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INTERNAL CONTROL LETTER

To the Board of Directors
Volcano Community Services District
Volcano, California

In planning and performing our audit of the financial statements of Volcano Community Services District (the District) as of and for the years ended June 30, 2019 and 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. 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 first 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 discussed below, 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 following deficiencies in the District's internal control to be material weaknesses:

Internal Controls over Billings and Cash Receipts

Duties related to processing customer bills and collections of the bills are not adequately segregated. We noted the General Manager generates customer bills, processes customer payments, makes bank deposits, and can adjust or write off customer accounts, with no review of work performed. Internal controls over financial reporting should be in place to ensure the District has the ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements and to properly reduce the risk of fraud by establishing proper separation of duties and review functions. While it is difficult to segregate duties due to limited staff size, the following procedures can be put in place to compensate for this lack of segregation of duties:

1. A list of billing adjustments should be generated from the system and reviewed by the board.
2. The Board should review the Accounts Receivable Aging Report from the utility billing system on a monthly basis.
3. The Board should review bank reconciliations.

Documentation of Water Readings and Water Billings

During our testing of customer billings, we noted the District was unable to provide water readings and water billings for six of the selected months. The District was unable to provide support for the months of July 2020, and February to June 2020. All of the records were maintained by the General Manager, who was removed from the position. Many of the files were maintained on the General Manager's personal laptop and the written records were maintained in her home. Aside from the QuickBooks records, none of the electronic files were turned over to the District on her dismissal, and the box of files provided appeared to be missing documents. We recommend the District ensure water readings and water billings are done at the end of each month, and entered into system, and documentation of the meter readings be maintained. The system should be backed up to allow for recovery of records in case a computer crashes, or turn over occurs once again.

Document Retention

The District was unable to provide us board packets that included monthly financial reports and other financial reports provided to management and Board members. The District was also unable to provide us bank statements for the El Dorado Saving accounts. The General Manager that was removed from the position retained many documents. Board members of the District were unaware of the money at the El Dorado Savings account. We recommend that the District retain board packets from each board meeting and to upload them on a server/cloud so any board member can access them. Additionally, we recommend that the District obtain bank statements for each bank account each month and review activity. Also, the interest accrued on the accounts needs to be reflected in the accounting system.

Internal Controls over Financial Reporting and Segregation of Duties

A number of areas were identified where proper segregation of duties were not in a place related to general disbursements and customer billings. We recommended that the District develop internal control procedures to create a responsible structure for accurate financial reporting and proper separation of duties. Procedures should be in place to prepare the required reconciliations at year-end and throughout the year. Policies and procedures should be developed to ensure proper separation of duties and oversight.

Hall Rental

The District has not maintained records in regards to the rental of the hall. Procedures should be adopted and put in place over hall rental revenue that includes maintaining a receipt book to track and record hall rental revenue.

Capital Assets

Developer-constructed infrastructure that is deeded to the District does not appear to be recorded as capital assets in the District's general ledger. We recommend the District estimate and record the amount of developer donated assets and related depreciation.

The following other items were noted that warrant consideration:

Chart of Accounts

We noticed a couple of accounts did not have assigned account numbers. We recommend that each account be assigned an account number in a logical sequence making it easier to identify the purpose of the account.

Policies & Procedures

The District does not have policies or procedures in place. We recommend the District draft and implement an investment policy, a capital asset policy, and other policies as necessary. Procedures should also be documented to ensure continuity upon turn over, and ensure work is performed as required.

Capital Assets Policies

The District does not have any procedures set in place for periodic inventories of moveable fixed assets. We recommend a capitalization policy be developed for capitalizing items and the useful lives for depreciating items.

* * * *

This communication is intended solely for the information and use of management, the Board of Directors and others within the District, and is not intended to be, and should not be, used by anyone other than those specified parties.

