

Stallion Springs Community Services District

Stallion Springs, California

Annual Financial Report

For the Year Ended June 30, 2016

**Stallion Springs Community Services District
Annual Financial Report
For the Year Ended June 30, 2016**

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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 year ended June 30, 2016, 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 audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the District, as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 8 and the Budgetary Comparison Schedule – General Government Fund, Budgetary Comparison Schedule – Parks and Recreation 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 55 through 60, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2016, 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.

Santa Ana, California
December 31, 2016

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Stallion Springs Community Services District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 31, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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

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

Santa Ana, California
December 31, 2016

Stallion Springs Community Services District
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2016

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Stallion Springs Community Services District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 3.2%, or \$346,695 from the prior year's net position of \$10,765,365 to \$11,112,060, as a result of this year's operations.
- Total revenues from all sources decreased by 4.4%, or \$(142,603) from \$2,723,537 to \$2,580,934, from the prior year, primarily due to a decrease in charges for services in the water fund of \$(60,657) and a decrease in water capacity fees of \$(60,225).
- Total expenses for the District's operations decreased by 2.5% or \$(57,765) from \$2,292,004 to \$2,234,239, from the prior year, primarily due to a decrease of \$(29,958) in water purchases in the water fund and \$(45,433) in costs in the roads fund.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. Think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the District's property tax base to assess the *overall health* of the District.

**Stallion Springs Community Services District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2016**

Governmental Funds Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$11,112,060 as of June 30, 2016.

Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
ASSETS:						
Current assets	\$ 1,761,692	\$ 1,603,312	\$ 1,664,328	\$ 1,595,076	\$ 3,426,020	\$ 3,198,388
Non-current assets	73,657	73,657	8,000	8,000	81,657	81,657
Capital assets, net	5,010,262	5,059,095	4,003,378	4,042,270	9,013,640	9,101,365
Total assets	6,845,611	6,736,064	5,675,706	5,645,346	12,521,317	12,381,410
DEFERRED OUTFLOWS OF RESOURCES	69,695	66,629	15,059	11,996	84,754	78,625
LIABILITIES:						
Current liabilities	124,034	220,121	155,134	156,201	279,168	376,322
Non-current liabilities	512,624	521,288	469,546	565,570	982,170	1,086,858
Total liabilities	636,658	741,409	624,680	721,771	1,261,338	1,463,180
DEFERRED INFLOWS OF RESOURCES	165,603	175,993	67,070	55,497	232,673	231,490
NET POSITION						
Net investment in capital assets	5,026,815	5,009,610	3,602,042	3,568,023	8,628,857	8,577,633
Unrestricted	1,086,230	875,681	1,396,973	1,312,051	2,483,203	2,187,732
Total net position	\$ 6,113,045	\$ 5,885,291	\$ 4,999,015	\$ 4,880,074	\$ 11,112,060	\$ 10,765,365

At the end of fiscal year 2016, the District shows a positive balance in its unrestricted net position of \$2,483,203 that may be utilized in future years.

**Stallion Springs Community Services District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2016**

Condensed Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
REVENUES:						
Program revenues	\$ 697,267	\$ 749,773	\$ 1,161,986	\$ 1,285,962	\$ 1,859,253	\$ 2,035,735
General revenues	714,127	683,423	7,554	4,379	721,681	687,802
Total revenues	1,411,394	1,433,196	1,169,540	1,290,341	2,580,934	2,723,537
EXPENSES:						
Operations	1,053,122	1,029,470	977,286	1,052,648	2,030,408	2,082,118
Depreciation expense	127,083	119,069	53,358	53,358	180,441	172,427
Interest expense	3,435	17,504	19,955	19,955	23,390	37,459
Total expenses	1,183,640	1,166,043	1,050,599	1,125,961	2,234,239	2,292,004
Change in net position	227,754	267,153	118,941	164,380	346,695	431,533
NET POSITION:						
Beginning of year	5,885,291	5,618,138	4,880,074	4,715,694	10,765,365	10,333,832
End of year	\$ 6,113,045	\$ 5,885,291	\$ 4,999,015	\$ 4,880,074	\$ 11,112,060	\$ 10,765,365

The statement of activities shows how the government's net position changed during the fiscal year. In the case of the District, net position increased by \$346,695, during the fiscal year ended June 30, 2016.

Governmental Activities

Revenues decreased by 1.5%, or \$(21,802) from \$1,433,196 to \$1,411,394, from the prior year, primarily due to a decrease in weed abatement revenue of \$(26,923).

Expenses increased by 1.5% or \$17,597 from \$1,166,043 to \$1,183,640, from the prior year, primarily due to an increase of \$45,948 in public safety expenses.

Business-Type Activities

Revenues decreased by 9.4% or \$(120,801) from \$1,290,341 to \$1,169,540, from the prior year, primarily due to a decrease in charges for services in the water fund of \$(60,657) and a decrease in water capacity fees of \$(60,225).

Expenses decreased by 6.7% or \$(75,362) from \$1,125,961 to \$1,050,599, from the prior year, primarily due to a decrease of \$(29,958) in water purchases in the water from the prior year.

Governmental Funds Financial Analysis

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, the *unreserved fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of June 30, 2016, the District reported a total fund balance of \$1,685,844. An amount of \$1,139,235 constitutes the District's *unassigned fund balance deficit*.

**Stallion Springs Community Services District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2016**

Capital Asset Administration

Changes in capital assets for the year were as follows:

	<u>Balance July 1, 2015</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2016</u>
Non-depreciable capital assets	\$ 81,657	\$ -	\$ -	\$ 81,657
Depreciable capital assets	19,156,457	94,948	-	19,251,405
Total capital assets	19,238,114	94,948	-	19,333,062
Accumulated depreciation	(10,055,092)	(182,673)	-	(10,237,765)
Total capital assets, net	<u>\$ 9,183,022</u>	<u>\$ (87,725)</u>	<u>\$ -</u>	<u>\$ 9,095,297</u>

At the end of fiscal year 2016, the District's investment in capital assets amounted to \$9,095,297 (net of accumulated depreciation). Major capital asset additions during the year include various equipment and vehicle purchases totaling \$94,948. See note 3 for further information on the District's capital assets.

