acquisition of the property for construction of these water system improvements was completed in early 2015. Significant construction cost expenditures will occur following land acquisition. The full “Notice to Proceed” construction activities for the ATF was issued on December 18, 2017. Clark Bro’s Inc., has secured a laydown/staging area to facilitate construction equipment, material storage and field offices.

At the time these financial statements were prepared and audited, the District was not aware of any other circumstances that could significantly affect its financial health in the future.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the staff or the board of directors at: Keyes Community Services District, 5601 7th Street, Keyes, CA 95328 – (209) 668-8341.

BASIC FINANCIAL STATEMENTS

KEYES COMMUNITY SERVICES DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2018

| | Governmental Activities | Business-type Activities | Total |
|---------------------------------------|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Cash and investments | \$ 285,601 | \$ 4,842,398 | \$ 5,127,999 |
| Accounts receivable | 1,590 | 306,459 | 308,049 |
| Prepaid expenses | - | 34,202 | 34,202 |
| Easements | - | 32,290 | 32,290 |
| Capital assets, net | - | 11,237,125 | 11,237,125 |
| Total assets | 287,191 | 16,452,474 | 16,739,665 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension related | - | 339,966 | 339,966 |
| LIABILITIES | | | |
| Accounts payable | - | 1,047,175 | 1,047,175 |
| Payroll liabilities | - | 3,359 | 3,359 |
| Accrued expenses | - | 17,050 | 17,050 |
| Customer deposits | - | 104,872 | 104,872 |
| Long-Term Liabilities: | | | |
| Due within one year | - | 17,312 | 17,312 |
| Due after one year | - | 835,585 | 835,585 |
| Total liabilities | - | 2,025,353 | 2,025,353 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension related | - | 30,008 | 30,008 |
| NET POSITION | | | |
| Net investment in capital assets | - | 11,237,125 | 11,237,125 |
| Restricted | 287,191 | - | 287,191 |
| Unrestricted | - | 3,499,954 | 3,499,954 |
| Total net position | \$ 287,191 | \$ 14,737,079 | \$ 15,024,270 |

KEYES COMMUNITY SERVICES DISTRICT

STATEMENT OF ACTIVITIES

JUNE 30, 2018

| Functions | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | | |
|--|---------------------|----------------------|----------------------------------|---|--------------------------|----------------------|
| | | Charges for Services | Capital Grants and Contributions | Governmental Activities | Business Type Activities | Total |
| Governmental activities: | | | | | | |
| Street lighting | \$ 18,795 | \$ 68,132 | \$ - | \$ 49,337 | \$ - | \$ 49,337 |
| Total governmental activities | <u>\$ 18,795</u> | <u>\$ 68,132</u> | <u>\$ -</u> | <u>49,337</u> | <u>-</u> | <u>49,337</u> |
| Business-type activities: | | | | | | |
| Water | \$ 721,788 | \$ 1,310,821 | \$ 3,618,016 | | 4,207,049 | 4,207,049 |
| Sewer | 910,266 | 1,353,238 | - | | 442,972 | 442,972 |
| Total business-type activities | <u>\$ 1,632,054</u> | <u>\$ 2,664,059</u> | <u>\$ 3,618,016.00</u> | | <u>4,650,021</u> | <u>4,650,021</u> |
| General revenues: | | | | | | |
| Property taxes | | | | - | 1,288 | 1,288 |
| Public water system capitalization grant | | | | - | - | - |
| TCP settlement | | | | - | - | - |
| Interest earnings | | | | 2,833 | 60,198 | 63,031 |
| Miscellaneous revenue | | | | - | 135,816 | 135,816 |
| Total general revenue | | | | <u>2,833</u> | <u>197,302</u> | <u>200,135</u> |
| Change in net position | | | | 52,170 | 4,847,323 | 4,899,493 |
| Net position, beginning | | | | 235,021 | 9,889,756 | 10,124,777 |
| Net position, end of year | | | | <u>\$ 287,191</u> | <u>\$ 14,737,079</u> | <u>\$ 15,024,270</u> |

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

KEYES COMMUNITY SERVICES DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2018

| | Street Lighting Fund |
|--|-------------------------------------|
| ASSETS | |
| Assets | |
| Cash and investments | \$ 285,601 |
| Accounts receivables | <u>1,590</u> |
| Total Assets | <u><u>\$ 287,191</u></u> |
| LIABILITIES AND FUND BALANCE | |
| Liabilities | |
| Accounts payable | <u>\$ -</u> |
| Total Liabilities | <u>-</u> |
| Fund Balance | |
| Restricted | <u>287,191</u> |
| Total Fund Balance | <u><u>287,191</u></u> |
| Total Liabilities and Fund Balance | <u><u>\$ 287,191</u></u> |

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

KEYES COMMUNITY SERVICES DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

| | Street Lighting Fund |
|---------------------------------|-------------------------------------|
| REVENUE | |
| Street light special assessment | \$ 68,132 |
| Interest | 2,833 |
| Total revenue | <u>70,965</u> |
| EXPENDITURES | |
| Supplies and services | <u>18,795</u> |
| Total expenditures | <u>18,795</u> |
| Net change in fund balance | 52,170 |
| FUND BALANCE, beginning of year | <u>235,021</u> |
| FUND BALANCE, end of year | <u><u>\$ 287,191</u></u> |

