



**Stallion Springs Community Services District**  
Tehachapi, California

**Annual Financial Report**

**For the Fiscal Year Ended June 30, 2014**



**STALLION SPRINGS COMMUNITY SERVICES DISTRICT**

**List of Elected and Appointed Officials**

**June 30, 2014**

**Elected Officials**

**BOARD OF DIRECTORS**

<b>President</b>	<b>David Burt (2016)</b>
<b>Vice-President</b>	<b>Clydell Lamkin (2016)</b>
<b>Director</b>	<b>Irene Gunshinan (2016)</b>
<b>Director</b>	<b>Susan Mueller (2014)</b>
<b>Director</b>	<b>Sandra Young (2014)</b>

**Appointed Official**

<b>General Manager</b>	<b>Mary Beth Garrison</b>
------------------------	---------------------------

**Stallion Springs Community Services District  
27800 Stallion Springs Drive  
Tehachapi, California 93561  
(661) 822-3268 [www.mysscsd.com](http://www.mysscsd.com)**



**Stallion Springs Community Services District**

**Annual Financial Report**

**For the Fiscal Year Ended June 30, 2014**

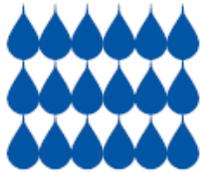
**Stallion Springs Community Services District  
Annual Financial Report  
For the Fiscal Year Ended June 30, 2014**

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# **Financial Section**





Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA  
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An Accountancy Corporation

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## **Independent Auditor's Report**

Board of Directors  
Stallion Springs Community Services District  
Tehachapi, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Stallion Springs Community Services District (District) as of and for the fiscal year ended June 30, 2014, 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 audits. We conducted our audits 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 audits 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 District, as of June 30, 2014, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Independent Auditor's Report, continued

### *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 3 through 6 and the required supplementary information on pages 34 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 September 30, 2014, 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. This report can be found on pages 42 and 43.

Charles Z. Fedak : Company CPAs - An Accountancy Corporation

**Charles Z. Fedak and Company, CPAs – An Accountancy Corporation**  
Cypress, California  
October 31, 2014

**Stallion Springs Community Services District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014**

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, 2014. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- Net position increased 4.31% or \$458,038 to \$11,089,723, as a result of operations.
- Total revenues increased 6.95% or \$175,230 for the fiscal year, primarily due to a \$98,269 increase in charges for services revenue.
- Total expenses increased 1.94% or \$42,531 for the fiscal year, primarily due to a \$45,231 increase in public safety expenses.

**Using This Financial Report**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provides 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. One will need to consider other non-financial factors; however, such as changes in the District's property tax base and the types of grants the District applies for to assess the *overall financial health* of the District.

**Stallion Springs Community Services District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014**

**Fund 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. The notes to the basic financial statements can be found on pages 16 through 33.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's defined benefit program and major and non-major funds budgetary information. Required supplementary information can be found on pages 34 through 41.

**Government-wide Financial Analysis**

**Statement of Net Position**

The following table is a summary of the statement of net position at June 30, 2014:

<b>Condensed Statement of Net Position</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total District</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Assets:</b>						
Current and other assets	\$ 1,893,493	1,771,206	1,483,225	1,221,542	3,376,718	2,992,748
Capital assets, net	4,833,849	4,927,433	4,053,689	4,093,225	8,887,538	9,020,658
<b>Total assets</b>	<b>6,727,342</b>	<b>6,698,639</b>	<b>5,536,914</b>	<b>5,314,767</b>	<b>12,264,256</b>	<b>12,013,406</b>
<b>Liabilities:</b>						
Current liabilities	259,249	236,508	139,020	110,324	398,269	346,832
Non-current liabilities	275,796	464,769	500,468	570,120	776,264	1,034,889
<b>Total liabilities</b>	<b>535,045</b>	<b>701,277</b>	<b>639,488</b>	<b>680,444</b>	<b>1,174,533</b>	<b>1,381,721</b>
<b>Net position:</b>						
Net investment in capital assets	4,445,541	4,372,811	3,501,259	3,473,237	7,946,800	7,846,048
Unrestricted	1,746,756	1,624,551	1,396,167	1,161,086	3,142,923	2,785,637
<b>Total net position</b>	<b>\$ 6,192,297</b>	<b>5,997,362</b>	<b>4,897,426</b>	<b>4,634,323</b>	<b>11,089,723</b>	<b>10,631,685</b>

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, position of the District exceeded liabilities by \$11,089,723 as of June 30, 2014. Compared to prior year, net position of the District increased 4.31% or \$458,038 to \$11,089,723. The District's net position is made-up of two components: (1) net investment in capital assets, and (2) unrestricted net position.

**Stallion Springs Community Services District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014**

**Statement of Activities**

The following table is a summary of the statement of activities for the fiscal year ended June 30, 2014:

	<b>Condensed Statement of Activities</b>					
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total District</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 585,082	543,568	1,179,116	1,122,361	1,764,198	1,665,929
Operating grants	143,633	120,000	-	-	143,633	120,000
Capital grants	-	-	113,075	53,275	113,075	53,275
<b>General revenues:</b>						
Property taxes	662,557	667,250	-	-	662,557	667,250
Interest earnings	8,064	8,783	3,501	4,561	11,565	13,344
<b>Total revenues</b>	<u>1,399,336</u>	<u>1,339,601</u>	<u>1,295,692</u>	<u>1,180,197</u>	<u>2,695,028</u>	<u>2,519,798</u>
<b>Expenses:</b>						
General government	131,367	129,618	-	-	131,367	129,618
Parks and recreation	264,550	256,579	-	-	264,550	256,579
Public safety	556,905	511,674	-	-	556,905	511,674
Streets and roads	251,579	214,043	-	-	251,579	214,043
Water	-	-	687,898	718,178	687,898	718,178
Wastewater	-	-	219,464	238,771	219,464	238,771
Solid waste	-	-	125,227	125,596	125,227	125,596
<b>Total expenses</b>	<u>1,204,401</u>	<u>1,111,914</u>	<u>1,032,589</u>	<u>1,082,545</u>	<u>2,236,990</u>	<u>2,194,459</u>
<b>Transfers (in/out)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Change in net position</b>	194,935	227,687	263,103	97,652	458,038	325,339
<b>Net position, beginning of year</b>	<u>5,997,362</u>	<u>5,769,675</u>	<u>4,634,323</u>	<u>4,536,671</u>	<u>10,631,685</u>	<u>10,306,346</u>
<b>Net position, end of year</b>	<u>\$ 6,192,297</u>	<u>5,997,362</u>	<u>4,897,426</u>	<u>4,634,323</u>	<u>11,089,723</u>	<u>10,631,685</u>

Government and business-type activities increased the District's net position by \$458,038 thereby accounting for the 4.31% increase in the net position of the District.

Total revenues increased 6.95% or \$175,230 for the fiscal year, primarily due to a \$98,269 increase in charges for services revenue.

Total expenses increased 1.94% or \$42,531 for the fiscal year, primarily due to a \$45,231 increase in public safety expenses.

**Fund Financial Analysis**

The District's governmental fund balance decreased by \$10,773 for fiscal year 2014.

**Stallion Springs Community Services District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014**

**Capital Asset Administration**

	Capital Assets					
	Governmental Activities		Business-type Activities		Total District	
	2014	2013	2014	2013	2014	2013
Capital assets:						
Non-depreciable assets	\$ 73,657	73,657	8,000	8,000	81,657	81,657
Depreciable assets	10,598,581	10,586,686	8,089,965	8,080,427	18,688,546	18,667,113
<b>Total capital assets</b>	10,672,238	10,660,343	8,097,965	8,088,427	18,770,203	18,748,770
Accumulated depreciation	(5,838,389)	(5,732,910)	(4,044,276)	(3,995,202)	(9,882,665)	(9,728,112)
<b>Total capital assets, net</b>	\$ 4,833,849	4,927,433	4,053,689	4,093,225	8,887,538	9,020,658

At the end of fiscal year 2014, the District's investment in capital assets amounted to \$8,887,538 (net of accumulated depreciation). This investment in capital assets includes land, buildings, building improvements, furnishings and equipment, streets and roads, community center, collection and distribution systems, tanks, wells, water treatment facilities and construction-in-process. Major capital asset additions in the governmental activities area totaled \$11,895. Major capital asset additions in the business-type activities area amounted to \$9,538 for water infrastructure. The capital assets of the District are more fully analyzed in Note 3 to the basic financial statements.

**Long-Term Debt Administration**

	Long-term Debt					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Long-term debt:						
Notes payable	\$ 388,308	554,622	552,430	683,341	940,738	1,237,963

Long-term debt decreased \$233,872 due to regular principal payments being made on the District's debt service. The long-term debt position of the District is more fully analyzed in Note 5 to the basic financial statements.

**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**

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 27800 Stallion Springs Drive, Tehachapi, California 93561 or (661) 822-3268.

# **Basic Financial Statements**

**Stallion Springs Community Services District**  
**Statement of Net Position**  
**June 30, 2014**

<i>Assets</i>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Cash and cash equivalents (note 2)	\$ 1,879,258	1,291,935	3,171,193
Accrued interest receivable	906	81	987
Accounts receivable – utilities, net	2,462	190,413	192,875
Property taxes and assessments receivable	10,867	796	11,663
Capital assets – not being depreciated (note 3)	73,657	8,000	81,657
Capital assets – being depreciated, net (note 3)	4,760,192	4,045,689	8,805,881
<b>Total assets</b>	<b>6,727,342</b>	<b>5,536,914</b>	<b>12,264,256</b>
<b><i>Liabilities and Net Position</i></b>			
<b>Liabilities:</b>			
Accounts payable and accrued expenses	35,720	44,600	80,320
Accrued wages and related payables	26,026	13,081	39,107
Accrued interest on long-term debt	2,444	5,082	7,526
Long-term liabilities – due within one year:			
Compensated absences (note 4)	20,637	6,074	26,711
Notes payable (note 5)	174,422	70,183	244,605
Long-term liabilities – due in more than one year:			
Compensated absences (note 4)	61,910	18,221	80,131
Notes payable (note 5)	213,886	482,247	696,133
<b>Total liabilities</b>	<b>535,045</b>	<b>639,488</b>	<b>1,174,533</b>
<b>Net position:</b>			
Net investment in capital assets (note 6)	4,445,541	3,501,259	7,946,800
Unrestricted (note 7)	1,746,756	1,396,167	3,142,923
<b>Total net position</b>	<b>\$ 6,192,297</b>	<b>4,897,426</b>	<b>11,089,723</b>