Debt Administration

Changes in long-term debt for the year were as follows:

Notes Payable

<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance June 30, 2016</u>
\$ 605,389	\$ 78,250	\$ (217,199)	\$ 466,440

See further detail at note 5.

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net position or operating results in terms of past, present and future.

Requests for Information

The District's basic financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional information, please contact the District's General Manager at the Stallion Springs Community Services District, 27800 Stallion Springs Drive, Stallion Springs, California 93561 or (661) 822-3268.

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, 2016

<u>ASSETS</u>	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets:			
Cash and investments (Note 2)	\$ 1,750,229	\$ 1,480,257	\$ 3,230,486
Accrued interest receivable	661	1	662
Accounts receivable – services	2,180	183,237	185,417
Property taxes and assessments receivable	8,622	833	9,455
Total current assets	1,761,692	1,664,328	3,426,020
Non-current assets:			
Capital assets – not being depreciated (Note 3)	73,657	8,000	81,657
Capital assets – being depreciated, net (Note 3)	5,010,262	4,003,378	9,013,640
Total non-current assets	5,083,919	4,011,378	9,095,297
Total assets	6,845,611	5,675,706	12,521,317
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension contributions made after the measurement date (Note 6)	67,445	14,419	81,864
Difference between actual and proportionate share of employer contributions (Note 6)	1,288	-	1,288
Differences between expected and actual experience (Note 6)	962	640	1,602
Total deferred outflows of resources	69,695	15,059	84,754
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued expenses	75,848	66,795	142,643
Accrued interest payable	-	3,764	3,764
Compensated absences (Note 4)	30,152	8,830	38,982
Notes payable (Note 5)	18,034	75,745	93,779
Total current liabilities	124,034	155,134	279,168
Non-current liabilities:			
Compensated absences (Note 4)	45,228	13,245	58,473
Notes payable (Note 5)	39,070	333,591	372,661
Aggregate net pension liability (Note 6)	428,326	122,710	551,036
Total non-current liabilities	512,624	469,546	982,170
Total liabilities	636,658	624,680	1,261,338
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Differences between projected and actual earnings on pension plan investments (Note 6)	18,511	3,038	21,549
Difference between actual and proportionate share of employer contributions (Note 6)	21,013	14,009	35,022
Adjustment due to differences in proportions (Note 6)	83,472	43,962	127,434
Differences between expected and actual experience (Note 6)	5,985	-	5,985
Changes in assumptions (Note 6)	36,622	6,061	42,683
Total deferred inflows of resources	165,603	67,070	232,673
<u>NET POSITION</u>			
Net investment in capital assets (Note 7)	5,026,815	3,602,042	8,628,857
Unrestricted	1,086,230	1,396,973	2,483,203
Total net position	\$ 6,113,045	\$ 4,999,015	\$ 11,112,060

Stallion Springs Community Services District
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital and Operating Grants
Primary government:			
Governmental activities:			
General government	\$ 97,893	\$ 137,572	\$ -
Parks and recreation	256,143	82,506	-
Public safety	607,205	5,168	135,285
Roads	222,399	336,736	-
Total governmental activities	1,183,640	561,982	135,285
Business-type activities:			
Water	731,848	666,619	65,700
Sewer	193,861	264,145	4,000
Solid waste	124,890	161,522	-
Total business-type activities	1,050,599	1,092,286	69,700
Total primary government	\$ 2,234,239	\$ 1,654,268	\$ 204,985

Stallion Springs Community Services District
Statement of Activities (Continued)
For the Year Ended June 30, 2016

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Primary government:			
Governmental activities:			
General government	\$ 39,679	\$ -	\$ 39,679
Parks and recreation	(173,637)	-	(173,637)
Public safety	(466,752)	-	(466,752)
Roads	114,337	-	114,337
Total governmental activities	(486,373)	-	(486,373)
Business-type activities:			
Water	-	471	471
Sewer	-	74,284	74,284
Solid waste	-	36,632	36,632
Total business-type activities	-	111,387	111,387
Total primary government	(486,373)	111,387	(374,986)
General revenues:			
Property taxes	707,570	-	707,570
Investment earnings	6,557	7,554	14,111
Total general revenues	714,127	7,554	721,681
Change in net position	227,754	118,941	346,695
Net position:			
Beginning of year	5,885,291	4,880,074	10,765,365
End of year	\$ 6,113,045	\$ 4,999,015	\$ 11,112,060

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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Stallion Springs Community Services District
Balance Sheets
Governmental Funds
June 30, 2016

<u>Assets</u>	<u>General Government</u>	<u>Parks and Recreation</u>	<u>Public Safety</u>	<u>Roads</u>	<u>Total Governmental Funds</u>
Assets:					
Cash and investments	\$ 1,169,986	\$ 114,487	\$ 23,710	\$ 442,046	\$ 1,750,229
Accrued interest receivable	577	-	21	63	661
Accounts receivable – services	1,465	715	-	-	2,180
Property taxes and assessments receivable	1,648	-	3,219	3,755	8,622
Total assets	\$ 1,173,676	\$ 115,202	\$ 26,950	\$ 445,864	\$ 1,761,692
<u>Liabilities and Fund Balance</u>					
Liabilities:					
Accounts payable and accrued expenses	\$ 21,305	\$ 15,310	\$ 34,877	\$ 4,356	\$ 75,848
Total liabilities	21,305	15,310	34,877	4,356	75,848
Fund balance: (Note 8)					
Restricted	-	-	-	440,194	440,194
Committed	13,136	1,314	59,616	1,314	75,380
Assigned	-	98,578	(67,543)	-	31,035
Unassigned	1,139,235	-	-	-	1,139,235
Total fund balance	1,152,371	99,892	(7,927)	441,508	1,685,844
Total liabilities and fund balance	\$ 1,173,676	\$ 115,202	\$ 26,950	\$ 445,864	\$ 1,761,692

Stallion Springs Community Services District
Reconciliation of the Balance Sheet of Governmental Funds to the
Government-Wide Statement of Net Position
June 30, 2016