KEYES COMMUNITY SERVICES DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY - ENTERPRISE FUNDS**

JUNE 30, 2018

| <u>ASSETS</u> | <u>Sewer</u> | | <u>Water</u> | | <u>Total</u> |
|---------------------------------------|-----------------------|---------------------------------|-----------------------|---------------------------------|----------------------|
| | <u>Operating Fund</u> | <u>Capital Improvement Fund</u> | <u>Operating Fund</u> | <u>Capital Improvement Fund</u> | |
| Current assets: | | | | | |
| Cash and investments | \$ 2,065,939 | \$ 438,196 | \$ 1,866,032 | \$ 472,231 | \$ 4,842,398 |
| Accounts receivable | 124,749 | - | 181,710 | - | 306,459 |
| Prepaid expenses | - | - | 34,202 | - | 34,202 |
| Easement | 32,290 | - | - | - | 32,290 |
| Total current assets | <u>2,222,978</u> | <u>438,196</u> | <u>2,081,944</u> | <u>472,231</u> | <u>5,215,349</u> |
| Noncurrent assets: | | | | | |
| Capital assets, net | 2,517,516 | - | 8,719,609 | - | 11,237,125 |
| Total noncurrent assets | <u>2,517,516</u> | <u>-</u> | <u>8,719,609</u> | <u>-</u> | <u>11,237,125</u> |
| Total assets | <u>4,740,494</u> | <u>438,196</u> | <u>10,801,553</u> | <u>472,231</u> | <u>16,452,474</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Pension related | 169,983 | - | 169,983 | - | 339,966 |
| Total deferred outflows of resources | <u>169,983</u> | <u>-</u> | <u>169,983</u> | <u>-</u> | <u>339,966</u> |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 25,147 | - | 1,022,028 | - | 1,047,175 |
| Payroll liabilities | 1,480 | - | 1,879 | - | 3,359 |
| Accrued expenses | 69 | - | 16,981 | - | 17,050 |
| Customer deposits | - | - | 104,872 | - | 104,872 |
| Compensated absences | 8,656 | - | 8,656 | - | 17,312 |
| Total current liabilities | <u>35,352</u> | <u>-</u> | <u>1,154,416</u> | <u>-</u> | <u>1,189,768</u> |
| Noncurrent liabilities: | | | | | |
| Bridge loan payable | - | - | 71,171 | - | 71,171 |
| Net pension liability | 382,207 | - | 382,207 | - | 764,414 |
| Total noncurrent liabilities | <u>382,207</u> | <u>-</u> | <u>453,378</u> | <u>-</u> | <u>835,585</u> |
| Total liabilities | <u>417,559</u> | <u>-</u> | <u>1,607,794</u> | <u>-</u> | <u>2,025,353</u> |
| DEFERRED INTFLOWS OF RESOURCES | | | | | |
| Pension related | 15,004 | - | 15,004 | - | 30,008 |
| Total deferred inflows of resources | <u>15,004</u> | <u>-</u> | <u>15,004</u> | <u>-</u> | <u>30,008</u> |
| NET POSITION | | | | | |
| Net investment in capital assets | 2,517,516 | - | 8,719,609 | - | 11,237,125 |
| Unrestricted | 1,960,398 | 438,196 | 629,129 | 472,231 | 3,499,954 |
| Total net position | <u>\$ 4,477,914</u> | <u>\$ 438,196</u> | <u>\$ 9,348,738</u> | <u>\$ 472,231</u> | <u>\$ 14,737,079</u> |

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

KEYES COMMUNITY SERVICES DISTRICT

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

PROPRIETARY - ENTERPRISE FUNDS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

| | Sewer | | Water | | Total |
|--|---------------------|--------------------------|---------------------|--------------------------|----------------------|
| | Operating Fund | Capital Improvement Fund | Operating Fund | Capital Improvement Fund | |
| OPERATING REVENUE | | | | | |
| Service charges | \$ 1,219,738 | \$ - | \$ 1,125,254 | \$ - | \$ 2,344,992 |
| Late charges | - | - | 43,340 | - | 43,340 |
| Miscellaneous | 540 | - | 91,936 | - | 92,476 |
| Total operating revenue | <u>1,220,278</u> | <u>-</u> | <u>1,260,530</u> | <u>-</u> | <u>2,480,808</u> |
| OPERATING EXPENSES | | | | | |
| Salaries and benefits | 345,858 | - | 343,289 | - | 689,147 |
| Supplies and services | 418,601 | 15,211 | 196,123 | - | 629,935 |
| Depreciation | 130,596 | - | 50,377 | - | 180,973 |
| Total operating expenses | <u>895,055</u> | <u>15,211</u> | <u>589,789</u> | <u>-</u> | <u>1,500,055</u> |
| Operating income (loss) | <u>325,223</u> | <u>(15,211)</u> | <u>670,741</u> | <u>-</u> | <u>980,753</u> |
| NONOPERATING REVENUE (EXPENSE) | | | | | |
| Property taxes | - | - | 1,288 | - | 1,288 |
| Interest income | 22,162 | 4,094 | 33,942 | - | 60,198 |
| Public water system capitalization grant | - | - | 3,618,016 | - | 3,618,016 |
| Connection fees | - | 133,500 | - | 185,567 | 319,067 |
| Project expenses | - | - | (42,180) | - | (42,180) |
| Bridge loan fees | - | - | (71,171) | - | (71,171) |
| Interest expense | - | - | (18,648) | - | (18,648) |
| Total nonoperating revenue (expense) | <u>22,162</u> | <u>137,594</u> | <u>3,521,247</u> | <u>185,567</u> | <u>3,866,570</u> |
| Income (loss) before operating transfers | <u>347,385</u> | <u>122,383</u> | <u>4,191,988</u> | <u>185,567</u> | <u>4,847,323</u> |
| INTERFUND TRANSFERS | | | | | |
| Transfers in | - | 109,731 | - | - | 109,731 |
| Transfers out | (109,731) | - | - | - | (109,731) |
| Total interfund transfers | <u>(109,731)</u> | <u>109,731</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| CHANGE IN NET POSITION | <u>237,654</u> | <u>232,114</u> | <u>4,191,988</u> | <u>185,567</u> | <u>4,847,323</u> |
| NET POSITION, beginning | 4,240,260 | 206,082 | 5,156,750 | 286,664 | 9,889,756 |
| NET POSITION, end of year | <u>\$ 4,477,914</u> | <u>\$ 438,196</u> | <u>\$ 9,348,738</u> | <u>\$ 472,231</u> | <u>\$ 14,737,079</u> |