Richardson & Company, LLP

July 31, 2023



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GOVERNANCE LETTER

To the Board of Directors
Volcano Community Service District
Volcano, California

We have audited the financial statements of the governmental activities and the business-type activities of Volcano Community Service District (the District) for the years ended June 30, 2020 and 2019, and have issued our report thereon dated July 31, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards (GAAS)

As stated in our engagement letter dated February 9, 2022, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involves judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

We performed the audit according to the planned scope previously communicated to you in our engagement letter dated February 9, 2022.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transaction entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the

financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: depreciable lives and methods used to depreciate capital assets and collectability of accounts receivable. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statements users. The most sensitive disclosure affecting the financial statements was the following:

- As discussed in the Internal Control letter, the District has not quantified and recorded developer-donated infrastructure as required by GASB Statement No. 33 and 34. We have issued an adverse opinion on the District's financial statements as a result of this developer-donated infrastructure not being included on the District's capital asset list.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Audit adjustments included six entries needed to correct balances as follows:

- Write off feasibility study incorrectly capitalized
- True-up investment in capital assets
- Accrue for payable not recorded
- Remove negative petty cash
- Adjust for prior audit adjustments not reflected in the general ledger
- Reclassify checks written after June 30 to accounts payable

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 31, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants other than the contract accountant.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company, LLP

July 31, 2023

VOLCANO COMMUNITY SERVICES DISTRICT

Audited Financial Statements

June 30, 2020 and 2019

VOLCANO COMMUNITY SERVICES DISTRICT

Audited Financial Statements

June 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Volcano Community Services District
Volcano, California

We have audited the accompanying financial statements of Volcano Community Services District (the District), which comprises the statements of net position as of June 30, 2020 and 2019, and the related statement of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Adverse Opinion

As discussed in Note A to the financial statements, management has not recorded certain general infrastructure assets and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those infrastructure assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the District.

To the Board of Directors
Volcano Community Services District

The amount by which this departure would affect the assets, net position, and expenses of the District has not been determined.

Opinions

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion” paragraph, the financial statements referred to above do not present fairly the financial position of the District as of June 30, 2020 and 2019 and the results of its operations and cash flows for the years then ended in conformity 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

The District has omitted Management’s Discussion and Analysis that 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. Our opinion on the basic financial statements is not affected by the missing information.

Richardson & Company, LLP

July 31, 2023

VOLCANO COMMUNITY SERVICES DISTRICT

STATEMENTS OF NET POSITION

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 93,237	\$ 99,855
Accounts receivable		
Current services	7,296	7,777
Prepaid expenses	3,521	3,521
Total Current Assets	<u>104,054</u>	<u>111,153</u>
Capital Assets:		
Nondepreciable	51,800	51,800
Depreciable, net of accumulated depreciation	271,412	291,359
Total Capital Assets, Net	<u>323,212</u>	<u>343,159</u>
TOTAL ASSETS	<u>427,266</u>	<u>454,312</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS		
	<u>\$ 427,266</u>	<u>\$ 454,312</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 5,100	\$ 1,300
Accrued expenses and other liabilities	701	
Total Current Liabilities	<u>5,801</u>	<u>1,300</u>
TOTAL LIABILITIES	<u>5,801</u>	<u>1,300</u>
NET POSITION		
Net investment in capital assets	323,212	343,159
Unrestricted	98,253	109,853
TOTAL NET POSITION	<u>421,465</u>	<u>453,012</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
	<u>\$ 427,266</u>	<u>\$ 454,312</u>

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

VOLCANO COMMUNITY SERVICES DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Water sales	\$ 52,072	\$ 50,758
Hall rental fee	3,300	4,800
TOTAL OPERATING REVENUES	<u>55,372</u>	<u>55,558</u>
OPERATING EXPENSES		
Administrative and general	1,050	512
Water services	38,457	59,807
Depreciation	19,947	19,683
Hall expenses	6,221	8,544
Other	37,941	21,666
TOTAL OPERATING EXPENSES	<u>103,616</u>	<u>110,212</u>
NET LOSS FROM OPERATIONS	(48,244)	(54,654)
NON-OPERATING REVENUES (EXPENSES)		
Property taxes	16,033	15,070
Contributions	549	842
Investment income earned	115	72
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>16,697</u>	<u>15,984</u>
CHANGE IN NET POSITION	<u>(31,547)</u>	<u>(38,670)</u>
Net position, beginning of year	<u>453,012</u>	<u>491,682</u>
NET POSITION AT END OF YEAR	<u>\$ 421,465</u>	<u>\$ 453,012</u>