Total Fund Balances – Total Governmental Funds	<u>\$ 1,685,844</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Capitalized assets 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.	5,083,919
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.	69,695
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	(75,380)
Notes payable	(57,104)
Aggregate net pension liability	(428,326)
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>(165,603)</u>
Total adjustments	<u>4,427,201</u>
Net Position of Governmental Activities	<u><u>\$ 6,113,045</u></u>

Stallion Springs Community Services District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	<u>General Government</u>	<u>Parks and Recreation</u>	<u>Public Safety</u>	<u>Roads</u>	<u>Total Governmental Funds</u>
Revenues:					
Taxes:					
Property taxes	\$ 94,351	\$ 200,000	\$ 413,219	\$ -	\$ 707,570
Special assessments	120,066	-	-	336,736	456,802
Charges for services	17,506	82,506	5,168	-	105,180
Federal and state aid	-	-	135,285	-	135,285
Investment earnings	3,964	56	695	1,842	6,557
Total revenues	<u>235,887</u>	<u>282,562</u>	<u>554,367</u>	<u>338,578</u>	<u>1,411,394</u>
Expenditures:					
Current:					
Salaries and benefits	70,905	126,111	523,006	105,217	825,239
Materials and services	27,105	81,622	125,782	60,450	294,959
Capital outlay	-	-	78,250	-	78,250
Debt service:					
Principal	123,142	-	21,146	-	144,288
Interest	4,497	-	-	-	4,497
Total expenditures	<u>225,649</u>	<u>207,733</u>	<u>748,184</u>	<u>165,667</u>	<u>1,347,233</u>
Excess of revenues over(under) expenditures	10,238	74,829	(193,817)	172,911	64,161
Other financing sources(uses):					
Proceeds from debt issuance	-	-	78,250	-	78,250
Change in fund balance	10,238	74,829	(115,567)	172,911	142,411
Fund balances:					
Beginning of year	<u>1,142,133</u>	<u>25,063</u>	<u>107,640</u>	<u>268,597</u>	<u>1,543,433</u>
End of year	<u>\$ 1,152,371</u>	<u>\$ 99,892</u>	<u>\$ (7,927)</u>	<u>\$ 441,508</u>	<u>\$ 1,685,844</u>

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 Year Ended June 30, 2016

Net Changes in Fund Balance – Total Governmental Funds	<u>\$ 142,411</u>
Amounts reported for governmental activities in the statement of activities is different because:	
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 as follows:	
Change in accrued interest payable	1,062
Change in compensated absences	14,715
Change in net pension expense	52,361
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	78,250
Depreciation expense	(127,083)
Proceeds from long-term debt provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the government-wide statement of net position.	(78,250)
Repayment of long-term debt is reported as an expenditure in governmental funds. However, principal repayments reduce liabilities in the statement of net position and do not result in expenses in the statement of activities.	<u>144,288</u>
Total adjustments	<u>85,343</u>
Change in Net Position of Governmental Activities	<u><u>\$ 227,754</u></u>

PROPRIETARY FUND FINANCIAL STATEMENTS

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Stallion Springs Community Services District
Balance Sheet
Proprietary Funds
June 30, 2016

<u>ASSETS</u>	<u>Water Operations</u>	<u>Sewer Operations</u>	<u>Solid Waste Operations</u>	<u>Total</u>
Current assets:				
Cash and investments	\$ 1,003,563	\$ 170,990	\$ 305,704	\$ 1,480,257
Accrued interest receivable	1	-	-	1
Accounts receivable – services	117,199	41,663	24,375	183,237
Property assessments receivable	824	9	-	833
Total current assets	1,121,587	212,662	330,079	1,664,328
Non-current assets:				
Capital assets – not being depreciated	8,000	-	-	8,000
Capital assets – being depreciated, net	3,722,650	252,276	28,452	4,003,378
Total non-current assets	3,730,650	252,276	28,452	4,011,378
Total assets	4,852,237	464,938	358,531	5,675,706
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred outflows of resources related to pension plans	8,659	6,400	-	15,059
Total deferred outflows of resources	8,659	6,400	-	15,059
Total assets and deferred outflows of resources	\$ 4,860,896	\$ 471,338	\$ 358,531	\$ 5,690,765
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 47,281	\$ 10,634	\$ 8,880	\$ 66,795
Accrued interest payable	3,764	-	-	3,764
Compensated absences	8,830	-	-	8,830
Notes payable	75,745	-	-	75,745
Total current liabilities	135,620	10,634	8,880	155,134
Non-current liabilities:				
Compensated absences	13,245	-	-	13,245
Notes payable	333,591	-	-	333,591
Aggregate net pension liability	70,558	52,152	-	122,710
Total non-current liabilities	417,394	52,152	-	469,546
Total liabilities	553,014	62,786	8,880	624,680
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred inflows of resources related to pension plans	38,565	28,505	-	67,070
Total deferred inflows of resources	38,565	28,505	-	67,070
<u>NET POSITION</u>				
Net investment in capital assets	3,321,314	252,276	28,452	3,602,042
Unrestricted	948,003	127,771	321,199	1,396,973
Total net position	4,269,317	380,047	349,651	4,999,015
Total liabilities, deferred inflows of resources and net position	\$ 4,860,896	\$ 471,338	\$ 358,531	\$ 5,690,765

Stallion Springs Community Services District
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2016

