

PINE GROVE COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2017

PINE GROVE COMMUNITY SERVICES DISTRICT

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LARRY BAIN, CPA

AN ACCOUNTING CORPORATION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pine Grove Community Services District
Pine Grove, CA

We have audited the accompanying financial statements of the Pine Grove Community Services District as of and for the fiscal year ended June 30, 2017, which collectively comprise the District's basic financial statements as listed in the table of contents, 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 the 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.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 financial statement presentation.

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 financial position of the business-type activity of the Pine Grove Community Services District as of June 30, 2017, and the changes in financial position and the results of its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

The Pine Grove Community Services District has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Other Information

We have also issued our report dated October 25, 2017 on our consideration of the District's internal control over financial reporting. That report should be read in conjunction with this report in considering our audit.

Larry Bain, CPA
An Accounting Corporation
October 25, 2017

PINE GROVE COMMUNITY SERVICES DISTRICT

**STATEMENT OF NET POSITION
JUNE 30, 2017**

	<u>Water</u>	<u>Park</u>	<u>Total</u>
<u>Assets</u>			
Current Assets			
Cash and investments	\$ 354,266	\$ 39,990	\$ 394,256
Accounts receivable	67,856		67,856
Prepaid expense	6,115		6,115
Due from other fund	235		235
Total current assets	<u>428,472</u>	<u>39,990</u>	<u>468,462</u>
Noncurrent Assets			
Nondepreciable capital assets			
Construction in progress	23,190	-	23,190
Depreciable capital assets			
Transmission and distribution	2,680,699		2,680,699
Building and building improvements	101,480		101,480
Site improvements		153,015	153,015
Equipment and vehicles	49,304		49,304
Less accumulated depreciation	<u>(1,921,927)</u>	<u>(72,566)</u>	<u>(1,994,493)</u>
Total depreciable capital assets-net	<u>909,556</u>	<u>80,449</u>	<u>990,005</u>
Total capital assets (net of accumulated depreciation)	<u>932,746</u>	<u>80,449</u>	<u>1,013,195</u>
Total noncurrent assets	<u>932,746</u>	<u>80,449</u>	<u>1,013,195</u>
Total assets	<u>\$ 1,361,218</u>	<u>\$ 120,439</u>	<u>\$ 1,481,657</u>
<u>Liabilities and Net Position</u>			
Current Liabilities			
Accounts payable	\$ 24,098	\$ -	\$ 24,098
Due to other fund		235	235
Customer deposits	9,650		9,650
Total liabilities	<u>33,748</u>	<u>235</u>	<u>33,983</u>
Net Position			
Net investment in capital assets	932,746	80,449	1,013,195
Unrestricted	<u>394,724</u>	<u>39,755</u>	<u>434,479</u>
Total net position	<u>\$ 1,327,470</u>	<u>\$ 120,204</u>	<u>\$ 1,447,674</u>

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

PINE GROVE COMMUNITY SERVICES DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Water</u>	<u>Park</u>	<u>Total</u>
Operating revenues			
Water sales	\$ 350,668	\$ -	\$ 350,668
Facility rentals and donations		14,876	14,876
Total operating revenues	<u>350,668</u>	<u>14,876</u>	<u>365,544</u>
Operating expenses			
Source of supply:			
Water purchases	59,501		59,501
Water treatment	4,448		4,448
Transmission and distribution	154,176		154,176
Administration and general	97,584	624	98,208
Depreciation	31,977	9,818	41,795
Total operating expenses	<u>347,686</u>	<u>10,442</u>	<u>358,128</u>
Operating income (loss)	<u>2,982</u>	<u>4,434</u>	<u>7,416</u>
Nonoperating revenue (expenses)			
Assessments	43,450		43,450
Participation fees	29,025		29,025
Interest on investments	716	14	730
Reimbursements and other	8,742		8,742
Interest expense	-		-
Nonoperating revenues (expenses)	<u>81,933</u>	<u>14</u>	<u>81,947</u>
Net income before capital contributions and extraordinary loss	<u>84,915</u>	<u>4,448</u>	<u>89,363</u>
Capital contributions	9,292		9,292
Extraordinary loss	(78,854)		(78,854)
Increase (decrease) in net position	15,353	4,448	19,801
Net position, July 1	1,312,117	115,756	1,427,873
Net position, June 30	<u>\$ 1,327,470</u>	<u>\$ 120,204</u>	<u>\$ 1,447,674</u>