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

VOLCANO COMMUNITY SERVICES DISTRICT

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 56,402	\$ 58,793
Cash payments to suppliers for goods and services	(79,168)	(56,759)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(22,766)</u>	<u>2,034</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes received	<u>16,033</u>	<u>15,070</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>16,033</u>	<u>15,070</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions and construction of capital assets		<u>(19,541)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		<u>(19,541)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	<u>115</u>	<u>72</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>115</u>	<u>72</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,618)	(2,365)
Cash and investments at beginning of year	<u>99,855</u>	<u>102,220</u>
CASH AND INVESTMENTS AT END OF YEAR	<u>\$ 93,237</u>	<u>\$ 99,855</u>
RECONCILIATION OF NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (48,244)	\$ (54,654)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	19,947	19,683
Reimbursements received	549	842
Loss on write-off of capital assets		37,638
(Increase) Decrease in:		
Accounts receivable	481	2,393
Prepaid expense		(2,798)
Accounts payable	3,800	(1,070)
Accrued expenses and other liabilities	<u>701</u>	
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>\$ (22,766)</u>	<u>\$ 2,034</u>

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

VOLCANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Volcano Community Services District (District) have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Reporting Entity: The District was established in 1966 as a service district located in the central portion of Amador County, California. The District provides administration and maintenance of the water treatment facilities, City Park, renovation and maintenance of the Armory Hall, maintenance of street lights and a nonpartisan cemetery within the District; and providing water to 67 parcels, three of those belonging to the District. The District is predominately residential in character, with interspersed commercial areas. The District is governed by a Board of Directors consisting of five directors elected by residents of the District to serve a four year term.

Basis of Presentation: The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net position for the enterprise fund represents the amount available for future operations.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Net position is segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Earned but unbilled water services are accrued as revenue.

Water lines are constructed by private developers and then donated to the District, which is then responsible for their future maintenance. These lines are not being recorded as capital assets or as capital contributions.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

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

VOLCANO COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Revenues: Revenues of the District consist of the following:

Water Assessments — The District assesses water fees on 64 of the 67 parcels that comprise the District, based on the level of water service used. Rates for water services are billed monthly according to a three-tier rate schedule based on number of gallons used. Such billings may become a lien on the property should no payments be made.

Property Taxes — The District receives property taxes from Amador County, which has been assigned the responsibility for assessment, collections, and apportionment of property taxes for all taxing jurisdictions within the county. Secured property taxes are levied on January 1 for the following fiscal year and on which date it becomes a lien on real property. Secured property taxes are due in two installments on November 1 and February 1 and are delinquent after December 10 and April 10, respectively for the secured roll. Based on policy called the Teeter Plan, 100% of allocated taxes are transmitted by the County to the District, eliminating the need for allowance for uncollectible. The County, in return, receives all penalties and interest. Property tax revenues on the unsecured roll are due on January 1 lien date and become delinquent if unpaid by August 31. Property tax revenues are recognized in the fiscal year they are levied.

Rental Income — The District also has a hall, which is available for rent to various non-profit, community groups, and private parties. Annual rental income varies from year to year. Rent is reported at gross rents, net of a discount for resident and board-approved fee waivers reported separately.

Accounts receivable at June 30, 2020 and 2019 consisted of customer water utility billings due and rent due. No allowance for uncollectible accounts has been established because the District expects all accounts to be collected.

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

Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents held include bank deposits and investments in Certificates of Deposit.

Capital Assets: Capital assets are recorded at historical cost. The District has not quantified and recorded the value of developer-constructed infrastructure that has been deeded to the District. Accordingly, amounts for these assets are not reflected in these financial statements. The amount by which the capital assets may be misstated cannot be determined. Self-constructed assets are recorded based on the amount of direct labor and materials charged to the asset construction. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 5 to 40 years.

Maintenance and repairs are charged to operations when incurred. Costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the balance sheet in the year of sale or retirement, and the resulting gain or loss is recognized in operations.

VOLCANO COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Depreciation expense aggregated \$19,947 and \$19,683 for the years ended June 30, 2020 and 2019, respectively.

Net Position: Net position of the District is categorized as the net investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets — This category groups all capital assets into one component of net position. Accumulated depreciation and any outstanding debt related to the purchase of capital assets reduce the balance in this category.