	<u>Water Operations</u>	<u>Sewer Operations</u>	<u>Solid Waste Operations</u>	<u>Total</u>
Operating revenues:				
Water consumption sales	\$ 560,965	\$ -	\$ -	\$ 560,965
Sewer service charges	-	252,938	-	252,938
Solid waste collection charges	-	-	161,522	161,522
Special assessments	85,571	8,881	-	94,452
Other charges for services	20,083	2,326	-	22,409
Total operating revenues	<u>666,619</u>	<u>264,145</u>	<u>161,522</u>	<u>1,092,286</u>
Operating expenses:				
Operations	678,578	174,341	124,890	977,809
Total operating expenses	<u>678,578</u>	<u>174,341</u>	<u>124,890</u>	<u>977,809</u>
Operating income before depreciation	(11,959)	89,804	36,632	114,477
Depreciation expense	(36,070)	(19,520)	-	(55,590)
Operating income(loss)	<u>(48,029)</u>	<u>70,284</u>	<u>36,632</u>	<u>58,887</u>
Non-operating revenue(expense):				
Investment earnings	6,266	688	600	7,554
Interest expense	(17,200)	-	-	(17,200)
Total non-operating, net	<u>(10,934)</u>	<u>688</u>	<u>600</u>	<u>(9,646)</u>
Capital contributions:				
Connection fees	65,700	4,000	-	69,700
Total capital contributions	<u>65,700</u>	<u>4,000</u>	<u>-</u>	<u>69,700</u>
Change in net position	<u>6,737</u>	<u>74,972</u>	<u>37,232</u>	<u>118,941</u>
Net position:				
Beginning of year	4,262,580	305,075	312,419	4,880,074
End of year	<u>\$ 4,269,317</u>	<u>\$ 380,047</u>	<u>\$ 349,651</u>	<u>\$ 4,999,015</u>

Stallion Springs Community Services District
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	<u>Water Operations</u>	<u>Sewer Operations</u>	<u>Solid Waste Operations</u>	<u>Total</u>
Cash flows from operating activities:				
Cash receipts from customers and others	\$ 645,654	\$ 264,909	\$ 161,473	\$ 1,072,036
Cash paid to employees for salaries and benefits	(373,831)	(80,236)	(19,722)	(473,789)
Cash paid to vendors and suppliers	(318,783)	(93,061)	(107,174)	(519,018)
Net cash provided by operating activities	<u>(46,960)</u>	<u>91,612</u>	<u>34,577</u>	<u>79,229</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(16,698)	-	-	(16,698)
Proceeds from capital contributions	65,700	4,000	-	69,700
Principal payments on notes payable	(72,911)	-	-	(72,911)
Interest payments on notes payable	(17,872)	-	-	(17,872)
Net cash provided by capital/financing activities	<u>(41,781)</u>	<u>4,000</u>	<u>-</u>	<u>(37,781)</u>
Cash flows from investing activities:				
Investment earnings	6,377	699	600	7,676
Net cash provided by investing activities	<u>6,377</u>	<u>699</u>	<u>600</u>	<u>7,676</u>
Net increase(decrease) in cash	(82,364)	96,311	35,177	49,124
Cash and cash equivalents:				
Beginning of year	1,085,927	74,679	270,527	1,431,133
End of year	<u>\$ 1,003,563</u>	<u>\$ 170,990</u>	<u>\$ 305,704</u>	<u>\$ 1,480,257</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income(loss)	<u>\$ (48,029)</u>	<u>\$ 70,284</u>	<u>\$ 36,632</u>	<u>\$ 58,887</u>
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	36,070	19,520	-	55,590
Changes in account balances:				
(Increase)decrease in assets:				
Accounts receivable – services, net	(21,133)	656	(49)	(20,526)
Property assessments receivable	168	108	-	276
(Increase)decrease in deferred outflows of resources	(1,762)	(1,301)	-	(3,063)
Increase(decrease) in liabilities:				
Accounts payable and accrued expenses	(5,895)	5,594	(2,006)	(2,307)
Compensated absences	(2,168)	(137)	-	(2,305)
Aggregate net pension liability	(10,865)	(8,031)	-	(18,896)
Increase(decrease) in deferred inflows of resources	6,654	4,919	-	11,573
Total adjustments	<u>1,069</u>	<u>21,328</u>	<u>(2,055)</u>	<u>20,342</u>
Net cash provided by operating activities	<u>\$ (46,960)</u>	<u>\$ 91,612</u>	<u>\$ 34,577</u>	<u>\$ 79,229</u>

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Stallion Springs Community Services District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

Note 1 – Reporting Entity and Summary of 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 if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

Basis of Accounting and Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the 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 demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a 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.

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. 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.

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Measurement Focus (Continued)

Fund Financial Statements (Continued)

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

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

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 generally are 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 interests 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.

The District reports the following major funds:

Governmental Funds

General Government – 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.

Parks and Recreation – This fund is used to account for the revenues received and expenditures incurred to operate the community center and recreation programs of the District.

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.

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Enterprise Funds

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

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.

Investments

Investments are reported at fair value. 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.

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the balance sheet, 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.

Accounts Receivable – Services

The District extends credit to customers in the normal course of operations. Management reviews 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 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	March 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets is equipment used at the District. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the District’s capitalization threshold is met. 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.

Pensions

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 plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. The following timeframes are used for pension reporting:

CalPERS

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Measurement Period	July 1, 2014 to June 30, 2015

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 with benefits (active, inactive, and retired) as of the beginning of the measurement period.

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

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 outstanding against the acquisition, construction or improvement of those assets.

Restricted – This component of net position consists of constraints placed on net position use 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 no restricted net position as of June 30, 2016.

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

Fund Balance

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 at either 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 established, 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 year.

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

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

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.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Accounting Changes

During fiscal year ended June 30, 2016, the District has implemented the following new GASB pronouncements:

Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosure related to all fair value measurements. Application of this statement is effective for fiscal year ending June 30, 2016.

Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by GASB Statements 67 and 68). Application of this statement is effective for the District's fiscal year ending June 30, 2016, except those provisions that address employers and governmental nonemployer contributing entities that are not within the scope of GASB Statement 68, which are effective for financial statements for fiscal year ending June 30, 2017.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. Application of this statement is effective for fiscal year ending June 30, 2016.

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Cash and Investments

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

Description	Balance
Cash on hand	\$ 900
Deposits held with financial institutions	175,147
Kern County Treasury Investment Pool (KCTIP)	3,054,439
Total	\$ 3,230,486

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 California Government Code and District’s investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. At June 30, 2016 the District had no deposits with financial institutions subject to custodial credit risk.

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 Code and the District’s investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. 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.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. District’s investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Credit Risk

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

Concentration of Credit Risk

The District’s investment policy 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 non-governmental issuer that represent 5% or more of the District’s total investments.

