

**STALLION SPRINGS
COMMUNITY SERVICES DISTRICT**

BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

STALLION SPRINGS COMMUNITY SERVICES DISTRICT

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FINANCIAL SECTION

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA
ALEXANDER C HOM, CPA
ADAM V GUISE, CPA
TRAVIS J HOLE, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES

433 N. CAMDEN DRIVE, SUITE 730
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.670.1689
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES

5800 HANNUM AVENUE, SUITE E
CULVER CITY, CA 90230
TEL: 310.670.2745
FAX: 310.670.1689
www.mlhcpas.com

Independent Auditor's Report

To the Board of the Directors
of the Stallion Springs Community Services District
Stallion Springs, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Stallion Springs Community Services District (District) as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that 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 unmodified and qualified audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Qualified
General Fund	Unmodified
Public Safety Fund	Unmodified
Roads Fund	Unmodified
Water Operations Fund	Qualified
Sewer Operations Fund	Qualified
Solid Waste Operations Fund	Qualified

Basis for Qualified Opinion on Governmental Activities, Business-Type Activities, Water Operations Fund, Sewer Operations Fund, and the Solid Waste Operations Fund.

Management has not maintained a Capital assets list detailing the total cost and accumulated depreciation of the District's Capital assets. Accounting principles generally accepted in the United States of America require that Capital assets be depreciated over the useful lives of the assets. A properly reconciled detailed Capital asset list may impact the amount of Capital assets reported, the reported net positions and the amount of depreciation expense recorded. The amount by which this departure would affect the assets, net positions, and expenses of the Governmental Activities, the Business-Type Activities, the Water Operations Fund, the Sewer Operations Fund and the Solid Waste Operations Fund has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the Governmental Activities, Business-Type Activities, Water Operations Fund, Sewer Operations Fund, and the Solid Waste Operations Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the District, as of June 30, 2018, and the changes in financial position and, where applicable, the cash flows thereof, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, Public Safety Fund, and the Roads Fund of the District, as of June 30, 2018, and the changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the 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 this missing information.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule – General Government Fund, Budgetary Comparison Schedule – Public Safety Fund, Budgetary Comparison Schedule – Roads Fund, Schedule of the District's Proportionate Share of the Plan's Net Pension Liability, and the Schedule of the District's Contributions to the Pension Plan on pages 51 through 55, respectively, are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 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 opinions on the financial statements that collectively comprise the District's financial statements as a whole. The budgetary comparison schedule for the Parks and Recreation department is presented for purposes of additional analysis and is not required part of the financial statements. The budgetary comparison schedule for the Parks and Recreation department is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the 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 March 13, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
March 13, 2019

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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STALLION SPRINGS COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

<u>ASSETS</u>	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets:			
Cash and investments	\$ 2,009,216	\$ 1,690,152	\$ 3,699,368
Restricted cash	1,500,064	-	1,500,064
Accrued interest receivable	2,898	228	3,126
Accounts receivable - services	1,183	200,116	201,299
Property taxes and assessments receivable	3,052	40,165	43,217
Total current assets	<u>3,516,413</u>	<u>1,930,661</u>	<u>5,447,074</u>
Non-current assets:			
Capital assets - not being depreciated	73,657	8,000	81,657
Capital assets - being depreciated	4,957,936	4,135,672	9,093,608
Total non-current assets	<u>5,031,593</u>	<u>4,143,672</u>	<u>9,175,265</u>
Total assets	<u>8,548,006</u>	<u>6,074,333</u>	<u>14,622,339</u>
	<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred amounts related to net pension liability	276,275	77,313	353,588
Total deferred outflows of resources	<u>276,275</u>	<u>77,313</u>	<u>353,588</u>
	<u>LIABILITIES</u>		
Current liabilities:			
Accounts payable and accrued expenses	130,847	86,316	217,163
Accrued interest payable	-	2,344	2,344
Compensated absences	35,518	12,747	48,265
Notes payable	126,392	81,748	208,140
Total current liabilities	<u>292,757</u>	<u>183,155</u>	<u>475,912</u>
Non-current liabilities:			
Compensated absences	53,276	19,141	72,417
Notes payable	1,373,608	173,153	1,546,761
Net pension liability	737,009	214,866	951,875
Total non-current liabilities	<u>2,163,893</u>	<u>407,160</u>	<u>2,571,053</u>
Total liabilities	<u>2,456,650</u>	<u>590,315</u>	<u>3,046,965</u>
	<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred amounts related to net pension liability	67,802	33,297	101,099
Total deferred inflows of resources	<u>67,802</u>	<u>33,297</u>	<u>101,099</u>
	<u>NET POSITION</u>		
Net investment in capital assets	5,031,593	3,888,771	8,920,364
Restricted for roads	2,049,187	-	2,049,187
Unrestricted	(780,951)	1,639,263	858,312
Total net position	<u>\$ 6,299,829</u>	<u>\$ 5,528,034</u>	<u>\$ 11,827,863</u>

See Accompanying Notes to the Financial Statements.

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants</u>
Primary Government:			
Governmental activities:			
General government	\$ 128,166	\$ 25,183	\$ -
Parks and recreation	239,094	84,710	-
Public safety	734,806	118,944	140,860
Roads	369,302	346,128	-
Total governmental activities	<u>1,471,368</u>	<u>574,965</u>	<u>140,860</u>
Business-type activities:			
Water	854,193	1,037,798	122,736
Sewer	257,116	263,433	32,180
Solid waste	132,174	166,872	-
Total business-type activities	<u>1,243,483</u>	<u>1,468,103</u>	<u>154,916</u>
Total primary government	<u>\$ 2,714,851</u>	<u>\$ 2,043,068</u>	<u>\$ 295,776</u>

(Continued)

See Accompanying Notes to the Financial Statements.

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Primary Government:			
Governmental activities:			
General government	\$ (102,983)	\$ -	\$ (102,983)
Parks and recreation	(154,384)	-	(154,384)
Public safety	(475,002)	-	(475,002)
Roads	(23,174)	-	(23,174)
Total governmental activities	(755,543)	-	(755,543)
Business-type activities:			
Water	-	306,341	306,341
Sewer	-	38,497	38,497
Solid waste	-	34,698	34,698
Total business-type activities	-	379,536	379,536
Total primary government	(755,543)	379,536	(376,007)
General revenues:			
Property taxes	779,161	-	779,161
Investment earnings	2,163	(2,648)	(485)
Total general revenues	781,324	(2,648)	778,676
Change in net position	25,781	376,888	402,669
Net position:			
Beginning of fiscal year	6,274,048	5,151,146	11,425,194
End of fiscal year	\$ 6,299,829	\$ 5,528,034	\$ 11,827,863

See Accompanying Notes to the Financial Statements.