Restricted Net Position — This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The District does not have any restricted net position.

Unrestricted Net Position — This category represents net position of the District not restricted for any project or other purpose.

New Pronouncements: In June 2017, the GASB issued Statement No. 87, Leases. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the lease's guidance, unless specifically excluded in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

The District is currently analyzing the impact of the required implementation of this new statement.

NOTE B – CASH AND CASH EQUIVALENTS

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

	2020	2019
Deposits with financial institutions	\$ 23,638	\$ 30,364
Certificates of deposit	69,599	69,491
Total cash and cash equivalents	\$ 93,237	\$ 99,855

VOLCANO COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE B – CASH AND CASH EQUIVALENTS (Continued)

Investment policy: The District does not have a formal deposit and investment policy. California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized for the District by the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations	5 years	None	None
California Local Agency Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposits	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	None
Money Market Mutual Funds	N/A	20%	10%
LAIF	N/A	\$4 million	None
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	None
California Local Agency Investment Fund	N/A	None	None
County Pooled Investments	N/A	None	None
Time Deposits	5 years	None	None

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District generally manages its interest rate risk by investing in certificates of deposit, which provides the necessary cash flow and liquidity needed for operations.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code

VOLCANO COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE B – CASH AND CASH EQUIVALENTS (Continued)

requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2020, the carrying amount of the District's deposits were \$93,237 and the balances in financial institutions were \$94,888, all of which was insured by federal depository insurance. At June 30, 2019, the carrying amount of the District's deposits were \$99,855 and the balances in financial institutions were \$97,452, all of which was not insured by federal depository insurance.

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 and 2019 is as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Capital assets not being depreciated:				
Land	\$ 51,800			\$ 51,800
	<u>51,800</u>			<u>51,800</u>
Capital assets being depreciated:				
Armory hall	106,690			106,690
Equipment	354,576			354,576
Water system	35,313			35,313
Building and improvements	204,287			204,287
Water rights	16,560			16,560
Total capital assets being depreciated	<u>717,426</u>			<u>717,426</u>
Less accumulated depreciation/amortization:				
Armory hall	(55,156)	\$ (4,980)		(60,136)
Equipment	(201,650)	(9,156)		(210,806)
Water system	(140,498)	(906)		(141,404)
Building and improvements	(12,203)	(4,905)		(17,108)
Water rights	(16,560)			(16,560)
Total accumulated depreciation/amortization	<u>(426,067)</u>	<u>(19,947)</u>		<u>(446,014)</u>
Net capital assets being depreciated	<u>291,359</u>	<u>(19,947)</u>		<u>271,412</u>
Net capital assets	<u>\$ 343,159</u>	<u>\$ (19,947)</u>	<u>\$ -</u>	<u>\$ 323,212</u>

VOLCANO COMMUNITY SERVICES DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE C – CAPITAL ASSETS (Continued)

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$ 51,800			\$ 51,800
	<u>51,800</u>			<u>51,800</u>
Capital assets being depreciated:				
Armory hall	106,690			106,690
Equipment	335,035	\$ 19,541		354,576
Water System	35,313			35,313
Water Feasibility System	37,638		\$ (37,638)	
Building and improvements	204,287			204,287
Water rights	16,560			16,560
Total capital assets being depreciated:	<u>735,523</u>	<u>19,541</u>	<u>(37,638)</u>	<u>717,426</u>
Less accumulated depreciation/amortization:				
Armory hall	(50,176)	(4,980)		(55,156)
Equipment	(192,487)	(9,163)		(201,650)
Water System	(139,912)	(586)		(140,498)
Building and improvements	(7,266)	(4,937)		(12,203)
Water rights	(16,519)	(41)		(16,560)
Total accumulated depreciation/amortization	<u>(406,360)</u>	<u>(19,707)</u>		<u>(426,067)</u>
Net capital assets being depreciated	<u>329,163</u>	<u>(166)</u>	<u>(37,638)</u>	<u>291,359</u>
Net capital assets	<u>\$ 380,963</u>	<u>\$ (166)</u>	<u>\$ (37,638)</u>	<u>\$ 343,159</u>

NOTE G – INSURANCE

The District continues to carry commercial insurance for all other risks of loss to cover all claims for risk of loss to which the District is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.