KEYES COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY – ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED

JUNE 30, 2018

| | |
|--|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | \$ 2,431,912 |
| Payments for employee salaries & benefits | (661,549) |
| Payments for services and supplies | (634,449) |
| Net cash provided (used) by operating activities | <u>1,135,914</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Loan proceeds | 3,885,455 |
| Loan repayment | (3,885,455) |
| Interest paid | (18,648) |
| Grant proceeds | 3,618,016 |
| Cash paid for construction of capital assets | (5,642,269) |
| Customer connection fees | 319,067 |
| Property taxes | 1,288 |
| Other capital and related financing expenses | (42,182) |
| Net cash provided (used) by capital and related financing activities | <u>(1,764,728)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest received | <u>60,198</u> |
| NET INCREASE (DECREASE) IN CASH | (568,616) |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>5,411,014</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 4,842,398</u> |

KEYES COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY – ENTERPRISE FUNDS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

RECONCILIATION OF OPERATING INCOME (LOSS)
TO NET CASH PROVIDED (USED) BY OPERATING
ACTIVITIES

| | |
|---|---------------------|
| Operating income (loss) | \$ 980,753 |
| Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities: | |
| Depreciation | 180,973 |
| (Increase) decrease in: | |
| Accounts receivable | (67,687) |
| Prepaid expenses | (9,147) |
| Deferred outflows | 63,368 |
| Increase (decrease) in: | |
| Accounts payable | 5,345 |
| Payroll liabilities | (1,244) |
| Accrued expenses | (712) |
| Customer deposits | 18,791 |
| Compensated absences | (618) |
| Net pension liability | (42,190) |
| Deferred inflows | 8,282 |
| Net cash provided by operating activities | <u>\$ 1,135,914</u> |

KEYES COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Keyes Community Services District was established in 1955 as a local government agency under California Government Code Section 61000, et. seq., for the purpose of providing street lighting to the community of Keyes, an unincorporated area of Stanislaus County. Sewer services were added in 1968. The water system was purchased from a private individual in 1971. It is governed by a Board of five locally elected directors.

B. BASIS OF PRESENTATION

Government-wide Financial Statements

The statement of net position and the statement of activities display financial information about the District. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities.

The government-wide statement of net position presents information on all of the District's assets and liabilities, with the difference between the two presented as net position. Net position is reported as three categories as applicable: net investment in capital assets, restricted and unrestricted. Restricted net position is further classified as either net position restricted by enabling legislation or net position that is otherwise restricted.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is not allocated by function. Interest on long-term liabilities is considered an indirect expense and is reported separately in the Statement of Activities.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column.

KEYES COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met. Expenses are recorded when liabilities are incurred.

Governmental Fund Financial Statements

Governmental fund financial statements (i.e. balance sheet and statement of revenues, expenditures and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used, or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

KEYES COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

D. FUND ACCOUNTING

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District funds are as follows:

Governmental Funds:

Street Lighting Fund accounts for the activities of the District's street light service.

Proprietary – Enterprise Funds:

Water Operating Fund is used to account for the delivery of the District's water services.

Water Capital Improvement Fund is used to account for the capital asset financing and purchasing activities of the District's water service.

Sewer Operating Fund is used to account for the delivery of the District's wastewater (sewer) services.

Sewer Capital Improvement Fund is used to account for the capital asset financing and purchasing activities of the District's wastewater service.

E. CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

F. ACCOUNTS RECEIVABLE

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the direct write-off method and expenses those accounts as they determined to be uncollectible. Accounting principles generally accepted in the United States of America require that accounts receivable be presented net of an allowance for uncollectible accounts. The difference between these two methods is not material to these financial statements. The amount that should be written off for the year was not material.

KEYES COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

G. RESTRICTED ASSETS

Proceeds from the street lighting fund are classified as restricted assets on the balance sheet and statement of net position because their use is limited to the purpose for which these funds were collected.

H. CUSTOMER DEPOSIT LIABILITY

The District receives deposits from customers requesting water service. The amount of the deposit varies depending on the type of customer. Deposits are returned to customers after balances are paid in full and the customer has cancelled water service. The amount on deposit as of June 30, 2018 was \$104,872.