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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STALLION SPRINGS COMMUNITY SERVICES DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	<u>General Fund</u>	<u>Public Safety</u>	<u>Roads</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and investments	\$ 1,432,396	\$ -	\$ 576,820	\$ 2,009,216
Restricted cash	-	-	1,500,064	1,500,064
Accrued interest receivable	1,516	598	784	2,898
Accounts receivable - services	1,183	-	-	1,183
Property taxes and assessments receivable	-	(2,301)	5,353	3,052
Due from other funds	41,999	-	-	41,999
Total assets	<u>\$ 1,477,094</u>	<u>\$ (1,703)</u>	<u>\$ 2,083,021</u>	<u>\$ 3,558,412</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable and accrued expenses	\$ 43,542	\$ 53,471	\$ 33,834	\$ 130,847
Due to other funds	-	41,999	-	41,999
Total liabilities	<u>43,542</u>	<u>95,470</u>	<u>33,834</u>	<u>172,846</u>
 Fund balances (deficit):				
Restricted	-	-	2,049,187	2,049,187
Unassigned	1,433,552	(97,173)	-	1,336,379
Total fund balances (deficit)	<u>1,433,552</u>	<u>(97,173)</u>	<u>2,049,187</u>	<u>3,385,566</u>
Total liabilities and fund balances (deficit)	<u>\$ 1,477,094</u>	<u>\$ (1,703)</u>	<u>\$ 2,083,021</u>	<u>\$ 3,558,412</u>

See Accompanying Notes to the Financial Statements

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
Reconciliation of the Balance Sheet of Governmental Funds to the
Government-Wide Statement of Net Position
June 30, 2018

Total Fund Balances - Total Governmental Funds	<u>\$ 3,385,566</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Capitalized assets net of depreciation used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net position includes those assets as capital assets.	5,031,593
Deferred outflows of resources used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net position includes those deferred outflows of resources.	276,275
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities both current and long-term, are reported in the statement of net position as follows:	
Compensated absences	(88,794)
Net pension liability	(737,009)
Notes payable	(1,500,000)
Deferred inflows of resources used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net position includes those deferred inflows of resources.	<u>(67,802)</u>
Total adjustments	<u>2,914,263</u>
Net Position of Governmental Activities	<u><u>\$ 6,299,829</u></u>

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2018

	<u>General Fund</u>	<u>Public Safety</u>	<u>Roads</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 372,290	\$ 406,871	\$ -	\$ 779,161
Special assessments	5,232	115,190	346,128	466,550
Charges for services	104,661	3,754	-	108,415
Federal and state aid	-	140,860	-	140,860
Investment earnings	(897)	719	2,341	2,163
Total revenues	<u>481,286</u>	<u>667,394</u>	<u>348,469</u>	<u>1,497,149</u>
Expenditures:				
Current:				
Salaries and benefits	156,450	611,919	88,174	856,543
Materials and services	150,318	92,731	214,372	457,421
Capital outlay	44,203	78,214	64,194	186,611
Total expenditures	<u>350,971</u>	<u>782,864</u>	<u>366,740</u>	<u>1,500,575</u>
Excess of revenues over (under) expenditures	130,315	(115,470)	(18,271)	(3,426)
Other financing sources (uses):				
Note payable proceeds	-	-	1,500,000	1,500,000
Change in fund balance	<u>130,315</u>	<u>(115,470)</u>	<u>1,481,729</u>	<u>1,496,574</u>
Fund balances (deficit):				
Beginning of fiscal year, as originally stated	1,201,865	18,297	567,458	1,787,620
Restatement	101,372	-	-	101,372
Beginning of fiscal year, as restated	<u>1,303,237</u>	<u>18,297</u>	<u>567,458</u>	<u>1,888,992</u>
End of fiscal year	<u>\$ 1,433,552</u>	<u>\$ (97,173)</u>	<u>\$ 2,049,187</u>	<u>\$ 3,385,566</u>

See Accompanying Notes to the Financial Statements

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Net Changes in Fund Balances - Total Governmental Funds \$ 1,496,574

Amounts reported for governmental activities in the statement of activities is different because:

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and issuance cost of long-term-debt consumes the current financial resources of the governmental funds. Issuance of installment agreement principal is an other financing source and repayment of bond principal is an expenditure in governmental funds, but the issuance increases long-term liabilities and the repayment reduces long-term liabilities in the Statement of Net Position. (1,500,000)

Some expenses reported in the statement of activities do not require the use of current financial resources. Therefore, those expenses are not reported as expenditures in governmental funds.

Net change in compensated absences	(5,459)
Net change in pension expense	(5,125)

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those capitalized assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	186,611
Depreciation expense	<u>(146,820)</u>
Total adjustments	<u>(1,470,793)</u>

Change in Net Position of Governmental Activities \$ 25,781

PROPRIETARY FUNDS FINANCIAL STATEMENTS

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STALLION SPRINGS COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

<u>ASSETS</u>	<u>Water Operations</u>	<u>Sewer Operations</u>	<u>Solid Waste Operations</u>	<u>Total</u>
Current assets:				
Cash and investments	\$ 1,037,419	\$ 263,975	\$ 388,758	\$ 1,690,152
Accrued interest receivable	205	23	-	228
Accounts receivable - services	174,455	53	25,608	200,116
Property taxes and assessment receivable	1,076	39,089	-	40,165
Total current assets	<u>1,213,155</u>	<u>303,140</u>	<u>414,366</u>	<u>1,930,661</u>
Non-current assets:				
Capital assets - not being depreciated	8,000	-	-	8,000
Capital assets - being depreciated	3,851,680	261,232	22,760	4,135,672
Total non-current assets	<u>3,859,680</u>	<u>261,232</u>	<u>22,760</u>	<u>4,143,672</u>
Total assets	<u>5,072,835</u>	<u>564,372</u>	<u>437,126</u>	<u>6,074,333</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred amounts - net pension liability	44,455	32,858	-	77,313
Total deferred outflows of resources	<u>44,455</u>	<u>32,858</u>	<u>-</u>	<u>77,313</u>
Total assets and deferred outflows of resources	<u>5,117,290</u>	<u>597,230</u>	<u>437,126</u>	<u>6,151,646</u>
 <u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued expenses	63,438	15,957	6,921	86,316
Accrued interest payable	2,344	-	-	2,344
Compensated absences	9,413	3,334	-	12,747
Note payable	81,748	-	-	81,748
Total current liabilities	<u>156,943</u>	<u>19,291</u>	<u>6,921</u>	<u>183,155</u>
Non-current liabilities:				
Compensated absences	14,140	5,001	-	19,141
Note payable	173,153	-	-	173,153
Net pension liability	123,548	91,318	-	214,866
Total non-current liabilities	<u>310,841</u>	<u>96,319</u>	<u>-</u>	<u>407,160</u>
Total liabilities	<u>467,784</u>	<u>115,610</u>	<u>6,921</u>	<u>590,315</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred amounts - net pension liability	19,147	14,150	-	33,297
Total deferred inflows of resources	<u>19,147</u>	<u>14,150</u>	<u>-</u>	<u>33,297</u>
 <u>NET POSITION</u>				
Net investment in capital assets	3,604,779	261,232	22,760	3,888,771
Unrestricted	1,025,580	206,238	407,445	1,639,263
Total net position	<u>\$ 4,630,359</u>	<u>\$ 467,470</u>	<u>\$ 430,205</u>	<u>\$ 5,528,034</u>

See Accompanying Notes to the Financial Statements.