See accompanying notes to the basic financial statements

**Stallion Springs Community Services District**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Governmental activities:</b>							
General government	\$ 131,367	172,848	-	-	41,481	-	41,481
Parks and recreation	240,933	65,995	-	-	(174,938)	-	(174,938)
Public safety	556,905	4,748	143,633	-	(408,524)	-	(408,524)
Roads	251,579	341,491	-	-	89,912	-	89,912
Interest on long-term debt	23,617	-	-	-	(23,617)	-	(23,617)
Total governmental	<u>1,204,401</u>	<u>585,082</u>	<u>143,633</u>	<u>-</u>	<u>(475,686)</u>	<u>-</u>	<u>(475,686)</u>
<b>Business-type activities:</b>							
Water	687,898	792,679	-	93,075	-	197,856	197,856
Wastewater	219,464	231,444	-	20,000	-	31,980	31,980
Solid waste	125,227	154,993	-	-	-	29,766	29,766
Total business-type	<u>1,032,589</u>	<u>1,179,116</u>	<u>-</u>	<u>113,075</u>	<u>-</u>	<u>259,602</u>	<u>259,602</u>
<b>Total</b>	<u>\$ 2,236,990</u>	<u>1,764,198</u>	<u>143,633</u>	<u>113,075</u>	<u>(475,686)</u>	<u>259,602</u>	<u>(216,084)</u>
<b>General revenues and other items:</b>							
Property taxes					\$ 662,557	-	662,557
Interest earnings					8,064	3,501	11,565
Total general revenues and other items					<u>670,621</u>	<u>3,501</u>	<u>674,122</u>
Change in net position					194,935	263,103	458,038
Net position, beginning of year					<u>5,997,362</u>	<u>4,634,323</u>	<u>10,631,685</u>
Net position, end of year					<u>\$ 6,192,297</u>	<u>4,897,426</u>	<u>11,089,723</u>

See accompanying notes to the basic financial statements

**Stallion Springs Community Services District**  
**Balance Sheets – Governmental Funds**  
**June 30, 2014**

	<u>General</u>	<u>Parks and Recreation</u>	<u>Public Safety</u>	<u>Streets and Roads</u>	<u>Total Governmental Activities</u>
<b>Assets:</b>					
Cash and cash equivalents	\$ 1,126,685	127,316	92,230	533,027	1,879,258
Accrued interest receivable	555	-	82	269	906
Accounts receivable – utilities, net	2,462	-	-	-	2,462
Property taxes and assessments receivable	1,575	-	5,743	3,549	10,867
<b>Total assets</b>	<u>1,131,277</u>	<u>127,316</u>	<u>98,055</u>	<u>536,845</u>	<u>1,893,493</u>
<b>Liabilities:</b>					
Accounts payable and accrued expenses	4,132	10,647	6,234	14,707	35,720
Accrued wages and related payables	11,076	3,435	11,515	-	26,026
<b>Total liabilities</b>	<u>15,208</u>	<u>14,082</u>	<u>17,749</u>	<u>14,707</u>	<u>61,746</u>
<b>Fund balance:</b>					
Restricted:					
Streets and roads	-	-	-	522,138	522,138
Assigned:					
Parks and recreation	-	111,717	-	-	111,717
Public safety	-	-	24,136	-	24,136
Accrued interest on long-term debt	2,074	370	-	-	2,444
Compensated absences	25,230	1,147	56,170	-	82,547
Unassigned					
Capital replacement reserve	750,000	-	-	-	750,000
Six-month operating reserve	338,765	-	-	-	338,765
<b>Total fund balance</b>	<u>1,116,069</u>	<u>113,234</u>	<u>80,306</u>	<u>522,138</u>	<u>1,831,747</u>
<b>Total liabilities and fund balance</b>	<u>\$ 1,131,277</u>	<u>127,316</u>	<u>98,055</u>	<u>536,845</u>	<u>1,893,493</u>

**Stallion Springs Community Services District**  
**Reconciliation of the Balance Sheets of Governmental Funds to the Statement of Net Position**  
**June 30, 2014**

**Reconciliation:**

Fund balance of governmental funds	\$	1,831,747
Amounts reported for governmental activities in the statement of net position is different because:		
Capital 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 capital position among the assets of the District as a whole.		4,833,849
Interest on long-term debt is not accrued as a governmental fund liability, but rather is recognized as an expenditure when due.		(2,444)
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as governmental fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position as follows:		
Compensated absences		(82,547)
Notes payable		(388,308)
		6,192,297
Net position of governmental activities		6,192,297

See accompanying notes to the basic financial statements

**Stallion Springs Community Services District**  
**Statements of Revenues, Expenditures and Changes in Fund Balances– Governmental Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<u>General</u>	<u>Parks and Recreation</u>	<u>Public Safety</u>	<u>Streets and Roads</u>	<u>Total Governmental Activities</u>
<b>Revenues:</b>					
Property taxes	\$ 59,343	195,471	407,743	-	662,557
Special assessments	121,421	-	12	333,218	454,651
Charges for services	51,427	65,995	4,736	-	122,158
Federal, state and other aid	-	-	143,633	-	143,633
Interest earnings	5,570	37	480	1,977	8,064
Other	-	-	-	8,273	8,273
<b>Total revenues</b>	<u>237,761</u>	<u>261,503</u>	<u>556,604</u>	<u>343,468</u>	<u>1,399,336</u>
<b>Expenditures:</b>					
General government	120,894	-	-	-	120,894
Parks and recreation	-	193,564	-	-	193,564
Public safety	-	-	572,754	-	572,754
Streets and roads	-	-	-	207,494	207,494
Capital outlay	-	6,720	-	5,175	11,895
Debt service:					
Principal payments	111,888	54,426	-	-	166,314
Interest paid	15,752	8,967	-	-	24,719
<b>Total expenditures</b>	<u>248,534</u>	<u>263,677</u>	<u>572,754</u>	<u>212,669</u>	<u>1,297,634</u>
<b>Excess of revenues over expenditures</b>	<u>(10,773)</u>	<u>(2,174)</u>	<u>(16,150)</u>	<u>130,799</u>	<u>101,702</u>
<b>Other financing sources(uses):</b>					
Transfers in(out)	-	-	-	-	-
<b>Total other financing sources(uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balance</b>	(10,773)	(2,174)	(16,150)	130,799	101,702
<b>Fund balance, beginning of year</b>	<u>1,126,842</u>	<u>115,408</u>	<u>96,456</u>	<u>391,339</u>	<u>1,730,045</u>
<b>Fund balance, end of year</b>	<u>\$ 1,116,069</u>	<u>113,234</u>	<u>80,306</u>	<u>522,138</u>	<u>1,831,747</u>