I. COMPENSATED ABSENCES

District employees earn vacation leave, accrued holiday and compensation time. It may be either taken or accumulated until paid upon termination or retirement. Sick leave may be accumulated without limitation, but upon retirement, an employee will be paid for a maximum of 200 hours of any unused sick leave. Sick leave is not paid if an employee quits or is terminated. In accordance with generally accepted accounting principles, an accrual for compensated absences is reflected in the accompanying general purpose financial statements.

J. CAPITAL ASSETS

Capital assets are recorded at cost, or if contributed, at estimated value at time of acquisition. Depreciation is recognized on buildings, furniture, fixtures, equipment and subsurface lines by the straight-line method over their estimated useful lives. Estimated useful lives are as follows:

| | |
|----------------------------|---------------|
| System | 10 – 30 years |
| Buildings and improvements | 15 – 30 years |
| Machinery and equipment | 3 – 20 years |

District policy is to capitalize all assets, which cost \$1,000 or more, and to charge to current operations all additions under that cost limit. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are also expensed in the current period.

KEYES COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

K. REVENUES

Customer water meters are read on a monthly basis. Bills are rendered and income is recognized in the period in which meters are read. The District does not accrue income for water distributed but not yet billed at the end of the year. California state law requires water districts to report capacity charges collected and spent separately from operating revenue and expense and any fees unspent at year-end are shown in a separate equity fund. No capacity charges have been collected by the District.

L. PROPERTY TAXES

The District's property taxes are levied each calendar year on all taxable real property located in the District. Property taxes are recorded on an accrual basis of accounting. The County Assessor is responsible for assessment of all taxable real property within Stanislaus County. Property taxes are collected by the County Collector and are submitted to the County Treasurer, who remits to each unit its respective share of the collections. Taxes levied in one year become due and payable in two installments during the following year generally on February 1st and November 1st. The first installment is an estimated bill, and is approximately one-half of the prior year's tax bill. The second installment is based on the current levy, assessment, equalization, and certificate to limit levy, if any and any changes from the prior year will be reflected in the second installment bill. The District has elected under state law to receive all of the annual property tax assessments in three installments as follows: December 55%, April 40% and June 5%.

M. INCOME TAXES

The District is a governmental entity and as such its income is exempt from taxation under Section 115(1) of the Internal Revenue Code and Section 23701d of the California and Taxation Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

N. PENSIONS

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Keyes Community Services District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

KEYES COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

O. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time.

P. FUND BALANCE

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*", the District is required to report fund balances in the following categories: Nonspendable, Restricted, Committed, Assigned and/or Unassigned.

Nonspendable Fund Balance reflects assets not in spendable form, either because they will never convert to cash (prepaid expense) or must remain intact pursuant to legal or contractual requirements.

Restricted Fund Balance reflects amounts that can be spent only for the *specific purposes* stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance reflects 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 Board of Directors. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

Assigned Fund Balance reflects amounts intended to be used by the government for *specific purposes* but do not meet the criteria to be classified as restricted or committed. Under the District's adopted policy, only the Board of Directors is authorized to assign amounts for specific purposes.

Unassigned Fund Balance represents the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

When expenditures are incurred for purposes of which restricted, committed, assigned and unassigned fund balances are available, the District considers restricted funds to have been spent first, followed by committed, assigned and unassigned, respectively.

KEYES COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

Q. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 these estimates.

2. CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2018 consisted of the following:

| | |
|---------------------------------|---------------------|
| Cash in bank | \$ 303,334 |
| Cash in county treasury | <u>4,824,665</u> |
| Total Cash and Cash Equivalents | <u>\$ 5,127,999</u> |

The carrying amount of the District's cash is covered by federal depository insurance up to \$250,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit.

Cash in County Treasury

County pool investments consist of District cash held by the Stanislaus County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The weighted average maturity of the pool is 244 days. The pool is rated AAA by Standard and Poor's.

Interest Rate Risk: California Government Code Section 53601 limits the District's investments to maturities of five years. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

KEYES COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 is as follows:

| | Balance June 30, 2017 | Additions | Deletions | Balance June 30, 2018 |
|--|--------------------------|---------------------|-------------|--------------------------|
| Capital assets not subject to depreciation | | | | |
| Land | \$ 48,133 | \$ - | \$ - | \$ 48,133 |
| Construction in progress | 1,759,715 | 6,551,802 | - | 8,311,517 |
| Total capital assets not subject to depreciation | <u>1,807,848</u> | <u>6,551,802</u> | <u>-</u> | <u>8,359,650</u> |
| Capital assets being depreciated | | | | |
| Loan fees | 8,227 | - | - | 8,227 |
| System | 6,271,225 | - | - | 6,271,225 |
| Equipment and Vehicles | 643,764 | - | - | 643,764 |
| Building and Improvements | 77,677 | - | - | 77,677 |
| Total capital assets being depreciated | <u>7,000,893</u> | <u>-</u> | <u>-</u> | <u>7,000,893</u> |
| Less accumulated depreciation for: | | | | |
| Loan fees | (8,227) | - | - | (8,227) |
| System | (3,288,828) | (168,417) | - | (3,457,245) |
| Equipment and Vehicles | (570,423) | (12,307) | - | (582,730) |
| Building and Improvements | (74,967) | (249) | - | (75,216) |
| Total accumulated depreciation | <u>(3,942,445)</u> | <u>(180,973)</u> | <u>-</u> | <u>(4,123,418)</u> |
| Total capital assets, net of depreciation | <u>\$ 4,866,296</u> | <u>\$ 6,370,829</u> | <u>\$ -</u> | <u>\$ 11,237,125</u> |

Depreciation for the year ended June 30, 2018 was \$180,973.