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenditures, and Changes in Net Position
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2018

	Water Operations	Sewer Operations	Solid Waste Operations	Total
Operating revenues:				
Water consumption	\$ 925,438	\$ -	\$ -	\$ 925,438
Sewer service charges	-	253,541	-	253,541
Solid waste collection charges	-	-	166,872	166,872
Special assessments	86,613	9,140	-	95,753
Other charges for services	25,747	752	-	26,499
Total operating revenues	<u>1,037,798</u>	<u>263,433</u>	<u>166,872</u>	<u>1,468,103</u>
Operating expenses:				
Operations	784,520	244,693	132,174	1,161,387
Total operating expenses	<u>784,520</u>	<u>244,693</u>	<u>132,174</u>	<u>1,161,387</u>
Operating income before depreciation	253,278	18,740	34,698	306,716
Depreciation expense	58,301	12,423	-	70,724
Operating income (loss)	<u>194,977</u>	<u>6,317</u>	<u>34,698</u>	<u>235,992</u>
Non-operating revenue (expense):				
Investment earnings	374	(391)	(2,631)	(2,648)
Interest expense	(11,372)	-	-	(11,372)
Total non-operating, net	<u>(10,998)</u>	<u>(391)</u>	<u>(2,631)</u>	<u>(14,020)</u>
Capital contributions:				
Connection fees	122,736	32,180	-	154,916
Total capital contributions	<u>122,736</u>	<u>32,180</u>	<u>-</u>	<u>154,916</u>
Change in net position	306,715	38,106	32,067	376,888
Net position:				
Beginning of fiscal year	4,323,644	429,364	398,138	5,151,146
End of fiscal year	<u>\$ 4,630,359</u>	<u>\$ 467,470</u>	<u>\$ 430,205</u>	<u>\$ 5,528,034</u>

See Accompanying Notes to the Financial Statements

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2018

	<u>Water Operations</u>	<u>Sewer Operations</u>	<u>Solid Waste Operations</u>	<u>Total</u>
Cash flows from operating activities:				
Cash receipts from customer and others	\$ 974,588	\$ 264,827	\$ 166,204	\$ 1,405,619
Cash paid to employees for salaries and benefits	(449,447)	(94,540)	-	(543,987)
Cash paid to vendors and suppliers	(325,196)	(145,568)	(126,042)	(596,806)
Net cash provided by operating activities	<u>199,945</u>	<u>24,719</u>	<u>40,162</u>	<u>264,826</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(223,301)	(16,763)	-	(240,064)
Proceeds from capital contributions	122,736	32,180	-	154,916
Principal payments on notes payable	(78,690)	-	-	(78,690)
Interest payments on notes payable	(12,096)	-	-	(12,096)
Net cash provided (used) by capital/financing activities	<u>(191,351)</u>	<u>15,417</u>	<u>-</u>	<u>(175,934)</u>
Cash flows from investment activities:				
Investment earnings	427	(385)	(2,630)	(2,588)
Net cash provided by (used) investing activities:	<u>427</u>	<u>(385)</u>	<u>(2,630)</u>	<u>(2,588)</u>
Net increase in cash	9,021	39,751	37,532	86,304
Cash and cash equivalents:				
Beginning of fiscal year	1,028,398	224,224	351,226	1,603,848
End of fiscal year	<u>\$ 1,037,419</u>	<u>\$ 263,975</u>	<u>\$ 388,758</u>	<u>\$ 1,690,152</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	<u>\$ 194,977</u>	<u>\$ 6,317</u>	<u>\$ 34,698</u>	<u>\$ 235,992</u>
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	58,301	12,423	-	70,724
Changes in account balances:				
(Increase) decrease in assets and deferred outflows:				
Accounts receivable - services, net	(63,132)	40,410	(668)	(23,390)
Property assessments receivable	(78)	(39,016)	-	(39,094)
(Increase) decrease in deferred outflows	(18,119)	(13,393)	-	(31,512)
Increase (decrease) in liabilities and deferred inflows:				
Accounts payable and accrued expenses	14,968	3,041	6,132	24,141
Compensated absences	(3,300)	2,869	-	(431)
Net pension liabilities	21,037	15,550	-	36,587
Deferred inflows	(4,709)	(3,482)	-	(8,191)
Total adjustments	<u>(53,333)</u>	<u>5,979</u>	<u>5,464</u>	<u>(41,890)</u>
Net cash provided by operating activities	<u>\$ 199,945</u>	<u>\$ 24,719</u>	<u>\$ 40,162</u>	<u>\$ 264,826</u>

See Accompanying Notes to the Financial Statements

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations of the Reporting Entity

The Stallion Springs Community Services District (District) serves as the local government for Stallion Springs. The District is similar to a city government, supplying such services as police protection, parks and recreation, potable water, road maintenance, wastewater treatment, and solid waste disposal. The District exists under California State law governing special districts (Government Code, Sec 61000 et. seq.). The District was established by resolution of Kern County Board of Supervisors for the purpose of providing infrastructure services for the newly developing community of Stallion Springs. The District is governed by a five-member Board of Directors who serve four-year terms and are elected at large. The directors entrust the responsibility for the efficient execution of District policies to their designated representative, the General Manager.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable for a component that has substantively the same governing body as the District's governing body, and additionally (1) the primary government and the component unit have a financial benefit or burden relationship, or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit. There are no component units of the District.

Basis of Accounting and Measurement Focus

The District's financial statements are prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP). The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net position and the Statement of Activities) are reported using the '*economic resources*' measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flow. 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 imposed by the provider have been met.

The government-wide financial statements report information on all activities of the primary government. The effect of inter-fund activity has been removed from these statements and eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrate the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are expenses that are clearly identifiable with a

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Government-wide Financial Statements (Continued)

specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the ‘*current financial resources*’ measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal year and other revenues when collected within one year of the end of the current fiscal year. Expenditures are generally recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. The primary revenue sources susceptible to accrual are property taxes, charges for services, and interest associated with the current fiscal period and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The District reports the following major funds:

Governmental Funds

General – This fund acts as the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Public Safety – This fund is used to account for all public safety (police services) within the District’s service area.

Roads – This fund is used to account for the revenues received from property assessments and expenditures incurred to maintain and operate the roads within the District’s service area.

Enterprise Funds

Water – This fund accounts for the water transmission and distribution operations of the District.

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Fund Financial Statements (Continued)

Wastewater – This fund accounts for the wastewater operations of the District.

Solid Waste – This fund accounts for the solid waste collection and disposal operations of the District.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in District net position during the reporting period. Actual results could differ from those estimates.

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.

Investments

Investments are reported at fair value (the value at which financial instruments could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale). Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments. The Kern County Investment Pool operates in accordance with appropriate state laws and regulations.