**Stallion Springs Community Services District**  
**Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balance of**  
**Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

**Reconciliation:**

Net changes in fund balance of total governmental funds	\$	101,702
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense as follows:</p>		
Capital outlay		11,895
Depreciation expense		(105,479)
<p>Repayment of long-term debt is reported as expenditures in governmental funds, and thus, has the effect of reducing fund balance because current financial resources have been used. For the District as a whole, however, the principal payments reduce the liabilities in the statement of net position and do not result in an expense in the statement of activities.</p>		
		166,314
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenses in governmental funds as follows:</p>		
Net change in accrued interest for the current period		1,102
Net change in compensated absences for the current period		19,401
		19,401
Change in net position of governmental activities	\$	194,935

See accompanying notes to the basic financial statements

**Stallion Springs Community Services District**  
**Statements of Net Position – Enterprise Funds**  
**June 30, 2014**

<i>Assets</i>	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total Business-type Activities</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,012,412	29,894	249,629	1,291,935
Accrued interest receivable	72	9	-	81
Accounts receivable – utilities, net	126,407	40,197	23,809	190,413
Property assessments receivable	713	83	-	796
Capital assets – not being depreciated	8,000	-	-	8,000
Capital assets, net – being depreciated	<u>3,749,510</u>	<u>267,727</u>	<u>28,452</u>	<u>4,045,689</u>
<b>Total assets</b>	<u>4,897,114</u>	<u>337,910</u>	<u>301,890</u>	<u>5,536,914</u>
<b><i>Liabilities and Net Position</i></b>				
<b>Liabilities:</b>				
Accounts payable and accrued expenses	33,635	2,363	8,602	44,600
Accrued wages and related payables	9,706	3,375	-	13,081
Accrued interest on long-term debt	5,082	-	-	5,082
Long-term liabilities – due within one year:				
Compensated absences	2,746	3,328	-	6,074
Notes payable	70,183	-	-	70,183
Long-term liabilities – due in more than one year:				
Compensated absences	8,239	9,982	-	18,221
Notes payable	<u>482,247</u>	<u>-</u>	<u>-</u>	<u>482,247</u>
<b>Total liabilities</b>	<u>611,838</u>	<u>19,048</u>	<u>8,602</u>	<u>639,488</u>
<b>Net position:</b>				
Net investment in capital assets	3,205,080	267,727	28,452	3,501,259
Unrestricted	<u>1,080,196</u>	<u>51,135</u>	<u>264,836</u>	<u>1,396,167</u>
<b>Total net position</b>	<u>\$ 4,285,276</u>	<u>318,862</u>	<u>293,288</u>	<u>4,897,426</u>

See accompanying notes to the basic financial statements

**Stallion Springs Community Services District**  
**Statements of Revenues, Expenses and Changes in Fund Net Position – Enterprise Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total Business-type Activities</u>
<b>Operating revenues:</b>				
Water consumption sales	\$ 773,314	-	-	773,314
Wastewater service charges	-	225,013	-	225,013
Solid waste collection charges	-	-	154,993	154,993
Other charges for services	19,365	6,431	-	25,796
<b>Total operating revenues</b>	<u>792,679</u>	<u>231,444</u>	<u>154,993</u>	<u>1,179,116</u>
<b>Operating expenses:</b>				
Salaries and benefits	295,742	118,006	21,796	435,544
Operations	337,638	84,021	103,431	525,090
<b>Total operating expenses</b>	<u>633,380</u>	<u>202,027</u>	<u>125,227</u>	<u>960,634</u>
Operating income(loss) before depreciation	159,299	29,417	29,766	218,482
Depreciation expense	(31,638)	(17,437)	-	(49,075)
<b>Operating income(loss)</b>	<u>127,661</u>	<u>11,980</u>	<u>29,766</u>	<u>169,407</u>
<b>Non-operating revenue (expense):</b>				
Interest earnings	3,209	74	218	3,501
Interest expense	(22,880)	-	-	(22,880)
Total non-operating, net	<u>(19,671)</u>	<u>74</u>	<u>218</u>	<u>(19,379)</u>
<b>Capital contributions:</b>				
Capacity charges	93,075	10,000	-	103,075
Connection fees	-	10,000	-	10,000
Total capital contributions	<u>93,075</u>	<u>20,000</u>	<u>-</u>	<u>113,075</u>
<b>Change in net position</b>	201,065	32,054	29,984	263,103
<b>Net position, beginning of year</b>	<u>4,084,211</u>	<u>286,808</u>	<u>263,304</u>	<u>4,634,323</u>
<b>Net position, end of year</b>	<u>\$ 4,285,276</u>	<u>318,862</u>	<u>293,288</u>	<u>4,897,426</u>