4. LONG-TERM LIABILITIES

The following is a summary of the District's long-term obligations as of June 30, 2018:

| | Balance July 1, 2017 | Additions | Deductions | Balance June 30, 2018 | Due Within One Year |
|-----------------------|-------------------------|---------------------|---------------------|--------------------------|---------------------------|
| Net Pension Liability | \$ 806,604 | \$ - | \$ 42,190 | \$ 764,414 | \$ - |
| Compensated Absences | 17,786 | - | 474 | 17,312 | 17,312 |
| Bridge Loan | - | 3,956,626 | 3,885,455 | 71,171 | - |
| | <u>\$ 824,390</u> | <u>\$ 3,956,626</u> | <u>\$ 3,928,119</u> | <u>\$ 852,897</u> | <u>\$ 17,312</u> |

In October 2017, the District obtained a bridge loan through the Rural Community Assistance Corporation to provide cash flow for its Arsenic, System Improvement and Consolidation Project. The District can borrow up to \$4,673,529 on the loan, which is net of the \$71,171 loan fee. The loan carries an annual interest rate of 5%. During the year the District borrowed and repaid \$3,885,455. The remaining balance is the loan fees, which were withheld from the proceeds. Interest paid for the year was \$18,648.

KEYES COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

5. EMPLOYEE RETIREMENT PLAN

A. Plan Description

The District is a major participant in the Stanislaus County Employees Retirement Association (StanCERA), a retirement system organized under the 1937 Retirement Act. StanCERA is a cost-sharing multiple-employer Public Employee Retirement System (PERS). StanCERA provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits. Health and welfare insurance for retirees and their dependents are available however administered independently of StanCERA. The plan is administered by the Stanislaus County Employees Retirement Association. An actuarial valuation is performed for the system annually as a whole and the contribution rate is determined for each participating entity. The participating entities are the County, City of Ceres and six special districts located in the County not governed by the County's Board of Supervisors. StanCERA issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for StanCERA. The CAFR may be obtained by writing to Stanislaus County Employees Retirement Association, P O Box 3150, Modesto, CA 95353-3150 or by calling (209) 525-6393.

The StanCERA CAFR is prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. All other securities are valued at the last reported market price at current exchange rates.

Summary of Plans and Eligible Participants

General Tiers

| | |
|---------------------|--|
| Tiers 1, 2, 4 and 5 | Vests after five years of credited service and may retire at age 50 or older with 10 or more years of membership with StanCERA or any age with 30 or more years of credited service. |
| Tier 3 | Vests after ten years of credited service and may retire at age 55 or older with 10 or more years of credited service. |
| Tier 6 | Vests after five years of credited service and may retire at age 52 with 5 years of service credit or age 70 regardless of service credit. |

Safety Tiers

| | |
|---------------------|--|
| Tiers 1, 2, 4 and 5 | Vests after five years of credited service and may retire at age 50 or older with 10 or more years of membership with StanCERA or any age with 20 or more years of credited service. |
| Tier 6 | Vests after five years of credited service and may retire at age 50 with 5 years of service credit or age 70 regardless of service credit. |

Note: Only general and safety tier 6 are open to new members, all other tiers are closed to new members.

KEYES COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

B. Benefits Provided

Members terminating employment before accruing five years (Ten years for Tier 3) of retirement service credit forfeit the right to receive retirement benefits unless they establish reciprocity with another public agency within the prescribed time period.

Non-vested members who terminate service are entitled to withdraw their accumulated contributions plus accrued interest. Members who terminate after earning five or ten years of retirement service credit may leave their contributions on deposit and elect to take a deferred retirement. Difference between expected or actual experience for vested and non-vested benefits may result in an increase or decrease to pension expense and net pension liability.

For members with Tier 1, Tier 4 or Tier 5 benefits, final average salary is the average monthly salary based on the highest twelve consecutive months of earnings. For members with Tier 2, Tier 3, or Tier 6 benefits, final average salary is the average monthly salary based on the highest thirty-six consecutive months of earnings.

The retirement benefit for Tier 1, Tier 2, Tier 4, Tier 5, and Tier 6 members includes a postretirement cost-of-living (COL) adjustment based upon the Consumer Price Index. COL increases/decreases are limited to a maximum of 3% annually. Total COL decrease(s) cannot exceed the cumulative amount of previous COL increase(s). Tier 1, Tier 2, Tier 4, Tier 5, and Tier 6 provide death and disability benefits.