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Cash and Investments (Continued)

Concentration of Credit Risk (Continued)

The District’s investments as of June 30, 2016 were as follows:

<u>Type of Investments</u>	<u>Measurement Focus</u>	<u>June 30, 2016 Fair Value</u>	<u>Maturity 12 Months or Less</u>
Kern County Treasury Investment Pool	Level 2	\$ 3,054,439	\$ 3,054,439
Total investments		<u>\$ 3,054,439</u>	<u>\$ 3,054,439</u>

Authorized Investments and Investment Policy

The District has adopted an investment policy directing the Fiscal Officer to deposit funds in financial institutions.

Investments are to be made in the following areas:

External Investment Pools:

- Kern County Treasury Investment Pool (KCTIP)
- Money market funds

Investment with County of Kern Treasury Investment Pool

The District is a voluntary participant in the Kern County Treasury Investment Pool pursuant to Government Code Section 53694. 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. The June 30, 2016 balance of the Kern County Treasury Investment Pool was \$3.0 billion. At June 30, 2016, the District had \$3,054,439 invested in the Kern County Investment Pool.

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Capital Assets

Governmental Funds

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>June 30, 2016</u>
Non-depreciable assets:				
Land	\$ 73,657	\$ -	\$ -	\$ 73,657
Total non-depreciable assets	<u>73,657</u>	<u>-</u>	<u>-</u>	<u>73,657</u>
Depreciable assets:				
Buildings and improvements	1,149,334	-	-	1,149,334
Community center	2,038,062	-	-	2,038,062
Infrastructure, streets and roads	7,037,204	-	-	7,037,204
Vehicles and equipment	791,953	78,250	-	870,203
Total depreciable assets	<u>11,016,553</u>	<u>78,250</u>	<u>-</u>	<u>11,094,803</u>
Accumulated depreciation:				
Buildings and improvements	(126,592)	(11,575)	-	(138,167)
Community center	(392,979)	(47,666)	-	(440,645)
Infrastructure, streets and roads	(4,930,158)	(58,068)	-	(4,988,226)
Vehicles and equipment	(507,729)	(9,774)	-	(517,503)
Total accumulated depreciation	<u>(5,957,458)</u>	<u>(127,083)</u>	<u>-</u>	<u>(6,084,541)</u>
Total depreciable assets, net	<u>5,059,095</u>	<u>(48,833)</u>	<u>-</u>	<u>5,010,262</u>
Total capital assets, net	<u>\$ 5,132,752</u>	<u>\$ (48,833)</u>	<u>\$ -</u>	<u>\$ 5,083,919</u>

Depreciation expense under governmental activities was allotted as follows for the year ended June 30, 2016:

<u>Depreciation Expense per Fund</u>	
General government	\$ 10,784
Parks and recreation	49,139
Public safety	9,092
Roads	<u>58,068</u>
Total	<u>\$ 127,083</u>

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Capital Assets (Continued)

Proprietary Funds

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2016</u>
Non-depreciable assets:				
Land	\$ 8,000	\$ -	\$ -	\$ 8,000
Total non-depreciable assets	<u>8,000</u>	<u>-</u>	<u>-</u>	<u>8,000</u>
Depreciable assets:				
Water transmission and distribution	6,595,584	16,698	-	6,612,282
Wastewater collection	1,276,495	-	-	1,276,495
Solid waste collection	89,783	-	-	89,783
Vehicles and equipment	178,042	-	-	178,042
Total depreciable assets	<u>8,139,904</u>	<u>16,698</u>	<u>-</u>	<u>8,156,602</u>
Accumulated depreciation:				
Water transmission and distribution	(2,933,146)	(31,629)	-	(2,964,775)
Wastewater collection	(1,002,616)	(19,520)	-	(1,022,136)
Solid waste collection	(89,783)	-	-	(89,783)
Vehicles and equipment	(72,089)	(4,441)	-	(76,530)
Total accumulated depreciation	<u>(4,097,634)</u>	<u>(55,590)</u>	<u>-</u>	<u>(4,153,224)</u>
Total depreciable assets, net	<u>4,042,270</u>	<u>(38,892)</u>	<u>-</u>	<u>4,003,378</u>
Total capital assets, net	<u>\$ 4,050,270</u>	<u>\$ (38,892)</u>	<u>\$ -</u>	<u>\$ 4,011,378</u>

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 4 – 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 employees’ 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 reasonable estimated.

The changes to the compensated absences balance at June 30, 2016 were as follows:

<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$ 114,475	\$ 22,564	\$ (39,584)	\$ 97,455	\$ 38,982	\$ 58,473

Note 5 – Notes Payable

Changes in capital lease payable amounts for the year ended June 30, 2016 were as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2016</u>
<i>Governmental-activities:</i>				
General government fund:				
Administration building note	\$ 123,142	\$ -	\$ (123,142)	\$ -
Public safety:				
Vehicles	-	78,250	(21,146)	57,104
<i>Business-type activities:</i>				
Water fund:				
Water tank and pipeline note	482,247	-	(72,911)	409,336
Total	605,389	<u>\$ 78,250</u>	<u>\$ (217,199)</u>	466,440
Less: current portion due	(196,053)			(93,779)
Long-term portion due	<u>\$ 409,336</u>			<u>\$ 372,661</u>

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 5 – Notes Payable (Continued)

Governmental Activities

Administration Building – Note Payable

In 2009, the District obtained a \$750,000 note in order to complete the construction of the new Administration Building. The note is scheduled to mature in fiscal year 2016. Principal and interest semi-annual installments of \$63,820 are payable on October 27 and April 27 each fiscal year at a rate of 4.25%. In fiscal year 2016, the District paid off the remaining balance of the note of \$123,142.