See accompanying notes to the basic financial statements

**Stallion Springs Community Services District**  
**Statements of Cash Flows – Enterprise Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Water</u>	<u>Waste water</u>	<u>Solid Waste</u>	<u>Total Business-type Activities</u>
Cash flows from operating activities:				
Cash receipts from customers	\$ 780,986	224,939	151,984	1,157,909
Cash paid to employees for salaries and benefits	(296,316)	(113,364)	(21,796)	(431,476)
Cash paid to vendors and suppliers	(314,995)	(83,973)	(103,244)	(502,212)
Net cash provided(used) in operating activities	<u>169,675</u>	<u>27,602</u>	<u>26,944</u>	<u>224,221</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(9,538)	-	-	(9,538)
Proceeds from capital contributions	93,075	20,000	-	113,075
Interfund payable	-	(250,000)	-	(250,000)
Principal payments on notes payable	(67,558)	-	-	(67,558)
Interest payments on notes payable	(23,225)	-	-	(23,225)
Net cash provided(used) by capital and financing	<u>(7,246)</u>	<u>(230,000)</u>	<u>-</u>	<u>(237,246)</u>
Cash flows from investing activities:				
Interest earnings	3,230	76	218	3,524
Net cash provided by investing activities	<u>3,230</u>	<u>76</u>	<u>218</u>	<u>3,524</u>
Net increase(decrease) in cash	165,659	(202,322)	27,162	(9,501)
Cash and cash equivalents, beginning of year	<u>846,753</u>	<u>232,216</u>	<u>222,467</u>	<u>1,301,436</u>
Cash and cash equivalents, end of year	<u>\$ 1,012,412</u>	<u>29,894</u>	<u>249,629</u>	<u>1,291,935</u>
Reconciliation of operating income to net cash provided(used) in operating activities:				
Operating income(loss)	\$ <u>127,661</u>	<u>11,980</u>	<u>29,766</u>	<u>169,407</u>
Adjustments to reconcile operating income(loss) to net cash provided(used) in operating activities:				
Depreciation expense	31,638	17,437	-	49,075
Changes in assets and liabilities:				
(Increase)decrease in assets:				
Accounts receivable – utilities, net	(11,485)	(6,497)	(3,009)	(20,991)
Accounts receivable – other	-	-	-	-
Property assessments receivable	(208)	(8)	-	(216)
Prepaid expenses and other deposits	-	-	-	-
Increase(decrease) in liabilities:				
Accounts payable and accrued expenses	22,643	48	187	22,878
Accrued wages and related payables	3,864	(504)	-	3,360
Customer deposits and deferred revenue	-	-	-	-
Compensated absences	(4,438)	5,146	-	708
Total adjustments	<u>42,014</u>	<u>15,622</u>	<u>(2,822)</u>	<u>54,814</u>
Net cash provided(used) by operating activities	<u>\$ 169,675</u>	<u>27,602</u>	<u>26,944</u>	<u>224,221</u>

See accompanying notes to the basic financial statements

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. 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.

**B. Basis of Accounting and Measurement Focus**

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

***Government-wide Financial Statements***

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-like activities. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the operating expenses of a given function are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function. The types of transactions reported as operating revenues for the District are charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes, operating grants and other items not properly included among operating revenues are reported instead as non-operating revenues. Contributed capital and capital grants are included as capital contributions.

***Fund Financial Statements***

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in fund balances as presented in these statements to the net position presented in the Government-wide Financial Statements.

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**B. Basis of Accounting and Measurement Focus, continued**

*Fund Financial Statement, continued*

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The accrual basis of accounting is followed by the proprietary enterprise funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as, unbilled but utilized utility services are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues and expenses, such as water sales, wastewater service, solid waste collection and purchases of water, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories, such as interest income and interest expense, are reported as non-operating revenues and expenses.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operation fund of the District or meets the following criteria:

- a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.
- c) The entity has determined that a fund is important to the financial statement user.

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**B. Basis of Accounting and Measurement Focus, continued**

The funds of the financial reporting entity are described below:

***Governmental Funds***

**General** – This fund acts as the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. This fund also includes all activity and assets of the emergency and unemployment compensation funds.

**Parks and Recreation** – This fund is used to account for all parks and recreation activities within the District and to separate out resources to pay-down the debt for construction on the Community Center.

**Public Safety** – This fund is used to account for the revenues received from property taxes and special assessments for public safety and specific funds appropriated to the District by the State of California under the *Citizens Option for Public Safety (COPS)* program.

**Street and Roads** – This fund is used to account for the revenues received from special assessments for road maintenance and operations.

***Enterprise Funds***

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

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

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

**C. Financial Statement Elements**

**1. Cash and Cash Equivalents**

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly-liquid investments with a maturity of three months or less to be cash equivalents.

**2. Accounts Receivable**

The District extends credit to customers in the normal course of operations. Management reviews all accounts receivable as collectible; however, certain accounts are delinquent, and an allowance for doubtful accounts has been recorded.

**3. 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**  
**June 30, 2014**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**C. Financial Statement Elements, continued**

**4. Prepaid Expenses**

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

**5. Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$500. Donated assets are recorded at estimated fair market value at the date of donation and/or historical cost. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

***Governmental Activities***

- Buildings and improvements – 20 to 30 years
- Community center – 40 years
- Infrastructure, streets and roads – 20 to 40 years
- Vehicles and equipment – 3 to 10 years

***Business-Type Activities***

- Transmission and distribution systems – 10 to 40 years
- Collection systems – 10 to 50 years
- Vehicles and equipment – 3 to 10 years

**6. Utility Sales**

Utility sales are billed on a monthly basis. Estimated unbilled utility revenue through June 30 has been accrued at year-end for the enterprise funds.

**7. Capital Contributions**

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital connection expenditures or capacity commitment.

**8. Net Position/Fund Balances**

The government-wide financial statements utilize a net position presentation. Net position categories are 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 Net Position** – 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.
- **Unrestricted Net Position** – This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**C. Financial Statement Elements, continued**

**9. Fund Equity**

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 fund balance** – 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 fund balance** – 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 fund balance** – 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 fund balance** – 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. This is also the classification for residual funds in the District’s special revenue funds.
- **Unassigned fund balance** – 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 an ordinance or 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.