U.S. GAAP, defines fair value, establishes a framework for measuring fair value, and establishes disclosures about fair value measurement. Investments, unless otherwise specified, are recorded at fair value in the balance sheet, and are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the assets or liabilities through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Interfund due to/from

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as ‘internal balances.’ At June 30, 2018, the Public Safety fund had a due to the General Fund of \$41,999 which was expected to be repaid within the next fiscal year.

Receivables - Services

The District extends credit to customers in the normal course of operations. Management views all accounts receivable as collectible and has not recorded an allowance for doubtful accounts.

Property Taxes and Assessments

The Kern County Assessor’s Office assesses all real and personal property within the County each year. The Kern County Tax Collector’s Office bills and collects the District’s share of property taxes and/or tax assessments. The Kern County Treasurer’s Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes and assessments receivable at fiscal year-end are related to property taxes and special assessments collected by the Kern County, which have not been credited to the District’s cash balance as of June 30. The property tax calendar is as follows:

Lien date	January 1
Levy date	July 1
Due dates	November and February 1
Delinquent dates	December and April 10

Capital Assets

Capital assets are recorded in the government-wide financial statements and the Proprietary fund statements. The District’s policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair value at the date of the donation. Capital outlays are recorded as expenditures of the Governmental Funds and as assets in the government-wide financial statements to the extent the District’s capitalization threshold is met.

Depreciation of all exhaustible capital assets is charged as an expense against their operations. Accumulated depreciation is reported on the government-wide financial statements and on proprietary fund balance sheets.

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Capital Assets (Continued)

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	20 to 30 years
Community center	40 years
Infrastructure, streets and roads	20 to 40 years
Transmission and distribution systems	10 to 40 years
Collection systems	10 to 50 years
Vehicles and equipment	3 to 10 years

Compensated Absences

District policy permits its employees to accumulate earned vacation and sick pay for subsequent use or for payment upon termination or retirement. The District’s liability for compensated absences is determined annually.

Deferred Outflows/Inflows of Resources

The District reports deferred outflows and inflows of resources. A deferred outflow of resources is a consumption of net position or fund balance by the government that is applicable to a future reporting period. A deferred inflow of resources represents an acquisition of net position or fund balance by the government that is applicable to a future period.

Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized as revenue of the current period. Revenue must also be susceptible to accrual; it must be both measurable and available to finance expenditures of the current fiscal year. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal year, then the assets must be offset by a corresponding deferred inflow of resources. This type of deferred inflow is unique to governmental funds, since it is tied to the modified accrual basis of accounting, which is only used in connection with governmental funds.

The District contributes to the California Public Employees’ Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. Changes in Net Pension Liability (NPL) attributable to experience gains/losses, assumption changes, and differences between projected and actual earnings on investments not recognized in expense during the current reporting period are accounted for as deferred inflows and outflows of resources. Changes in the employer’s proportion of the collective NPL since the last measurement date, then any effect on the employer’s proportionate share of the collective NPL, collective deferred outflow of resources, or collective deferred inflow of resources not recognized in expense is reported as a deferred item. In addition, any difference between actual employer contributions and the employer’s proportionate share of the total of all contributions from all employers not recognized in expense must be reported as a deferred item.

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans’ fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. 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. The following timeframes are used for pension reporting:

CalPERS

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided benefits (active, inactive, and retired) as of the beginning of the measurement period.

Net Position

Net Position is categorized as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.

Restricted – This component of net position consists of constraints placed on net position through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. The District has \$2,049,187 in restricted net position as of June 30, 2018.

Unrestricted – This component of net position consists of net amount of assets that are not included in the determination of *net investment in capital assets* or *restricted*.

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

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fund Balance

In the financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

Nonspendable – Amounts that cannot be spent because they are either (a) not spendable in form, or (b) legally or contractually required to be maintained intact.

Restricted – Amounts with constraints placed on their use that are either; (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.

Committed – Amounts that can only be used for specific purposes determined by formal action of the District’s highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

Assigned – Amounts that are constrained by the District’s intent to be used for specific purposes. The intent can be established either at the highest level of decision-making, or by a body or an official designated for that purpose.

Unassigned – The residual classification for the District’s general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Board of Directors establishes, modifies, or rescinds fund balance commitments and assignments by passage of a resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the fiscal year.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, followed by committed, assigned and unassigned resources as they are needed.

Fund Balance Policy

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances are considered unrestricted.

The purpose of the District’s fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

**NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

New Accounting Pronouncements

Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements.

The provisions of Statement Number 83 "Certain Asset Retirement Obligations" are effective for fiscal years beginning after June 15, 2018.

The provisions of Statement Number 84 "Fiduciary Activities" are effective for fiscal years beginning after December 15, 2018.

The provisions of Statement Number 87 "Leases" are effective for fiscal years beginning after December 15, 2019.

The provisions of Statement Number 88 "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements" are effective for fiscal years beginning after June 15, 2018.

The provisions for Statement Number 89 "Accounting for Interest Cost Incurred before the End of a Construction Period" are effective for fiscal years beginning after December 15, 2019.

The provisions for Statement Number 90 "Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61" are effective for fiscal years beginning after December 15, 2018.

Restatement of Opening Fund Balance

In previous fiscal years the District reported in the financial statements a separate Parks and Recreation special revenue fund which has been included as part of the General Fund during the fiscal year ended June 30, 2018. The opening fund balance of the General Fund was increased by \$101,372 to \$1,303,237.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Reconciliation of the budgetary schedules to the fund statements

For internal budgetary purposes, the District considers the Parks and Recreation department to be a separate fund from the General Administrative Fund, but for financial statement presentation these two funds are combined and reported as the District's General Fund. In the financial statements, the District presents the General Fund budgetary schedule as part of the Required Supplementary Information. The budgetary comparison schedule for the Parks and Recreation department is presented in the Other Supplementary Information section of the financial statements. The District allocates 80% of the General Administrative Fund to the other funds of the District as transfers in/out but the actual expenditures are included in the fund expenditure amounts.

Revenues per the General Fund budgetary schedule	\$190,443
Revenues per the Parks and Recreation department budgetary schedule	<u>290,843</u>
Revenues per the Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$481,286</u>

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Reconciliation of the budgetary schedules to the fund statements (Continued)

Expenditures per the General Fund budgetary schedule	\$132,365
Expenditures per the Parks and Recreation department budgetary schedule	<u>218,606</u>
Expenditures per the Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$350,971</u>

Excess of Expenditures over Appropriations

The following funds had expenditures in excess of appropriations for the fiscal year ended June 30, 2018:

Public Safety Special Revenue Fund	\$129,732
Road Special Revenue Fund	39,240

The District provides monthly financial reports to the Board of Directors which highlight items nearing or over budget. Items of note are discussed over the course of the fiscal year in order to reduce the magnitude and number of budget overages each fiscal year.

Deficit Fund Balance

The following fund had a deficit fund balance as of June 30, 2018:

Public Safety Special Revenue Fund	\$97,173
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The deficit will be eliminated through future police assessment revenue.