Those members participating in Tier 1, Tier 2, Tier 4, Tier 5, and Tier 6 are required by statute to contribute to the pension plan. Members' contribution rates for Tier 1, Tier 2, Tier 4, and Tier 5 are formulated on the basis of the age at date of entry and the actuarially calculated future benefits. Members' contribution rate for Tier 6 is a flat rate based on the actuarially calculated future benefit. The District is required by statute to contribute the remaining amounts necessary to finance the estimated benefits accrued to its members. Member and employer contribution rates for each plan are as follows:

| <u>Plan</u> | <u>Employer Contribution Rates</u> | <u>Employee Contribution Rates</u> |
|----------------|--|--|
| General Tier 1 | 28.90% | 5.08-8.18% |
| General Tier 2 | 25.45% | 6.69-11.58% |
| General Tier 3 | 19.75% | Non-contributory |
| General Tier 4 | 30.84% | 4.88-7.96% |
| General Tier 5 | 22.96% | 7.95-12.88% |
| General Tier 6 | 25.09% | 8.06% |
| Safety Tier 2 | 39.08% | 10.10-17.43% |
| Safety Tier 4 | 21.68% | 7.63-12.24% |
| Safety Tier 5 | 42.59% | 11.52-18.31% |
| Safety Tier 6 | 36.98% | 13.07% |

KEYES COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

C. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the Keyes Community Services District reported net pension liability for its proportionate share of \$764,414.

Keyes Community Services District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan was measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. Keyes Community Services District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018 the District's proportion was 0.1149%, compared to 0.1094% at June 30, 2017, an increase of 0.0057%.

For the year ended June 30, 2018, the District recognized pension expense of \$167,479. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 27,462 | \$ 4,429 |
| Changes in assumptions | 185,967 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 6,461 |
| Changes in proportion and differences between District's contributions and proportionate share of contributions | 50,342 | 19,118 |
| District contributions subsequent to the measurement date | 76,195 | - |
| Total | \$ 339,966 | \$ 30,008 |

\$76,195 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

KEYES COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

C. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

| <u>Year ended June 30:</u> | |
|----------------------------|-------------------|
| 2019 | \$ 67,413 |
| 2020 | 104,351 |
| 2021 | 81,624 |
| 2022 | (19,625) |
| Thereafter | - |
| | <u>\$ 233,763</u> |

Actuarial Assumptions – The total pension liabilities in the June 30, 2017 actuarial valuation were determined using the following actuarial assumptions:

| | |
|-------------------------------|---|
| Valuation Date | 7/01/2016, rolled forward to June 30, 2017 |
| Experience Study Report | 6/30/2015 |
| Actuarial Cost Method | Entry Age |
| Amortization Method | The unfunded liability is being amortized over a closed period as a level percentage of payroll, assuming pay increases of 3.25% over a closed period of 20 years. |
| Asset Valuation Method | 5-year smoothed market, 80% / 120% corridor around market |
| Actuarial Assumptions: | |
| Inflation Rate | 3.0 percent |
| Investment Rate of Return | 7.25 percent, net of investment expense |
| Projected Salary Increases | 3.25 percent plus service-based rates |
| COLA Increases | 10% of Consumer Price Index (CPI) up to 3.0% annually with banking. 2.7% annual increases assumed. |
| Mortality | All mortality assumptions employ a fully generational mortality improvement projection from base year 2009 using Scale MP-2015. Active Members: Mortality rates are specified by the CalPERS Pre-Retirement Non-Industrial Mortality table, adjusted by 100.3% for males and 98.8% for females. Healthy Retirees and Beneficiaries: Mortality rates are specified by the CalPERS Healthy Annuitant table, adjusted by 93.4% for males and 107.9% for females. Disabled Retirees: Mortality rates are specified by the CalPERS Non-Industrially Disabled Annuitant table, adjusted by 96.4% for males and 110.4% for females. |

KEYES COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

C. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Discount Rate – The discount rate used to measure the total pension liability as of June 30, 2018 was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---------------------------|-------------------|--|
| Domestic Equities | | |
| U.S. Large Cap | 18.50% | 4.70% |
| U.S. Small Cap | 5.50% | 4.80% |
| International Equities | | |
| International Development | 19.00% | 9.70% |
| Emerging Market Equity | 5.00% | 8.60% |
| U.S. Fixed Income | | |
| Core fixed income | 0.00% | 3.30% |
| U.S. Treasury | 3.00% | 2.40% |
| Short-term Gov/Credit | 19.00% | 2.60% |
| Real Estate | | |
| Core | 7.70% | 4.60% |
| Value-add | 1.70% | 6.60% |
| Risk Parity | 14.00% | 7.20% |
| Private Equity | 0.00% | 7.80% |
| Private Credit | 5.00% | 6.50% |
| Infrastructure | 0.60% | 4.60% |
| Cash | 1.00% | 2.20% |
| Total | <u>100%</u> | |
| Assumed Inflation - Mean | | 3.00% |

KEYES COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

C. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | <u>1% Decrease (6.25%)</u> | <u>Discount Rate (7.25%)</u> | <u>1% Increase (8.25%)</u> |
|---|----------------------------|------------------------------|----------------------------|
| District's proportionate share of the net pension liability (asset) | \$ 1,199,673 | \$ 764,414 | \$ 409,934 |

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued StanCERA CAFR.

D. Payable to the Pension Plan

The District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

6. JOINTLY GOVERNED ORGANIZATIONS

The District is a member of the Special District Risk Management Authority (SDRMA) which provides liability, property and workers’ compensation program coverage.