***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.

**10. Use of Estimates**

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

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(2) Cash and Cash Equivalents**

Cash and cash equivalents as of June 30, 2014, are classified by fund as follows:

	<b>2014</b>
Governmental activity funds:	
General fund	\$ 1,126,685
Parks and recreation fund	127,316
Public safety fund	92,230
Streets and roads fund	533,027
Total	1,879,258
Business-type activity funds:	
Water fund	1,012,412
Wastewater fund	29,894
Solid waste fund	249,629
Total	1,291,935
Total cash and cash equivalents	\$ 3,171,193

Cash and cash equivalents as of June 30, 2014, consist of the following:

Cash on hand	\$ 600
Deposits held with financial institutions	324,142
Deposits held with the County of Kern Treasurer's Pooled Cash Portfolio	2,846,451
Total	\$ 3,171,193

As of June 30, 2014, the District's authorized deposits had the following maturities:

Deposits held with the County of Kern Treasurer's Pooled Cash Portfolio	535 days
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**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(2) Cash and Cash Equivalents, continued**

***Authorized Deposits and Investments***

The District's investment policy authorizes investments in the County of Kern Treasurer's Pooled Cash Portfolio. The District's investment policy does contain specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk.

***Kern County Treasurer Fund***

The Kern County Treasurer's Pooled Cash Portfolio (Pool) is a pooled investment fund program governed by the Kern County Board of Supervisors, and administered by the Kern County Treasurer and Tax Collector. Investments in the Pool are highly liquid as deposits and withdrawals can be made at anytime without penalty. The Pool does not impose a maximum investment limit.

The Kern County's bank deposits are either Federally insured or collateralized in accordance with the California Government Code. Pool detail may be obtained from the Kern County Treasurer and Tax Collector's website at [www.kcttc.co.kern.ca.us](http://www.kcttc.co.kern.ca.us).

***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 the 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. Of the bank balance, up to \$250,000 is federally insured.

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 contains legal and 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 (such as the Kern County Pool).

***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. The 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; however, the Kern County Pool is not rated.

***Concentration of Credit Risk***

The District's investment policy does not contain various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with governmental agencies, Kern County is 90% as of June 30, 2014, of the District's total depository and investment portfolio.

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(3) Capital Assets**

*Governmental Activities*

Changes in capital assets for the year were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land	\$ 73,657	-	-	73,657
Construction in progress	-	-	-	-
Total non-depreciable assets	<u>73,657</u>	<u>-</u>	<u>-</u>	<u>73,657</u>
Depreciable assets:				
Buildings and improvements	1,142,614	6,720	-	1,149,334
Community center	2,038,062	-	-	2,038,062
Infrastructure, streets and roads	6,614,057	5,175	-	6,619,232
Vehicles and equipment	791,953	-	-	791,953
Total depreciable assets	<u>10,586,686</u>	<u>11,895</u>	<u>-</u>	<u>10,598,581</u>
Accumulated depreciation:				
Buildings and improvements	(114,432)	(585)	-	(115,017)
Community center	(297,647)	(47,666)	-	(345,313)
Infrastructure, streets and roads	(4,821,138)	(50,952)	-	(4,872,090)
Vehicles and equipment	(499,693)	(6,276)	-	(505,969)
Total accumulated depreciation	<u>(5,732,910)</u>	<u>(105,479)</u>	<u>-</u>	<u>(5,838,389)</u>
Total depreciable assets, net	<u>4,853,776</u>	<u>(93,584)</u>	<u>-</u>	<u>4,760,192</u>
Total capital assets, net	<u>\$ 4,927,433</u>			<u>4,833,849</u>

Major capital asset additions in the governmental activities area totaled \$11,895.

Depreciation expense under governmental activities was allotted as follows for the year ended June 30, 2014.

<u>Depreciation Expense per Fund</u>	
General government	\$ 10,784
Parks and recreation	50,515
Public safety	95
Roads	44,085
Total	<u>\$ 105,479</u>

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(3) Capital Assets, continued**

*Business-Type Activities*

Changes in capital assets for the year were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land	\$ 8,000	-	-	8,000
Construction in progress	-	-	-	-
Total non-depreciable assets	<u>8,000</u>	<u>-</u>	<u>-</u>	<u>8,000</u>
Depreciable assets:				
Water transmission and distribution	6,559,696	9,538	-	6,569,234
Wastewater collection	1,252,906	-	-	1,252,906
Solid waste collection	89,783	-	-	89,783
Vehicles and equipment	178,042	-	-	178,042
Total depreciable assets	<u>8,080,427</u>	<u>9,538</u>	<u>-</u>	<u>8,089,965</u>
Accumulated depreciation:				
Water transmission and distribution	(2,870,186)	(31,480)	-	(2,901,666)
Wastewater collection	(967,742)	(17,437)	-	(985,179)
Solid waste collection	(89,783)	-	-	(89,783)
Vehicles and equipment	(67,491)	(157)	-	(67,648)
Total accumulated depreciation	<u>(3,995,202)</u>	<u>(49,074)</u>	<u>-</u>	<u>(4,044,276)</u>
Total depreciable assets, net	<u>4,085,225</u>	<u>(39,536)</u>	<u>-</u>	<u>4,045,689</u>
Total capital assets, net	<u>\$ 4,093,225</u>			<u>4,053,689</u>

Major capital asset additions in the business-type activities area included \$9,538 in new water infrastructure.