Public Safety Vehicles – Note Payable

In 2016, the District obtained a \$78,250 note to purchase public safety vehicles. The note is scheduled to mature in fiscal year 2019. Principal and interest annual installments of \$21,146 are payable on June 30th each fiscal year at a rate of 5.45%. Annual debt service requirements on the loan are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 18,034	\$ 3,112	\$ 21,146
2018	19,017	2,129	21,146
2019	20,053	1,093	21,146
Totals	57,104	<u>\$ 6,334</u>	<u>\$ 63,438</u>
Less: current	<u>(18,034)</u>		
Long-term	<u>\$ 39,070</u>		

Business-Type Activities

Water Tank and Pipeline – Note Payable

In 2006, the District obtained a \$1,000,000 note with City National Bank in order to complete the 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 each year at a rate of 4.85%. In 2013, the District negotiated and 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 loan are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 75,745	\$ 15,037	\$ 90,782
2018	78,690	12,092	90,782
2019	81,748	9,034	90,782
2020	84,926	5,856	90,782
2021	88,227	2,555	90,782
Totals	409,336	<u>\$ 44,574</u>	<u>\$ 453,910</u>
Less: current	<u>(75,745)</u>		
Long-term	<u>\$ 333,591</u>		

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Aggregate Net Pension Liability and Defined Benefit Pension Plan

Summary

Type of Account	Balance as of July 1, 2015	Additions	Deletions	Balance as of June 30, 2016
Deferred Outflows of Resources:				
Pension contributions made after the measurement date:				
CalPERS – Miscellaneous Plan	\$ 24,989	\$ 36,049	\$ (24,989)	\$ 36,049
CalPERS – Safety Plan	45,501	45,815	(45,501)	45,815
Sub-total	70,490	81,864	(70,490)	81,864
Difference between actual and proportionate share of employer contributions:				
CalPERS – Safety Plan	3,135	(986)	(861)	1,288
Differences between expected and actual experience:				
CalPERS – Miscellaneous Plan	-	2,174	(572)	1,602
Total deferred outflows of resources	\$ 73,625	\$ 83,052	\$ (71,923)	\$ 84,754
Aggregate Net Pension Liability:				
CalPERS – Miscellaneous Plan	\$ 354,014	\$ (22,250)	\$ (24,989)	\$ 306,775
CalPERS – Safety Plan	254,823	34,939	(45,501)	244,261
Total aggregate net pension liability	\$ 608,837	\$ 12,689	\$ (70,490)	\$ 551,036
Deferred Inflows of Resources:				
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	\$ 118,965	\$ -	\$ (111,368)	\$ 7,597
CalPERS – Safety Plan	76,939	-	(62,987)	13,952
Sub-total	195,904	-	(174,355)	21,549
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	12,862	36,307	(14,147)	35,022
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	6,914	143,124	(40,133)	109,905
CalPERS – Safety Plan	15,810	9,995	(8,276)	17,529
Sub-total	22,724	153,119	(48,409)	127,434
Differences between expected and actual experience:				
CalPERS – Safety Plan	-	8,123	(2,138)	5,985
Changes in assumptions:				
CalPERS – Miscellaneous Plan	-	20,564	(5,411)	15,153
CalPERS – Safety Plan	-	37,362	(9,832)	27,530
Sub-total	-	57,926	(15,243)	42,683
Total deferred inflows of resources	\$ 231,490	\$ 255,475	\$ (254,292)	\$ 232,673

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Aggregate Net Pension Liability and Defined Benefit Pension Plan (Continued)

General Information about the Pension Plans

The Plans Description Schedule

The District has engaged with CalPERS to administer the following pension plans for its employees (members):

Miscellaneous Plans

	Miscellaneous Plans	
	Classic Tier 1	PEPRA Tier 2
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5-years or service	5-years or 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	8.005%	6.250%

Safety Plans

	Safety Plans	
	Classic Tier 1	PEPRA Tier 2
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	3.0% @ 55	2.7% @ 57
Benefit vesting schedule	5-years or service	5-years or 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	21.367%	11.500%

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, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2016 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.

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Aggregate Net Pension Liability and Defined Benefit Pension Plan (Continued)

General Information about the Pension Plans (Continued)

Members Covered by Benefit Terms

At June 30, 2015 (Valuation Date), the following members were covered by the benefit terms:

<u>Plan Members</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>	
Active members	3	3	6
Transferred and terminated members	8	-	8
Retired members and beneficiaries	5	-	5
Total plan members	16	3	19

<u>Plan Members</u>	<u>Safety Plans</u>		<u>Total</u>
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>	
Active members	2	1	3
Transferred and terminated members	3	-	3
Retired members and beneficiaries	2	-	2
Total plan members	7	1	8

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members 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 the average final 12 months compensation. Retirement benefits for PEPRA Miscellaneous members are calculated as a percentage of their plan based the 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 the basic death benefit 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 7.5 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 months' 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.

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Aggregate Net Pension Liability and Defined Benefit Pension Plan (Continued)

General Information about the Pension Plans (Continued)

Benefits Provided (Continued)

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 to 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%.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers will be 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 risk pool, the Plan's 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 rate of members. For the measurement period ended June 30, 2015 (Measurement Date), the active member contribution rate for the Classic Miscellaneous Plan and the PEPRA Miscellaneous Plan are based above in the Plans Description schedule.

For the year ended June 30, 2016, the contributions made to the Plan were as follows:

<u>Contribution Type</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic</u>	<u>PEPRA</u>	
	<u>Tier 1</u>	<u>Tier 2</u>	
Contributions – employer	\$ 23,261	\$ 12,788	\$ 36,049
Contributions – members	12,653	12,815	25,468
Total contributions	\$ 35,914	\$ 25,603	\$ 61,517

<u>Contribution Type</u>	<u>Safety Plans</u>		<u>Total</u>
	<u>Classic</u>	<u>PEPRA</u>	
	<u>Tier 1</u>	<u>Tier 2</u>	
Contributions – employer	\$ 40,074	\$ 5,741	\$ 45,815
Contributions – members	17,337	5,919	23,256
Total contributions	\$ 57,411	\$ 11,660	\$ 69,071

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Aggregate 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, 2015 (Measurement Date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. Both the June 30, 2014 and the June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.
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, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The long-term expected rate of return on the pension plan investments was determined in which best-estimate ranges of expected future real rates are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were considered. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years.