NOTE 3 – CASH AND INVESTMENTS

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

<u>Description</u>	<u>Balance</u>
Cash on hand	\$ 900
Demand deposits with financial institutions	1,743,141
Investments	<u>3,455,391</u>
Total cash and investments	<u>\$ 5,199,432</u>

Demand Deposits

At June 30, 2018, the carrying amount of the District's demand deposit was \$1,743,141 and the financial institution balance was \$1,886,772. The \$143,631 respective net difference as of June 30, 2018 represents outstanding checks, deposits-in-transit and/or other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a fair value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC.

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Demand Deposits (Continued)

The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an agent of depositor has the effect of perfecting the security interest in the name of the local government agency. Accordingly, all collateral held by California agents of depository are considered to be held for, in the name of, the local government.

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 District’s investment policy requires that collateral be held by an independent third party with whom the District has a current custodial agreement.

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 District’s investment policy requires that all security transactions are conducted on a delivery-versus-payment (DVP) method and that all securities are held by a qualified, third-party custodian, as evidenced by safekeeping receipts. The trust department of the District’s bank may act as a third-party custodian, provided that the custodian agreement is separate from the banking agreement. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government’s indirect investment in securities through the use of mutual funds or government investment pools (such as the Kern County Treasury Investment Pool).

As of June 30, 2018, the District’s deposits with financial institutions had deposits that exceeded federal depository insurance limits by \$70,395.

Investments

The District’s investments as of June 30, 2018 were as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Maturity 12 Months or Less</u>
Kern County Treasury Investment Pool	Aa2	\$ 3,455,391
		<u>\$ 3,455,391</u>

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Authorized Investments and Investment Policy

The District has adopted an investment policy directing the Fiscal Officer to deposit funds in the following investments:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Kern County Treasury Investment Pool	None	None	None
Money Market Mutual Funds	N/A	None	None

Investment with County of Kern Treasury Investment Pool

The District is a voluntary participant in the Kern County Treasury Investment Pool (KCTIP) pursuant to Government Code Section 53694. KCTIP is subject to regulatory oversight by the Kern County Treasury Oversight Committee, as required by California government Code Section 27143. The cash flow needs of participants are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of those participants. At the time deposits are made, the Kern County Investment Pool’s Treasurer may require the depositing entity to provide annual cash flow projections or an anticipated withdrawal schedule for deposits in excess of \$1 million. Projections are performed no less than semi-annually. In accordance with Government Code Section 27136, all request for withdrawal of funds for the purpose of investing or deposits the funds elsewhere shall be evaluated to ensure the proposed withdrawal will not adversely affect the principal deposits of the other participants. Pool detail may be obtained from the County of Kern Treasurer’s Office – 1115 Truxtun Avenue, 2nd Floor, Bakersfield, CA 93301 or the Treasurer and Tax Collector’s website at www.kcttc.co.kern.ca.us.

The Kern County Treasurer has indicated to the District that as of June 30, 2018, the value of the County’s portfolio approximated \$3.5 billion and the portfolio holds no derivative products. The District’s investment with the Kern County Treasurer’s Office as of June 30, 2018 was \$3,455,391. KCTIP’s fair value factor of 98.77% as of June 30, 2018 was used to calculate the fair value of the investments in the KCTIP.

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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is shown in the table under investment on the previous page that shows the distribution of the District’s investments by maturity.

Credit Risk

Generally, 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. KCTIP is rated Aa2 as noted in the table above.

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one governmental agency or non-governmental issuer beyond that stipulated by the California Government Code. There were no investments in any one governmental or non-governmental issue that represented 5% or more of the District's total investments except for those in KCTIP.

Fair Value Measurements

The City categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. The District has no investments that meet the any the three criteria. The District has \$3,455,391 in the Kern County Treasury Investment Pool which is not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

NOTE 4 – CAPITAL ASSETS

Governmental Activities

Changes in capital assets for governmental activities for the fiscal year ended June 30, 2018 were as follows:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
Capital assets, not being depreciated:				
Land	\$ 73,657	\$ -	\$ -	\$ 73,657
Total non-depreciable capital assets	<u>73,657</u>	<u>-</u>	<u>-</u>	<u>73,657</u>
Depreciable capital assets:				
Buildings and improvements	1,149,334	-	-	1,149,334
Community Center	2,038,062	-	-	2,038,062
Infrastructure, streets and roads	7,046,364	-	-	7,046,364
Vehicles and equipment	898,446	186,611	-	1,085,057
Total depreciable capital assets	<u>11,132,206</u>	<u>186,611</u>	<u>-</u>	<u>11,318,817</u>
Accumulated depreciation:				
Buildings and improvements	(146,640)	(12,338)	-	(158,978)
Community Center	(442,118)	(49,139)	-	(491,257)
Infrastructure, streets and roads	(4,980,191)	(66,756)	-	(5,046,947)
Vehicles and equipment	(645,112)	(18,587)	-	(663,699)
Total accumulated depreciation	<u>(6,214,061)</u>	<u>(146,820)</u>	<u>-</u>	<u>(6,360,881)</u>
Total depreciable capital assets, net	<u>4,918,145</u>	<u>39,791</u>	<u>-</u>	<u>4,957,936</u>
Total capital assets, net	<u>\$ 4,991,802</u>	<u>\$ 39,791</u>	<u>\$ -</u>	<u>\$ 5,031,593</u>

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Governmental Activities (Continued)

Depreciation expense under governmental activities was allotted as follows for the fiscal year ended June 30, 2018:

Depreciation Expense by Function	
General government	\$ 12,338
Parks and recreation	50,813
Public safety	16,913
Roads	66,756
Total depreciation expense	\$ 146,820

Business-type Activities and Proprietary Funds

Changes in capital assets for business-type activities for the fiscal year ended June 30, 2018 were as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	\$ 8,000	\$ -	\$ -	\$ 8,000
Total non-depreciable capital assets	8,000	-	-	8,000
Depreciable capital assets:				
Water transmission and distribution	6,612,282	163,861	-	6,776,143
Wastewater collection	1,291,863	16,763	-	1,308,626
Solid waste collection	89,783	-	-	89,783
Vehicles and equipment	178,042	59,440	-	237,482
Total capital assets, being depreciated	8,171,970	240,064	-	8,412,034
Accumulated depreciation:				
Water transmission and distribution	(3,000,745)	(52,357)	-	(3,053,102)
Wastewater collection	(1,032,889)	(12,423)	-	(1,045,312)
Solid waste collection	(89,783)	-	-	(89,783)
Vehicles and equipment	(82,221)	(5,944)	-	(88,165)
Total accumulated depreciation	(4,205,638)	(70,724)	-	(4,276,362)
Total depreciable capital assets, net	3,966,332	169,340	-	4,135,672
Total business-type capital assets, net	\$ 3,974,332	\$ 169,340	\$ -	\$ 4,143,672

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Business-type Activities and Proprietary Funds (Continued)

Depreciation expense under Business-type activities and Proprietary funds was allotted as follows for the fiscal year ended June 30, 2018:

Depreciation Expense by Function	
Water operations	\$ 58,301
Sewer operations	12,423
Total depreciation expense	\$ 70,724

NOTE 5 – COMPENSATED ABSENCES

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District’s liability for compensated absences is determined annually. Years of service: 0-5 years = 2 weeks, 6-10 years = 3 weeks, more than 10 years = 4 weeks.