SDRMA is governed by a Board consisting of representatives from member agencies. The Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency pays a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority. Full financial statements are available separately from SDRMA. Condensed information for SRMA for the year ended June 30, 2017 (the latest information available) is as follows:

| | SDRMA June 30, 2017 |
|-------------------------|------------------------|
| Total Assets | \$ 111,852,055 |
| Total Deferred Outflows | \$ 637,936 |
| Total Liabilities | \$ 62,077,098 |
| Total Deferred Inflows | \$ 171,678 |
| Total Net Position | \$ 50,241,215 |
| Total Revenues | \$ 65,807,742 |
| Total Expenses | \$ 67,709,911 |
| Change in Net Position | \$ (1,902,169) |

KEYES COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

7. INTERFUND ACTIVITIES

All interfund transfers for the year ended June 30, 2018 were made for cash management purposes. There were no outstanding interfund receivables or payables at year end.

8. CONCENTRATIONS

The District's wastewater disposal is contracted with the City of Turlock. The District is dependent on the City of Turlock's ability to provide wastewater collection services. The District's wastewater disposal fee rates are based on the fees the City of Turlock charges the District for collection services. Uncertainty exists regarding future rate changes by the City of Turlock, and the potential future demands for expansion of Turlock's wastewater collection facilities. The amount of the liability, if any, cannot be determined at this time.

9. COMMITMENTS

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

As of June 30, 2018, the District had the following contract commitments with respect to unfinished capital projects:

- Arsenic Treatment Facility
 - Clark Brothers, Inc. – amount remaining on contract - \$3,189,118
- Water Distribution and System Improvements
 - Mozingo Construction, Inc. – amount remaining on contract - \$2,524,842

10. SUBSEQUENT EVENTS

District management has evaluated its June 30, 2018 financial statements for subsequent events through November 20, 2018, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY
INFORMATION**

KEYES COMMUNITY SERVICES DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL – STREET LIGHTING FUND**

FOR THE YEAR ENDED JUNE 30, 2018

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Favorable (Unfavorable) |
|---------------------------------|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUE | | | | |
| Street light special assessment | \$ 64,000 | \$ 64,000 | 68,132 | \$ 4,132 |
| Interest | 1,200 | 1,200 | 2,833 | 1,633 |
| Total revenue | <u>65,200</u> | <u>65,200</u> | <u>70,965</u> | <u>5,765</u> |
| EXPENDITURES | | | | |
| Supplies and services | <u>145,300</u> | <u>145,300</u> | <u>18,795</u> | <u>126,505</u> |
| Total expenditures | <u>145,300</u> | <u>145,300</u> | <u>18,795</u> | <u>126,505</u> |
| Net change in fund balance | (80,100) | (80,100) | 52,170 | 132,270 |
| FUND BALANCE, beginning of year | <u>235,021</u> | <u>235,021</u> | <u>235,021</u> | <u>-</u> |
| FUND BALANCE, end of year | <u>\$ 154,921</u> | <u>\$ 154,921</u> | <u>\$ 287,191</u> | <u>\$ 132,270</u> |

KEYES COMMUNITY SERVICES DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

JUNE 30, 2018

| Year Ended June 30, | (a) District's proportion of the net pension liability (asset)* | (b) District's proportionate share of the net pension liability (asset) | (c) District's covered payroll | (b/c) District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll* | Plan fiduciary net position as a percentage of the total pension liability* | Proportionate share of aggregate employer contributions |
|---------------------|---|---|---|---|---|---|
| 2017 | 0.1149% | \$ 764,414 | \$ 296,853 | 257.51% | 74.98% | \$ 61,826 |
| 2016 | 0.1094% | \$ 806,604 | \$ 278,952 | 289.16% | 70.63% | \$ 56,273 |
| 2015 | 0.1023% | \$ 301,944 | \$ 245,398 | 123.04% | 86.13% | \$ 43,946 |
| 2014 | 0.0903% | \$ 11,507 | \$ 229,831 | 5.01% | 88.49% | \$ 45,815 |

The amounts presented for each fiscal year were actuarial determined at June 30 of the prior year and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

KEYES COMMUNITY SERVICES DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
JUNE 30, 2018

| Year Ended June 30, | (a) Contractually required contribution | (b) Contributions in relation to the statutorily required contribution | (a-b) Contribution deficiency (excess) | (c) District's covered payroll | (b/c) Contributions as a percent of covered payroll |
|---------------------------|--|--|---|---|---|
| 2017 | \$ 61,826 | \$ 61,826 | \$ - | \$ 296,853 | 20.83% |
| 2016 | \$ 56,273 | \$ 56,273 | \$ - | \$ 278,952 | 20.17% |
| 2015 | \$ 43,946 | \$ 43,946 | \$ - | \$ 245,398 | 17.91% |
| 2014 | \$ 42,228 | \$ 45,815 | \$ (3,587) | \$ 229,831 | 19.93% |

The amounts presented for each fiscal year were actuarially determined at June 30 of the prior year and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

KEYES COMMUNITY SERVICES DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

PURPOSE OF SCHEDULES

A - Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual

The District employs budget control by account codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Directors to provide for revised priorities. Expenditures cannot legally exceed appropriations by object level, which is a category of account codes such as salaries and benefits or charges for services. The originally adopted and final revised budget for the General Fund is presented as Required Supplementary Information. The budgeting is done on the cash basis which is another comprehensive basis of accounting.

B - Schedule of Proportionate Share of the Net Pension Liability

There were no changes in benefits or assumptions during the year.

Fiscal year 2018 was the 4th year of implementation, therefore only four years are shown.