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

PINE GROVE COMMUNITY SERVICES DISTRICT

**STATEMENT OF CASH FLOWS
JUNE 30, 2017**

	Water	Park	Total
Cash flows from operating activities:			
Cash receipts from customers	\$ 350,996	\$ 14,876	\$ 365,872
Cash payments to suppliers for goods and services	(282,862)	(624)	(283,486)
Cash payments for employee services	(47,472)		(47,472)
Net cash provided by (used) in operating activities	20,662	14,252	34,914
Cash flows from noncapital financing activities:			
Reimbursements	8,742	-	8,742
Interfund lending	12,187	(12,187)	-
Annexations	29,025		29,025
Net cash provided by (used) in noncapital financing activities:	49,954	(12,187)	37,767
Cash flows from capital and related financing activities:			
Additions to capital assets	(34,540)		(34,540)
Capital contributions	9,292		9,292
Assessments	43,450		43,450
Net cash provided by (used) in capital and related financing activities:	18,202	-	18,202
Cash flows from investing activities:			
Interest received	716	14	730
Net cash flows from investing activities:	716	14	730
Net increase (decrease) in cash and cash equivalents	89,534	2,079	91,613
Cash and cash equivalents, beginning of year	264,732	37,911	302,643
Cash and cash equivalents, end of year	\$ 354,266	\$ 39,990	\$ 394,256
Reconciliation of cash and cash equivalents to the balance sheet:			
Cash and investments	\$ 354,266	\$ 39,990	\$ 394,256
Cash and cash equivalents, June 30	\$ 354,266	\$ 39,990	\$ 394,256
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating Income (Loss)	\$ 2,982	\$ 4,434	\$ 7,416
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	31,977	9,818	41,795
Changes in assets and liabilities:			
Accounts receivable	(522)		(522)
Prepaid expenses	-		-
Accounts payable	(14,625)		(14,625)
Customer deposits	850		850
Net Cash Provided By (Used) In Operating Activities	\$ 20,662	\$ 14,252	\$ 34,914

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

PINE GROVE COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1: Summary of Significant Accounting Policies

The Pine Grove Community Services District was formed by election and commenced operations in 1965. The District provides water and park services to a group of users within the District. The District is governed by an elected Board of Directors.

The District's financial statements include the operations of all organizations for which the District Board of Directors exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

No operations of other entities met the aforementioned oversight criteria for inclusion or exclusion from the accompanying financial statements in accordance with Governmental Accounting Standards Board Statement No. 61.

A. Fund Accounting

The accounting records of the District are organized on the generally accepted basis of accounting for an enterprise fund.

Enterprise Fund - Enterprise funds are used to account for the District's operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Board of Directors is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Basis of Accounting

The District uses an economic resources based cost of service or capital maintenance concept. Under this concept, revenues and expenses are matched using the accrual basis of accounting.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operation of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

C. Accounts Receivable

Billings for water services are sent bi-monthly and are reflected on the accrual basis of accounting. Such billings may become a lien on the property should no payments be made.

D. Fixed Assets

Fixed assets are stated at historical costs. When assets are retired or otherwise disposed of, the net book value, which is the difference between historical costs and related accumulated depreciation, is removed from the financial statements. Any gain or loss from the retirement or disposal of an asset is reflected in net income for the period. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets which range from 5 to 50 years. Maintenance and repairs are charged to expense as incurred. Additions or improvements are capitalized and depreciated over the revised estimated useful lives. Costs incurred for major improvements or construction of assets are carried in construction in progress until the project is completed at which time costs related to the project are capitalized in the appropriate asset account.

PINE GROVE COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

E. Cash Equivalents

For purpose of the statement of cash flows, the District considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

F. Budgetary Reporting

The District prepares an annual operating and capital budget, which is approved and adopted by the Board of Directors. The budget serves as an approved plan to facilitate financial control and operational evaluation. California State law does not require formal adoption of appropriated budgets for enterprise funds.

G. Use of Estimates in the Preparation of Financial Statements

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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Risk Management

The District maintains a commercial package policy for general liability, auto liability and wrongful acts coverage that provides limits of liability of \$1,000,000 per occurrence and \$3,000,000 aggregate annually.

I. Restricted Assets

Restricted assets are financial resources generated for a specific purpose such as construction of improvements and financing of debt obligations. These assets are for the benefit of a distinct group and as such are legally or contractually restricted.

J. Accrued Unbilled Revenue

During the year, metered water connections are read and bills rendered after the period of usage. Revenue for metered water, used but not yet billed, is accrued at fiscal year-end to match revenues with related expenses.