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(3) Capital Assets, continued**

A summary of changes of capital assets per Enterprise Funds are as follows:

<b>Water Enterprise</b>	<b>Balance 2013</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance 2014</b>
Non-depreciable assets:				
Land	\$ 8,000	-	-	8,000
Total non-depreciable assets	8,000	-	-	8,000
Depreciable assets:				
Water transmission and distribution	6,559,696	9,538	-	6,569,234
Vehicles and equipment	149,590	-	-	149,590
Total depreciable assets	6,709,286	9,538	-	6,718,824
Accumulated depreciation:				
Water transmission and distribution	(2,870,186)	(31,480)	-	(2,901,666)
Vehicles and equipment	(67,491)	(157)	-	(67,648)
Total accumulated depreciation	(2,937,677)	(31,637)	-	(2,969,314)
Total depreciable assets, net	3,771,609	(22,099)	-	3,749,510
Total capital assets, net	\$ 3,779,609			3,757,510
<hr/>				
<b>Wastewater Enterprise</b>	<b>Balance 2013</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance 2014</b>
Depreciable assets:				
Wastewater collection	\$ 1,252,906	-	-	1,252,906
Total depreciable assets	1,252,906	-	-	1,252,906
Accumulated depreciation:				
Wastewater collection	(967,742)	(17,437)	-	(985,179)
Total accumulated depreciation	(967,742)	(17,437)	-	(985,179)
Total depreciable assets, net	285,164	(17,437)	-	267,727
Total capital assets, net	\$ 285,164			267,727
<hr/>				
<b>Solid Waste Enterprise</b>	<b>Balance 2013</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance 2014</b>
Depreciable assets:				
Solid waste collection	\$ 89,783	-	-	89,783
Vehicles and equipment	28,452	-	-	28,452
Total depreciable assets	118,235	-	-	118,235
Accumulated depreciation:				
Solid waste collection	(89,783)	-	-	(89,783)
Vehicles and equipment	-	-	-	-
Total accumulated depreciation	(89,783)	-	-	(89,783)
Total depreciable assets, net	28,452	-	-	28,452
Total capital assets, net	\$ 28,452			28,452

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(4) Compensated Absences**

Compensated absences for vacation leave are accrued as follows:

<u>Years of Service</u>	<u>Weeks</u>
0 - 5	2
6 - 10	3
more than 10	4

- 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.

Changes in compensated absences were as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Compensated absences, beginning	\$ 101,948	23,587	125,535
Current year employee earnings	18,980	8,243	27,223
Employee vacation time taken	(38,381)	(7,535)	(45,916)
Compensated absences, ending	82,547	24,295	106,842
Less: current portion payable	(20,637)	(6,074)	(26,711)
Long-term portion payable	\$ 61,910	18,221	80,131

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(5) Notes Payable**

Changes in notes payable were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2014</u>
<i>Governmental-activities:</i>				
<b>General fund:</b>				
Administration building note	\$ 352,410	-	(111,888)	240,522
<b>Parks and recreation fund:</b>				
Community center note	202,212	-	(54,426)	147,786
<i>Business-type activities:</i>				
<b>Water fund:</b>				
Water tank and pipeline note	619,988	-	(67,558)	552,430
Total	1,174,610	-	(233,872)	940,738
Less: current portion due	(233,872)			(244,605)
Long-term portion due	\$ 940,738			696,133

*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<sup>th</sup> and April 27<sup>th</sup> each fiscal year at a rate of 4.25%. Annual debt service requirements on the loan are as follows:

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$	117,380	10,259	127,639
2016		123,142	4,498	127,640
Totals	\$	240,522	14,757	255,279
Less: current		(117,380)		
Long-term	\$	123,142		

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(5) Notes Payable, continued**

***Community Center – Note Payable***

In 2008, the District obtained a \$500,000 note with City National Bank in order to complete the construction of the new Community Center. The note is scheduled to mature in fiscal year 2017. Principal and interest semi-annual installments of \$31,696 are payable on December 11<sup>th</sup> and June 11<sup>th</sup> each year at a rate of 4.75%. Annual debt service requirements on the loan are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 57,042	6,350	63,392
2016	59,783	3,609	63,392
2017	30,961	735	31,696
Totals	\$ 147,786	10,694	158,480
Less: current	(57,042)		
Long-term	\$ 90,744		

***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 4<sup>th</sup> and April 4<sup>th</sup> each year at a rate of 4.85%. In 2014, 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>
2015	\$ 70,183	20,599	90,782
2016	72,911	17,871	90,782
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	\$ 552,430	83,044	635,474
Less: current	(70,183)		
Long-term	\$ 482,247		

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(6) Net Investment in Capital Assets**

The calculations of net investment in capital assets are as follows:

The balance consists of the following:	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Capital assets – not being depreciated	\$ 73,657	8,000	81,657
Capital assets – being depreciated, net	4,760,192	4,045,689	8,805,881
Notes payable – current portion	(174,422)	(70,183)	(244,605)
Notes payable – long-term portion	(213,886)	(482,247)	(696,133)
Total	<u>\$ 4,445,541</u>	<u>3,501,259</u>	<u>7,946,800</u>

**(7) Unrestricted Net Position**

The District’s Board of Directors has designated the use of the District’s June 30, 2014, unrestricted net position as follows:

Net position are designated as follows:	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Road improvements	\$ 522,138	-	522,138
Public safety operations	24,136	-	24,136
Police contingencies	100,000	-	100,000
Parks and recreation	111,717	-	111,717
Capital replacement reserve	500,000	-	500,000
Six-month operating reserve	488,765	-	488,765
Water operations and capital replacement	-	1,080,196	1,080,196
Wastewater operations and capital replacement	-	51,135	51,135
Solid waste operations and capital replacement	-	264,836	264,836
Total	<u>\$ 1,746,756</u>	<u>1,396,167</u>	<u>3,142,923</u>

***Six-Month Operating Reserve***

The District’s general government, public safety and streets and roads activities receives a bulk of its funding from the Kern County Tax Collector at the end of the months of December and April, which coincides with the property tax payment dates of December 10 and April 10 each year. Each fiscal year, the District will need to utilize its six-month operating reserve until this funding is received.