- The District’s obligation relating to employee’s rights to receive compensation for future absences is attributable to employees’ services already rendered.
- The obligation related to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonably estimated.

<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
<u>\$ 115,652</u>	<u>\$ 48,623</u>	<u>\$ 43,593</u>	<u>\$ 120,682</u>	<u>\$ 48,265</u>	<u>\$ 72,417</u>

NOTE 6 – NOTES PAYABLE

Changes in the notes payables amounts for the fiscal year ended June 30, 2018 were as follows:

	<u>Balance at</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2018</u>	<u>Due Within</u> <u>One Year</u>
<i>Governmental activities</i>					
Road installment note	\$ -	\$ 1,500,000	\$ -	\$ 1,500,000	\$ 126,392
<i>Business-type activities</i>					
Water Fund					
Water tank and pipeline note	333,591	-	(78,690)	254,901	81,748
Total	<u>\$ 333,591</u>	<u>\$ 1,500,000</u>	<u>\$ (78,690)</u>	<u>\$ 1,754,901</u>	<u>\$ 208,140</u>

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 6 – NOTES PAYABLE (CONTINUED)

Governmental Activities

2018 Road Installment Note Payable

On May 30, 2018, the District signed an installment agreement note payable for \$1,500,000 with the Municipal Finance Corporation in order to perform road improvements within the District. The note is scheduled to mature in fiscal year 2028. Principal and interest annual installments of \$182,642 are payable on May 30th of each year at a rate of 3.75%. Annual Debt Service requirements on the note are as follows:

Road installment note			
Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 126,392	\$ 56,250	\$ 182,642
2020	131,132	51,510	182,642
2021	136,049	46,593	182,642
2022	141,151	41,491	182,642
2023	146,444	36,198	182,642
2024 - 2028	818,832	94,378	913,210
	<u>\$ 1,500,000</u>	<u>\$ 326,420</u>	<u>\$ 1,826,420</u>

Business-type Activities

In 2006, the District obtained a \$1,000,000 note with City National Bank in order to complete construction of a water tank and pipeline. The note is scheduled to mature in fiscal year 2021. Principal and interest semi-annual installments of \$47,301 are payable on October 4th and April 4th of each year at a rate of 4.85%. In 2013, the District negotiated an interest percentage reduction from a rate of 4.85% to 3.85% per annum with the lender. This interest rate reduction achieved an economic gain of \$34,381 in interest expense savings. Annual debt service requirements on the note are as follows:

Water tank and pipeline note			
Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 81,748	\$ 9,034	\$ 90,782
2020	84,926	5,856	90,782
2021	88,227	2,555	90,782
	<u>\$ 254,901</u>	<u>\$ 17,445</u>	<u>\$ 272,346</u>

NOTE 7 – NET PENSION LIABILITY AND DEFINED BENEFIT PENSION PLAN

Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan,

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 – NET PENSION LIABILITY AND DEFINED BENEFIT PENSION PLAN
(CONTINUED)

Plan Description (Continued)

benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2018 annual Actuarial Valuation Report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous and Safety Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. A Classic CalPERS Miscellaneous member becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. Public Employees' Pension Reform Act (PEPRA) Miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 36 full-time equivalent monthly pay. Retirement benefits for Classic Miscellaneous and Safety members are calculated as a percentage of their plan based on the average final 12 months compensation. Retirement benefits for PEPRA Miscellaneous members are calculated as a percentage of their plan based average final 36 months compensation.

Participant members are eligible for non-industrial disability retirement if they become disabled and have at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

A member's beneficiary may receive basic death benefits if the member dies while actively employed. The member must be actively employed with the District to be eligible for this benefit. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the members' accumulated contributions, where interest is currently credited at 7.65 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six month salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 3%.

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

**NOTE 7 – NET PENSION LIABILITY AND DEFINED BENEFIT PENSION PLAN
(CONTINUED)**

Benefits Provided (Continued)

	Micellaneous Plans	
	Classic tier 1	PEPRA tier 2
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	1.0% to 2.0%	1.0% to 2.0%
Required member contribution rates	7.000%	6.250%
Required employer contribution rates	7.200%	6.533%
	Safety Plans	
	Classic tier 1	PEPRA tier 2
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3.0% @ 55	2.7% @ 62
Benefit vesting schedule	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	2.4% to 3.0%	2.4% to 3.0%
Required member contribution rates	9.000%	11.500%
Required employer contribution rates	16.842%	11.990%

Contributions

Section 20814(c) of the California Public Employee’s Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The public agency cost-sharing plans covered by the Miscellaneous and Safety risk pools, the Plans’ actuarially determined rate is based on the estimated amount necessary to pay the Plan’s allocated share of the risk pool’s costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution of members. For the measurement period ended June 30, 2017 (Measurement Date), the active member contribution rate for the Classic Miscellaneous and Safety Plan and PEPRA Miscellaneous and Safety Plan are based above in the Plans Description schedule.

District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

**NOTE 7 – NET PENSION LIABILITY AND DEFINED BENEFIT PENSION PLAN
(CONTINUED)**

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension Plans

Actuarial Methods and Assumptions Used to Determine the Total Pension Liability

For the measurement period ended June 30, 2017 (Measurement Date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2017 pension liabilities were based on the following actuarial methods and assumptions:

As of June 30, 2018, the District reported a net pension liability for its proportionate share of the net pension liability of each Plan as follows:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study from the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS' website under Forms and Publications.

Changes in Assumptions

The discount rate changed from 7.65 percent to 7.15 percent in the measurement period June 30, 2017. Deferred inflows/outflows of resources for changes of assumptions presented in the financial statements represent the unamortized portion of the changes of assumptions as well as changes in assumptions from prior years.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, the amortization and smoothing periods adopted by the CalPERS Board in 2013 were used. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pensions investments. Based on the testing of the plans, the tests revealed the assets would not run out. 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 for Public Employees Retirement Fund. The crossover test results can be found on the CalPERS website at <https://www.calpers.ca.gov/page/employers/actuarial-services.gasb>.

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

**NOTE 7 – NET PENSION LIABILITY AND DEFINED BENEFIT PENSION PLAN
(CONTINUED)**

Discount Rate (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates or return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Using historical returns of all the Public Employees Retirement Funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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. The target allocations shown was adopted by the CalPERS Board effective July 1, 2015.