PINE GROVE COMMUNITY SERVICES DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 1: Summary of Significant Accounting Policies (Continued)

K. Net Position:

Net position comprises the various net earnings from operating income, non-operating revenues and expenses and capital contributions. Net position is classified in the following three components:

Net investment in capital assets-This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted-This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position-This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

Note 2: Cash and Investments

Cash and investments are classified in the financial statements as follows:

Cash and investments	\$ 394,256
Total cash	<u>\$ 394,256</u>
Checking	\$ 292,137
Cash on hand	150
Investments	<u>101,969</u>
Total cash	<u>\$ 394,256</u>

PINE GROVE COMMUNITY SERVICES DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 2: Cash and Investments (Continued)

A. Investments Authorized by the California Government Code and the Entity’s Investment Policy

The table below identifies the **investment types** that are authorized for the Pine Grove Community Services District (District) by the California Government Code (or the District’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District’s investment policy, where more restrictive) that address **interest rate risk, credit risk and concentration of credit risk**. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District investment policy.

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 of California obligations	5 years	None	None
U.S. agency securities	5 years	None	None
Banker's acceptances	180 days	40%	30%
Commercial paper	270 days	40%	10%
Negotiable CDs	5 years	30%	None
Repurchase agreements	1 years	None	None
Reverse repurchase agreements	92 days	20%	None
Medium term notes	5 years	30%	None
Mutual/money market funds	5 years *	20%	10%
Collateralized bank deposits	5 years	None	None
Mortgage pass-through securities	5 years	20%	15%
Time deposits	5 Years	None	None
Local Agency Investment Fund (LAIF)	5 years *	None	None

* The five year maximum maturity can be extended by the Board of Directors. Also, the maximum maturity can be extended if the funds are reserved for bond, COP or note payments to coincide with the required repayments.

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of and investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District’s investment by maturity:

Investment	Totals	Remaining Maturity (in Months)	
		12 Months or Less	13-48 Months
State Investment Fund	\$ 101,969	\$ 101,969	\$ -
Totals	<u>\$ 101,969</u>	<u>\$ 101,969</u>	<u>\$ -</u>

*Not subject to categorization

PINE GROVE COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 2: Cash and Investments (Continued)

C. Concentrations of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. There are no investments to one issuer exceeding those limits.

D. 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 deposit 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 of 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 or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secured 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 government unit). The fair 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 the District's deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2017, the District's deposits balance was \$292,862 and the carrying amount was \$292,137. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, all was covered by the Federal Depository Insurance or by collateral secured by the financial institution.

E. Investment in State Investment Pool

LAIF is included in the State's Pooled Money Investment Account. The total amount invested by all public agencies in the State's Pooled Money Investment Account approximates \$77.56 billion. Of the \$77.56 billion managed by the State Treasurer, 100% is invested in non-derivative financial products and 2.89% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

Investments are accounted for in accordance with the provisions of GASB Statement No. 31, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value of investments in the year in which the change occurred. The District reports its investments at fair value based on quoted market information obtained from fiscal agents or other sources if the change is material to the financial statements.

PINE GROVE COMMUNITY SERVICES DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 3: Property, Plant and Equipment

Property, plant and equipment at June 30, 2017, consisted of the following:

Water Fund	Balance 7/1/2016	Additions	Retirements/ Adjustments	Balance 6/30/2017
Capital assets, not being depreciated				
Construction in progress	\$ 7,343	\$ 23,190	\$ (7,343)	\$ 23,190
Capital assets, being depreciated:				
Transmission and distribution	2,787,006	18,693	(125,000)	2,680,699
Buildings and improvements	101,480	-	-	101,480
Equipment and vehicles	49,304	-	-	49,304
Total capital assets, being depreciated	2,937,790	18,693	(125,000)	2,831,483
Less accumulated depreciation	(1,936,096)	(31,977)	46,146	(1,921,927)
Total capital assets being depreciated	1,001,694	(13,284)	(78,854)	909,556
Water fund capital assets, net	<u>\$ 1,009,037</u>	<u>\$ 9,906</u>	<u>\$ (86,197)</u>	<u>\$ 932,746</u>
Park Fund	Balance 7/1/2016	Additions	Retirements/ Adjustments	Balance 6/30/2017
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Capital assets, being depreciated:				
Site improvements	153,015	-	-	153,015
Total capital assets, being depreciated	153,015	-	-	153,015
Less accumulated depreciation	(62,748)	(9,818)	-	(72,566)
Total capital assets being depreciated	90,267	(9,818)	-	80,449
Park Fund capital assets, net	<u>\$ 90,267</u>	<u>\$ (9,818)</u>	<u>\$ -</u>	<u>\$ 80,449</u>

Note 4: Lease Income

The District derives a portion of its revenue from the rental of real property based on a fixed lease amount. The lease of the District is treated as an operating lease for accounting purposes. The lease term is for a period of five years, with an option to renew four additional five year terms and can be terminated by lessor at any time and without cause by giving the District thirty days written notice of termination. The original rent was \$1,039 per month and increases by the consumer price index to a maximum of 3% annually. Because this is a cancelable lease we do not present the operating revenue over the term of the lease.