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

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Aggregate 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 (Continued)

Discount Rate (Continued)

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

Investment Type	New Strategic Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11+ ²
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
	<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 District's 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 of the Plan as of the measurement date, calculated using the discount rate of 7.65%, 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 (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

Plan Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% 6.65%	Current Discount Rate 7.650%	Discount Rate + 1% 8.65%
CalPERS – Miscellaneous Plan	\$ 589,879	\$ 306,775	\$ 73,039

Plan Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% 6.65%	Current Discount Rate 7.650%	Discount Rate + 1% 8.65%
CalPERS – Safety Plan	\$ 465,096	\$ 244,261	\$ 63,180

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Aggregate 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 (Continued)

Pension Plan Fiduciary Net Position

Detail information about the plan’s fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS’ website under Forms and Publications.

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 Plans as follows:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2014 (Measurement Date)	\$ 2,085,962	\$ 1,731,948	\$ 354,014
Balance as of June 30, 2015 (Measurement Date)	\$ 2,078,797	\$ 1,772,022	\$ 306,775
Change in Plan Net Pension Liability	<u>\$ (7,165)</u>	<u>\$ 40,074</u>	<u>\$ (47,239)</u>
CalPERS – Safety Plan:			
Balance as of June 30, 2014 (Measurement Date)	\$ 1,371,387	\$ 1,116,564	\$ 254,823
Balance as of June 30, 2015 (Measurement Date)	\$ 1,610,640	\$ 1,366,379	\$ 244,261
Change in Plan Net Pension Liability	<u>\$ 239,253</u>	<u>\$ 249,815</u>	<u>\$ (10,562)</u>

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Aggregate 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 (Continued)

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

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, 2014). 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, 2015). 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, 2015 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-15 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.
- (5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made 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 FNP calculated in (5).

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Aggregate 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 (Continued)

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

The District's proportionate share of the net pension liability was as follows:

<u>CalPERS – Miscellaneous Plan</u>	<u>Percentage Share of Risk Pool</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year Ending June 30, 2016</u>	<u>Fiscal Year Ending June 30, 2015</u>	
	Measurement Date	June 30, 2015	
Percentage of Risk Pool Net Pension Liability	0.011180%	0.014324%	-0.003144%
Percentage of Plan (PERF C) Net Pension Liability	0.004469%	0.005689%	-0.001220%

<u>CalPERS – Safety Plan</u>	<u>Percentage Share of Risk Pool</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year Ending June 30, 2016</u>	<u>Fiscal Year Ending June 30, 2015</u>	
	Measurement Date	June 30, 2015	
Percentage of Risk Pool Net Pension Liability	0.005930%	0.006796%	-0.000866%
Percentage of Plan (PERF C) Net Pension Liability	0.003559%	0.004095%	-0.000536%

For the year ended June 30, 2016, the District recognized pension expense/(credit) in the amount of \$(62,747) for the CalPERS Miscellaneous \$(25,965) and Safety Plans \$(36,782).

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) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the 2014-15 measurement period is 3.8 years, which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired).

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Aggregate 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 (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 81,864	\$ -
Difference between actual and proportionate share of employer contributions	1,288	35,022
Adjustment due to differences in proportions	-	127,434
Differences between expected and actual experience	1,602	5,985
Differences between projected and actual earnings on pension plan investments	-	21,549
Changes in assumptions	-	42,683
Total Deferred Outflows/(Inflows) of Resources	<u>\$ 84,754</u>	<u>\$ 232,673</u>

The District will recognize \$81,864 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, 2017, as noted above.

Amortization of Deferred Outflows of Resources and Deferred Inflows of Resources

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

<u>Amortization Period Fiscal Year Ended June 30</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 1,433	\$ 96,068
2018	1,208	93,527
2019	249	69,915
2020	-	(26,837)
Total	<u>\$ 2,890</u>	<u>\$ 232,673</u>

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 7 – Net Investment in Capital Assets

The District’s net investment in capital assets is summarized as of June 30, 2016 as follows:

Description	Governmental Activities	Business-Type Activities	Total
Net investment in capital assets:			
Capital assets – not being depreciated	\$ 73,657	\$ 8,000	\$ 81,657
Capital assets – being depreciated, net	5,010,262	4,003,378	9,013,640
Notes payable – current portion	(18,034)	(75,745)	(93,779)
Notes payable – non-current portion	(39,070)	(333,591)	(372,661)
Total net investment in capital assets	\$ 5,026,815	\$ 3,602,042	\$ 8,628,857

Note 8 – Fund Balance

A detailed schedule of fund balances and their funding composition at June 30, 2016 is as follows:

Description	General Government	Parks and Recreation	Public Safety	Roads	Total Governmental Funds
Restricted:					
Roads	\$ -	\$ -	\$ -	\$ 440,194	\$ 440,194
Committed:					
Compensated absences	13,136	1,314	59,616	1,314	75,380
Assigned:					
Parks and recreation	-	98,578	-	-	98,578
Public safety	-	-	(67,543)	-	(67,543)
Unassigned	1,139,235	-	-	-	1,139,235
Total fund balance	\$ 1,152,371	\$ 99,892	\$ (7,927)	\$ 441,508	\$ 1,685,844

Note 9 – 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 receipt of 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 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.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. 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.

Stallion Springs Community Services District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

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, 2016, 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 coverage's.
- 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.
- Public officials personal liability up to \$500,000 each 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 year 2016, 2015, and 2014. Liabilities are recorded when it is probable that a loss has been 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, 2016, 2015, and 2014.