<u>Investment Type</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	47.00%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Assets	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
	<u>100.00%</u>		

¹ An expected inflation rate-of-return of 2.5% is used for years 1 – 10

² An expected inflation rate-of-return of 3.0% is used for years 11+

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 all Plans, 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>Plan Type</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate -1%</u>	<u>Current Discount</u>	<u>Discount Rate +1%</u>
	<u>6.15%</u>	<u>Rate 7.15%</u>	<u>8.15%</u>
Micellaneous and Safety Plans	<u>\$ 1,570,814</u>	<u>\$ 951,875</u>	<u>\$ 442,188</u>

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 – NET PENSION LIABILITY AND DEFINED BENEFIT PENSION PLAN
(CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan’s proportionate share of the risk pool collective net pension liability over the measurement period for the CalPERS Miscellaneous and Safety Plan as follows:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Pension</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS - Miscellaneous Plan:			
Balance as of June 30, 2016 (Measurement Date)	\$ 2,254,626	\$ 1,808,928	\$ 445,698
Balance as of June 30, 2017 (Measurement Date)	\$ 2,521,005	\$ 1,983,840	\$ 537,165
Change in Plan Net Pension Liability	\$ 266,379	\$ 174,912	\$ 91,467

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Pension</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS - Safety Plan:			
Balance as of June 30, 2016 (Measurement Date)	\$ 1,755,814	\$ 1,405,770	\$ 350,044
Balance as of June 30, 2017 (Measurement Date)	\$ 1,945,322	\$ 1,530,612	\$ 414,710
Change in Plan Net Pension Liability	\$ 189,508	\$ 124,842	\$ 64,666

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- 1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2016). The risk pool’s fiduciary net position (FNP) subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.
- 2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2017). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2017 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2016-2017 fiscal year).
- 3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date.
- 4) Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

**NOTE 7 – NET PENSION LIABILITY AND DEFINED BENEFIT PENSION PLAN
(CONTINUED)**

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

- 5) The plan's TPL as of the measurement date equals the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the measurement date equals the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any side fund (or unfunded liability) contributions by the employer on behalf of the plan during the measurement period.
- 6) The plan's NPL at the measurement date is the difference between the TPL and the FNP calculated in (5).

The District's proportionate share of the net pension liability for each Plan as of the measurement dates ended June 30, 2016 and 2017 was as follows:

	<u>Percentage Share of Risk Pool</u>		<u>Change Increase/ Decrease</u>
	<u>Fiscal Ending June 30, 2018</u>	<u>Fiscal Ending June 30, 2017</u>	
CaIPERS - Miscellaneous Plan:			
Measurement Date	June 30, 2017	June 30, 2016	
Percentage of Risk Pool Net Pension Liability	0.015740%	0.012830%	0.002910%
Percentage of Plan (PERF C) Net Pension Liability	0.016430%	0.005151%	0.011279%
CaIPERS - Safety Plan:			
Measurement Date	June 30, 2017	June 30, 2016	
Percentage of Risk Pool Net Pension Liability	0.009200%	0.006759%	0.002441%
Percentage of Plan (PERF C) Net Pension Liability	0.010090%	0.004045%	0.006045%

For the fiscal year ended June 30, 2018, the District recognized pension expense/(credit) in the amount of \$48,885 for the Miscellaneous Plan and \$59,646 for the Safety Plan for a total amount of \$108,531.

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime (EARSL) for PERF for the measurement date June 30, 2017 is 3.8 years, which was obtained by dividing the total service years of 490,088 (the sum of the remaining service lifetimes of all active employees) by 130,595 (the total number of participants: active, inactive, and retired) in PERF. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service cost is based on the members' probability of decrementing due to an event other than receiving a cash refund.

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each 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. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

**NOTE 7 – NET PENSION LIABILITY AND DEFINED BENEFIT PENSION PLAN
(CONTINUED)**

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>CalPERS - Miscellaneous Plan:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred inflows of Resources</u>
Pension contributions made after the measurement date	\$ 106,520	\$ -
Difference between actual and proportionate share of employer contributions	-	47,421
Adjustment due to differences in proportions	17,727	32,237
Differences between expected and actual experience	-	7,099
Differences between projected and actual earnings on pension plan investments	41,755	-
Changes in assumptions	187,586	14,342
Total Deferred Outflows/(Inflows) of Resources	\$ 353,588	\$ 101,099

Amortization of Deferred Outflows of Resources and Deferred Inflows of Resources

The District will recognize \$106,520 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended June 30, 2019 as noted above.

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized to pension expense as follows:

<u>Amortization Period Fiscal Year Ended June 30</u>	<u>Deferred Outflows/Inflows of Resources</u>
2019	\$ 25
2020	106,309
2021	64,272
2022	(24,637)
Totals	\$ 145,969

NOTE 8 – DEFERRED COMPENSATION SAVINGS PLAN

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program. The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in a trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District and are not subject to claims of the District's general creditors.

**STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 8 – DEFERRED COMPENSATION SAVINGS PLAN (CONTINUED)

U.S. GAAP indicates that since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown in the accompanying financial statements.

NOTE 9 – NET INVESTMENT IN CAPITAL ASSETS

The District's net investment in capital assets is summarized as of June 30, 2018 as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net investment in capital assets:			
Capital assets – not being depreciated	\$ 73,657	\$ 8,000	\$ 81,657
Capital assets – being depreciated, net	4,957,936	4,135,672	9,093,608
Notes payable – current portion	-	(81,748)	(81,748)
Notes payable – non-current portion	-	(173,153)	(173,153)
Total net investment in capital assets	<u>\$ 5,031,593</u>	<u>\$ 3,888,771</u>	<u>\$ 8,920,364</u>

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2018, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2,500,000, combined single limit at \$2,500,000 per occurrence. The District purchased additional excess coverage layers: \$10,000,000 for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$400,000 per loss includes public employee dishonesty, forgery, or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$750 million per occurrence, subject to a \$2,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible per occurrence.

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 – RISK MANAGEMENT (CONTINUED)

- Public official's personal liability coverage up to \$500,000 per occurrence, with an annual aggregate of \$100,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of \$500 per claim.
- Workers' compensation insurance up to \$100 million per occurrence and Employer's Liability Coverage up to \$5 million.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal years 2018, 2017, and 2016. Liabilities are recorded when it is probable that a loss will be incurred, and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2018, 2017, and 2016.

NOTE 11 – CONTINGENCIES

Litigation

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

NOTE 12 – SUBSEQUENT EVENTS

On January 28, 2019, the District entered into a ten year financing agreement for \$2,000,000 with the Municipal Financing Corporation for the acquisition and construction of a well drilling project. The agreement bears interest at 3.70% per annum and is to be repaid in ten annual installments of \$242,913 beginning in January 2020.