PINE GROVE COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 5: Revenue Limitations Imposed by California Proposition 218

Proposition 218, which was approved by the voters in November 1996, regulates the District's ability to impose, increase, and extend taxes and assessments. Any new increase or extended taxes and assessments subject to the provisions of Proposition 218, requires voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes and assessments are subject to voter initiative and may be rescinded in the future years by the voters.

Note 6: Related Party Transactions

A member of the Board of Directors performed contract/repair work for the District. The amount paid to the Board Member for these services during the 2016/17 fiscal year was \$2,975.

Note 7: Extraordinary Loss

During the 2016/17 fiscal year the District's 420,000 gallon water tank imploded unexpectedly. The occurrence was unusual in nature and beyond managements control. The net book value of the water tank was \$78,854 which was written off as a total loss and recorded as an extraordinary loss in these financial statements.

Note 8: Financial Services Agreement

The District uses the services of an outside financial service provider, who performs the water billing, customer account maintenance, daily deposits to the bank, preparation of payroll, preparation of disbursements, general ledger accounting and preparation of monthly financial reports for the Board of Directors.

Note 9: Commitments and Contingencies

Water Service Contracts:

On April 12, 2001 the district entered into an amended water service contract with Amador Water Agency (Agency). Under the terms of the contract the District will reimburse the Agency their pro rata share of capital and operation and maintenance costs for water transportation, storage, treatment and delivery. The agreement shall remain in effect as long as the Agency has the use of facilities of PG&E or any successor of PG&E or comparable substitute facilities for the storage and conversion of North Fork Mokelumne River water, or until all reimbursable capital costs have been repaid, whichever is later. The District does not have the responsibility for operation and maintenance of the facilities. On July 1, 2015 the District entered into a wholesale treated water service agreement under an Agency-wide wholesale contract and rate basis. This agreement supersedes the April 12, 2001 agreement.

In the normal course of business, the District is subject to various lawsuits. Defense of lawsuits is typically handled by the District's insurance carrier and losses, if any, are expected to be covered by insurance. The District is unaware of any pending litigation or other contingencies which would have a material effect on the financial condition or liquidity of the District.

During the 2016 year the District's 420,000 gallon water tank unexpectedly imploded. The District expects the replacement to be covered by a combination of grant funding or other outside funding sources. The District could be liable for a portion of the replacement cost, the amount of which is unknown as of fiscal year end.

LARRY BAIN, CPA

AN ACCOUNTING CORPORATION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors
Pine Grove Community Services District

We have audited the financial statements of the Pine Grove Community Services District as of and for the fiscal year ended June 30, 2017, and have issued our report thereon dated October 25, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify significant deficiencies in the District's internal controls that we consider to be a material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 17-1 in the following schedule of findings to be significant deficiencies in the District's internal control.

Pine Grove Community Services District's Response to Findings

The Pine Grove Community Services District's separate written response to the significant deficiencies identified in our audit and any follow up for subsequent year corrections has not been subjected to the audit procedures applied in the audit of the financial statements and accordingly, we do not express an opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls over financial reporting and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America in considering the District's internal control over financial reporting accordingly this report is not suitable for any other purpose.

This communication is intended solely for the information and use of the Board of Directors, management, the Amador County Auditor Controller's Office and the Controller's Office of the State of California and is not intended to be and should not be used by anyone other than these specified parties.

Larry Bain, CPA,
An Accounting Corporation
October 25, 2017

**Pine Grove Community Services District
Schedule of Findings
Fiscal Year Ended June 30, 2017**

INTERNAL CONTROL FINDINGS

Deemed to be Significant Deficiency and Not a Material Weakness

Finding 17-1: We noted the District's outside financial services provider had a lack of segregation of duties, as one person is capable of handling all aspects of processing transactions from beginning to end. A lack of segregation of duties increases the risk of potential errors or irregularities; however, due to a limited number of personnel an adequate segregation of duties is not possible without incurring additional costs. The District has taken steps to ensure that amounts collected on behalf of District accounts are credited to the proper accounts and deposited into the District bank. The Board of Directors also takes an active role in reviewing invoices and signing checks. A lack of segregation in duties is a common condition for entities of this size. We have noted this comment in previous audits.