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, other than the matter discussed above, will not materially affect its financial condition.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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Stallion Springs Community Services District
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule – General Government Fund
For the Year Ended June 30, 2016

	Adopted Original Budget	Revised Budget	Actual	Variance Positive (Negative)
REVENUES:				
Taxes:				
Property taxes	\$ 56,000	\$ 56,000	\$ 94,351	\$ 38,351
Special assessments	120,000	120,000	120,066	66
Charges for services	17,100	17,100	17,506	406
Interest earnings	4,000	4,000	3,964	(36)
Total revenues	<u>197,100</u>	<u>197,100</u>	<u>235,887</u>	<u>38,787</u>
EXPENDITURES:				
Current:				
Salaries and benefits	73,977	73,977	70,905	3,072
Materials and services	35,000	35,000	27,105	7,895
Capital outlay	-	12,500	-	12,500
Debt service:				
Principal	-	123,142	123,142	-
Interest	5,000	5,000	4,497	503
Total expenditures	<u>113,977</u>	<u>249,619</u>	<u>225,649</u>	<u>23,970</u>
REVENUES OVER(UNDER)EXPENDITURES	83,123	(52,519)	10,238	62,757
OTHER FINANCING SOURCES(USES):				
Transfers in(out)	-	-	-	-
Total other financing sources(uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>\$ 83,123</u>	<u>\$ (52,519)</u>	10,238	<u>\$ 62,757</u>
FUND BALANCES:				
Beginning of year			<u>1,142,133</u>	
End of year			<u>\$ 1,152,371</u>	

Notes to the Budgetary Comparison Schedule:

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year the District prepares and submits an operating budget to the Board of Directors no later than June of each year. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting. The adopted budget becomes operative on July 1. The Board of Directors must approve all supplemental appropriations to the budget and transfers between major accounts.

Stallion Springs Community Services District
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule – Parks and Recreation Fund
For the Year Ended June 30, 2016

	Adopted Original Budget	Revised Budget	Actual	Variance Positive (Negative)
REVENUES:				
Taxes:				
Property taxes	\$ 200,000	\$ 200,000	\$ 200,000	\$ -
Charges for services	73,800	73,800	82,506	8,706
Interest earnings	-	-	56	56
Total revenues	<u>273,800</u>	<u>273,800</u>	<u>282,562</u>	<u>8,762</u>
EXPENDITURES:				
Current:				
Salaries and benefits	125,336	125,336	126,111	(775)
Materials and services	95,122	95,122	81,622	13,500
Capital outlay	7,500	-	-	-
Total expenditures	<u>227,958</u>	<u>220,458</u>	<u>207,733</u>	<u>12,725</u>
REVENUES OVER(UNDER)EXPENDITURES	45,842	53,342	74,829	21,487
OTHER FINANCING SOURCES(USES):				
Transfers in(out)	-	-	-	-
Total other financing sources(uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>\$ 45,842</u>	<u>\$ 53,342</u>	74,829	<u>\$ 21,487</u>
FUND BALANCES:				
Beginning of year			<u>25,063</u>	
End of year			<u>\$ 99,892</u>	

Stallion Springs Community Services District
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule – Public Safety Fund
For the Year Ended June 30, 2016

	Adopted Original Budget	Revised Budget	Actual	Variance Positive (Negative)
REVENUES:				
Taxes:				
Property taxes	\$ 410,000	\$ 410,000	\$ 413,219	\$ 3,219
Charges for services	1,600	1,600	5,168	3,568
Federal and state aid	135,000	135,000	135,285	285
Interest earnings	350	350	695	345
Total revenues	<u>546,950</u>	<u>546,950</u>	<u>554,367</u>	<u>7,417</u>
EXPENDITURES:				
Current:				
Salaries and benefits	525,000	525,000	523,006	1,994
Materials and services	125,000	125,000	125,782	(782)
Capital outlay	-	-	78,250	(78,250)
Debt service:				
Principal	-	-	21,146	(21,146)
Interest	-	-	-	-
Total expenditures	<u>650,000</u>	<u>650,000</u>	<u>748,184</u>	<u>(98,184)</u>
REVENUES OVER(UNDER)EXPENDITURES	(103,050)	(103,050)	(193,817)	(90,767)
OTHER FINANCING SOURCES(USES):				
Proceeds from debt issuance	-	-	78,250	78,250
Total other financing sources(uses)	<u>-</u>	<u>-</u>	<u>78,250</u>	<u>78,250</u>
NET CHANGE IN FUND BALANCES	<u>\$ (103,050)</u>	<u>\$ (103,050)</u>	(115,567)	<u>\$ (12,517)</u>
FUND BALANCES:				
Beginning of year			<u>107,640</u>	
End of year			<u>\$ (7,927)</u>	

Stallion Springs Community Services District
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule – Roads Fund
For the Year Ended June 30, 2016

	Adopted Original Budget	Revised Budget	Actual	Variance Positive (Negative)
REVENUES:				
Special assessments	\$ 335,000	\$ 335,000	\$ 336,736	\$ 1,736
Interest earnings	2,000	2,000	1,842	(158)
Total revenues	337,000	337,000	338,578	1,578
EXPENDITURES:				
Current:				
Salaries and benefits	110,000	110,000	105,217	4,783
Materials and services	60,000	60,000	60,450	(450)
Capital outlay	-	-	-	-
Total expenditures	170,000	170,000	165,667	4,333
REVENUES OVER(UNDER)EXPENDITURES	167,000	167,000	172,911	5,911
OTHER FINANCING SOURCES(USES):				
Transfers in(out)	-	-	-	-
Total other financing sources(uses)	-	-	-	-
NET CHANGE IN FUND BALANCES	\$ 167,000	\$ 167,000	172,911	\$ 5,911
FUND BALANCES:				
Beginning of year			268,597	
End of year			<u>\$ 441,508</u>	

Stallion Springs Community Services District
Required Supplementary Information (Unaudited)
Schedule of the District's Proportionate Share of the Plan's Net Pension Liability
For the Year Ended June 30, 2016

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS)

Measurement Date:	June 30, 2015¹	June 30, 2014¹
District's Proportion of the Net Pension Liability	0.008028%	0.009784%
District's Proportionate Share of the Net Pension Liability	\$ 551,036	\$ 608,837
District's Covered-Employee Payroll	\$ 696,800	\$ 676,506
District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	79.08%	90.00%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	78.40%	79.82%

¹ Historical information 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 Year Ended June 30, 2016

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS)

Fiscal Year:	2015-16 ¹	2014-15 ¹	2013-14 ¹
Actuarially Determined Contribution ²	\$ 81,864	\$ 70,491	\$ 65,246
Contribution in Relation to the Actuarially Determined Contribution ²	(81,864)	(70,491)	(65,246)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered-Employee Payroll ³	\$ 717,700	\$ 696,800	\$ 676,506
Contributions as a Percentage of Covered-Employee Payroll	11.41%	10.12%	9.64%

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 (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

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:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).