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REQUIRED SUPPLEMENTARY INFORMATION

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STALLION SPRINGS COMMUNITY SERVICES DISTRICT
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2018

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Property taxes	\$ 95,000	\$ 164,290	\$ 69,290
Special assessments	2,000	5,232	3,232
Charges for services	4,825	19,952	15,127
Investment earnings	7,300	969	(6,331)
Total revenues	<u>109,125</u>	<u>190,443</u>	<u>81,318</u>
Expenditures:			
Current:			
Salaries and benefits	380,810	89,114	291,696
Materials and services	132,600	29,438	103,162
Capital outlay	-	13,813	(13,813)
Total expenditures	<u>513,410</u>	<u>132,365</u>	<u>381,045</u>
Revenues over/(under) expenditures	<u>(404,285)</u>	<u>58,078</u>	<u>462,363</u>
Other financing sources/(uses):			
Transfers in (out)	410,728	-	(410,728)
Total other financing sources/(uses)	<u>410,728</u>	<u>-</u>	<u>(410,728)</u>
Net change in fund balance	<u>\$ 6,443</u>	<u>58,078</u>	<u>\$ 51,635</u>
Fund balance:			
Beginning of fiscal year		<u>1,201,865</u>	
End of fiscal year		<u>\$ 1,259,943</u>	
Reconciliation of General Fund budgetary basis fund balance to financial statement basis:			
Fund Balance - End of fiscal year budgetary basis		\$ 1,259,943	
Fund Balance - End of fiscal year budgetary basis Parks Department		<u>173,609</u>	
Fund Balance - General Fund End of fiscal year per Governmental Funds Statement		<u>\$ 1,433,552</u>	

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule - Public Safety Fund
For the Fiscal Year Ended June 30, 2018

	Original & Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Property taxes	\$ 410,000	\$ 406,871	\$ (3,129)
Special assessments	100,000	115,190	15,190
Charges for services	2,500	3,754	1,254
Federal and state aid	100,000	140,860	40,860
Investment earnings	350	719	369
Total revenues	<u>612,850</u>	<u>667,394</u>	<u>54,544</u>
Expenditures:			
Current:			
Salaries and benefits	531,557	611,919	(80,362)
Materials and services	65,100	92,731	(27,631)
Capital outlay	-	78,214	(78,214)
Total expenditures	<u>596,657</u>	<u>782,864</u>	<u>(186,207)</u>
Revenues over/(under) expenditures	<u>16,193</u>	<u>(115,470)</u>	<u>(131,663)</u>
Other financing sources/(uses):			
Transfers in (out)	<u>(56,475)</u>	-	<u>56,475</u>
Total other financing sources/(uses)	<u>(56,475)</u>	-	<u>56,475</u>
Net change in fund balance	<u>\$ (40,282)</u>	<u>(115,470)</u>	<u>\$ (75,188)</u>
Fund balance (deficit):			
Beginning of fiscal year		<u>18,297</u>	
End of fiscal year		<u>\$ (97,173)</u>	

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule - Roads
For the Fiscal Year Ended June 30, 2018

	Original & Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Special assessments	\$ 326,000	\$ 346,128	\$ 20,128
Interest earnings	1,500	2,341	841
Total revenues	327,500	348,469	20,969
Expenditures:			
Current:			
Salaries and benefits	-	88,174	(88,174)
Materials and services	50,050	214,372	(164,322)
Capital outlay	149,098	64,194	84,904
Total expenditures	199,148	366,740	(167,592)
Revenues over/(under) expenditures	128,352	(18,271)	(146,623)
Other financing sources/(uses):			
Transfers in (out)	(128,352)	-	128,352
Note payable proceeds	-	1,500,000	1,500,000
Total other financing sources/(uses)	(128,352)	1,500,000	1,628,352
Net change in fund balance	\$ -	1,481,729	\$ 1,481,729
Fund balance:			
Beginning of fiscal year		567,458	
End of fiscal year		\$ 2,049,187	

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
Required Supplementary Information (Unaudited)
Cost Sharing Multiple-Employer Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2018

Last Ten Fiscal Years (1)

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	Measurement Date (1)			
	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
District's proportion of the net pension liability	0.009598%	0.009196%	0.008028%	0.009784%
District's proportionate share of the net pension liability	<u>\$ 951,875</u>	<u>\$ 795,742</u>	<u>\$ 551,036</u>	<u>\$ 608,837</u>
District's Covered-Employee Payroll	<u>\$ 732,560</u>	<u>\$ 717,700</u>	<u>\$ 696,800</u>	<u>\$ 676,506</u>
District's proportionate share of the net pension liability as a percentage of covered-employee payroll	<u>129.94%</u>	<u>110.87%</u>	<u>79.08%</u>	<u>90.00%</u>
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	<u>73.31%</u>	<u>78.40%</u>	<u>74.06%</u>	<u>73.31%</u>

(1) Historical informatio is required only for measurement periods for which GASB No. 68 is applicable.

STALLION SPRINGS COMMUNITY SERVICES DISTRICT
Required Supplementary Information (Unaudited)
Schedule of the District's Contributions to the Pension Plan
For the Fiscal Year Ended June 30, 2018

Last Ten Fiscal Years (1)

California Public Employees' Retirement System (CalPERS)

Fiscal Year (1):	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
Actuarially Determined Contribution (2)	\$ 106,520	\$ 95,425	\$ 81,864	\$ 70,491	\$ 65,246
Contribution in Relation to the Actuarially Determined Contribution (2)	<u>(106,520)</u>	<u>(95,425)</u>	<u>(81,864)</u>	<u>(70,491)</u>	<u>(65,246)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll (3)	<u>\$ 750,650</u>	<u>\$ 732,560</u>	<u>\$ 717,700</u>	<u>\$ 696,800</u>	<u>\$ 676,506</u>
Contributions as a Percentage of Covered-Employee Payroll	<u>14.19%</u>	<u>13.03%</u>	<u>11.41%</u>	<u>10.12%</u>	<u>9.64%</u>

(1) Historical information is required only for measurement periods for which GASB No. 68 is applicable.

(2) Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

(3) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to the Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal year 2017-18 were from the June 30, 2015 public agency valuations.

Amortization method	Level percent of payroll
Average remaining period	18 years as of the valuation date
Asset valuation method	Market value of assets
Actuarial assumptions	
Discount rate	7.15%
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying in duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%
Retirement age	The probabilities of retirement based on the 2014 CalPERS experience study for the period 1997 to 2011.
Mortality	The probabilities of mortality are based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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OTHER SUPPLEMENTARY INFORMATION

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STALLION SPRINGS COMMUNITY SERVICES DISTRICT
Supplementary Information (Unaudited)
Budgetary Comparison Schedule - Parks and Recreation Department
For the Year Fiscal Ended June 30, 2018

	Original Budget	Actual	Variance Positive (Negative)
Revenues:			
Property taxes	\$ 208,000	\$ 208,000	\$ -
Charges for services	70,000	84,709	14,709
Investment earnings	1,200	(1,866)	(3,066)
Total revenues	279,200	290,843	11,643
Expenditures:			
Current:			
Salaries and benefits	71,250	67,336	3,914
Materials and services	130,220	120,880	9,340
Capital outlay	13,086	30,390	(17,304)
Total expenditures	214,556	218,606	(4,050)
Revenues over/(under) expenditures	64,644	72,237	7,593
Other financing sources/(uses):			
Transfers in (out)	(30,805)	-	30,805
Total other financing sources/(uses)	(30,805)	-	30,805
Net change in fund balance	\$ 33,839	72,237	\$ 38,398
Fund balance:			
Beginning of fiscal year		101,372	
End of fiscal year		\$ 173,609	

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