C - Schedule of Pension Contributions

Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.

SUPPLEMENTARY INFORMATION

KEYES COMMUNITY SERVICES DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| <u>Federal Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Agency or Pass-Through Number</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|--|---------------------------------|
| <u>Environmental Protection Agency</u> <i>Passed through California State Water Resources Control Board</i> | | | |
| Capitalization Grants for Drinking Water State Revolving Funds | 66.468 | D1602054 | \$ <u>255,770</u> |
| Total expenditures of federal awards | | | <u>\$ 255,770</u> |

The federal awards are included in the Public Water System Capitalization Grant.

OTHER INDEPENDENT AUDITOR'S REPORT



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

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

Independent Auditor's Report

Board of Directors
Keyes Community Services District
Keyes, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Keyes Community Services District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 20, 2018.

Internal Control Over Financial Reporting

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

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

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. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations to be material weaknesses: 2018-1 and 2018-2.

Compliance and Other Matters

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

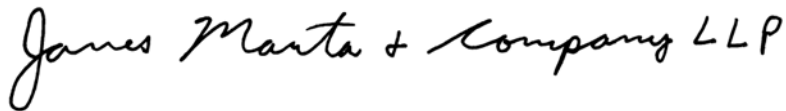
We noted other matters that we reported to management of the District in a separate letter dated November 20, 2018.

Response to Findings

Keyes Community Services District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. Keyes Community Services District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 20, 2018

KEYES COMMUNITY SERVICES DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Section I – Summary of Audit Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

| | | |
|---|-------------------|----------------------------|
| Material weakness(es) identified? | <u> X </u> Yes | <u> </u> No |
| Significant deficiency(ies) identified? | <u> </u> Yes | <u> X </u> None reported |

Noncompliance material to financial statements noted?

| | | |
|--|-------------------|-----------------|
| | <u> </u> Yes | <u> X </u> No |
|--|-------------------|-----------------|

Federal Awards

The District expended less than \$750,000 in federal awards for the year ended June 30, 2018 and was not subject to a Single Audit.

KEYES COMMUNITY SERVICES DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Section II – Financial Statement Findings

2018-1 Preparation of Financial Statements – Material Weakness

Finding:

Management required the assistance of the auditors in identifying year-end accrual adjustments and preparation of the financial statements and footnotes. It is management's responsibility for the accuracy of the financial statements and any related footnotes and disclosures.

Recommendation:

Management should create a monthly and annual closing checklist to assist in the preparation of financial statements, which includes the accrual adjustments necessary to comply with generally accepted accounting principles.

Management Response:

A monthly and annual checklist is being created and management is going to work with auditors to get specific training in this area.

2018-2 Capital Asset Management – Material Weakness

Finding:

The District did not maintain the capital asset and depreciation schedule during the year. In addition, construction-in-progress for several major projects have not been tracked on an annual basis.

Recommendation:

Management has the current capital asset and depreciation schedule as well as a spreadsheet to track construction in progress. Each month these schedules should be updated and reconciled with the accounting system.

Management Response:

There is a work in process spreadsheet that will be updated monthly. The numbers will be reconciled with the trial balance.

KEYES COMMUNITY SERVICES DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| <u>Findings and Recommendation</u> | <u>Current Status</u> | <u>Explanation If Not Implemented</u> |
|---|-----------------------|--|
| <u>Internal Controls</u> | | |
| 2017-1 Cash Disbursements (Significant Deficiency) | Implemented | |
| The District should implement procedures requiring proper supporting documentation to be completed, reviewed, authorized, approved, and retained in the accounting records. | | |
| 2017-2 Internal Controls Over Disbursements (Material Weakness) | Implemented | |
| We suggest that management review the District's internal control procedures and verify that each transaction is reviewed, authorized, and approved before processing for payment and recording. | | |
| 2016-2 Bank Reconciliations (Significant Deficiency) | Partially Implemented | See separate management letter 2018-8 |
| Procedures should be developed to fully reconcile the bank account balances each month. | | |
| 2015-1 Customer Deposits (Material Weakness) | Partially Implemented | The customer deposit account has been adjusted and will be reconciled monthly. |
| The District should implement procedures requiring 1) proper initial recording of all customer deposits received, 2) record retention of all customer payment and deposit transaction documentation, and 3) verification of customer deposit balances prior to issuing refunds. | | |
| 2013-1 Insurance Liabilities (Significant Deficiency) | Implemented | |
| The District should ensure that accurate financial information is available to management and directors throughout the year. The accuracy, relevance, and timeliness of financial information can have a significant impact on decision making within the organization. | | |

KEYES COMMUNITY SERVICES DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| <u>Findings and Recommendation</u> | <u>Current Status</u> | <u>Explanation If Not Implemented</u> |
|---|-----------------------|---------------------------------------|
| <p>2012-6 Preparation of Financial Statements (Material Weakness)</p> <p>Assistance with financial statement preparation is not uncommon for an entity of this size, but should be considered as the board is exercising its oversight duties with respect to financial reporting.</p> | Not Implemented | See current year finding 2018-1 |
| <p>2012-4 Fixed Asset Management (Material Weakness)</p> <p>The District staff should review and maintain the schedule on an ongoing basis, and a physical inventory and inspection of fixed assets should be compared to the schedule.</p> | Not Implemented | See current year finding 2018-2 |