**(8) Deferred Compensation Savings Plan**

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (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 on the statement of net position.

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(9) Defined Benefit Pension Plan**

***Plan Description***

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA 95814.

***Funding Policy***

The contribution rate for plan members in the CalPERS 3.0% at 55 Risk Pool Retirement Plan for Safety Employees is 7% and CalPERS 2.0% at 60 Risk Pool Retirement Plan for Miscellaneous Employees is 7% of their annual covered salary. In 2014, the District paid the 7% of the Safety Employees member portion and the District paid 7% the Miscellaneous Employees 7% member portion. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates for fiscal years 2014, 2013, and 2012, were 20.774%, 20.057%, and 35.180% for Safety Employees and 8.049%, 7.846% and 16.221% for Miscellaneous Employees, respectively. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2014, 2013 and 2012, the District's annual contribution was \$70,201, \$79,379 and 118,629, respectively, for CalPERS and was equal to the District's required and actual contributions for each year.

***California Public Employees Pension Reform Act of 2013***

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

***Tier II Plan – Beginning January 1, 2013***

***PEPRA Safety Employees***

The contribution rate for plan members in the CalPERS 2.7% at 57 Retirement Plan under PEPRA is 12.25% of their annual covered wages. District employees contribute 12.25% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The employer contribution rate (12.25%) and member contribution rate (12.25%) is a combined rate of 24.50% which will be in effect until June 30, 2015.

***PEPRA Miscellaneous Employees***

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.25% of their annual covered wages. District employees contribute 6.25% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The employer contribution rate (6.25%) and member contribution rate (6.25%) is a combined rate of 12.50% which will be in effect until June 30, 2015.

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(9) Defined Benefit Pension Plan, continued**

*Actuarial Methods and Assumptions*

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2013
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, closed
Asset valuation method	Market Value
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

See Page 34 for the Schedules of Funding Progress.

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(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, 2014, 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 2014, 2013, and 2012. 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, 2014, 2013, and 2012.

**(11) Commitments and Contingencies**

***Litigation***

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

***Grant Awards***

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

**(12) Subsequent Events**

Events occurring after June 30, 2014, have been evaluated for possible adjustment to the financial statements or disclosure as of October 31, 2014, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

**Stallion Springs Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(13) Governmental Accounting Standards Board Statements**

**Newly Issued Accounting Pronouncements, But Not Yet Effective**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that has effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 68***

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions— an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to District’s financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 69***

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to District’s financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 71***

In November 2013, the GASB issued Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

## **Required Supplementary Information**



**Stallion Springs Community Services District**  
**Schedule of Funding Status**  
**For the Fiscal Year Ended June 30, 2014**

**(1) Defined Benefit Pension Plan – Safety Plan**

<b>Development of the Actuarial Value of Assets Calculation in a Risk Pool</b>			
The District is part of the CalPERS Safety 3.0% at 55 yrs. Risk Pool	<b>June 30, 2011</b>	<b>June 30, 2012</b>	<b>June 30, 2013</b>
1. Plan's accrued liability	\$ 1,127,966	1,171,537	1,225,858
2. Plan's side fund	(304,825)	-	-
3. Pool's accrued liability	2,061,923,933	2,183,549,942	2,330,820,131
4. Pool's side fund	(99,308,581)	(82,051,596)	(75,763,636)
5. Pool's actuarial value of assets (AVA) including receivables	1,759,286,797	1,896,139,291	N/A
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	737,863	1,057,054	N/A
7. Pool's market value of assets (MVA) including receivables	1,575,500,641	1,592,869,270	N/A
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	660,781	887,988	987,898

**Funding History**

The Funding History below shows the actuarial-accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Share of Pool's Market Value of Assets (MVA) (b)	Plan's Share of Pool's Unfunded Liability (a-b)	Funded Ratio MVA (b/a)	Annual Covered Payroll
June 30, 2011	\$ 1,127,966	660,781	467,185	58.58%	\$ 217,506
June 30, 2012	1,171,537	887,988	283,549	75.80%	217,722
June 30, 2013	1,225,858	987,898	237,960	80.59%	217,506

**(2) Defined Benefit Pension Plan – Miscellaneous Plan**

<b>Development of the Actuarial Value of Assets Calculation in a Risk Pool</b>			
The District is part of the CalPERS Miscellaneous 2.0% at 60 yrs. Risk Pool	<b>June 30, 2011</b>	<b>June 30, 2012</b>	<b>June 30, 2013</b>
1. Plan's accrued liability	\$ 1,613,631	1,734,303	1,876,465
2. Plan's side fund	(276,771)	-	-
3. Pool's accrued liability	682,375,804	736,231,913	798,282,602
4. Pool's side fund	1,499,824	2,948,645	N/A
5. Pool's actuarial value of assets (AVA) including receivables	639,237,247	701,224,211	N/A
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	1,249,600	1,645,248	N/A
7. Pool's market value of assets (MVA) including receivables	572,006,330	589,970,009	N/A
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	1,118,175	1,384,218	1,582,153

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Share of Pool's Market Value of Assets (MVA) (b)	Plan's Share of Pool's Unfunded Liability (a-b)	Funded Ratio MVA (b/a)	Annual Covered Payroll
June 30, 2011	\$ 1,613,631	1,118,175	495,456	69.30%	\$ 459,618
June 30, 2012	1,734,303	1,384,218	350,085	79.81%	405,536
June 30, 2013	1,876,465	1,582,153	294,312	84.32%	439,296

**Stallion Springs Community Services District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual – General Fund – Major Fund**  
**For the Fiscal Year Ended June 30, 2014**

	<b>Adopted Original Budget</b>	<b>Board Approved Changes</b>	<b>Revised Final Budget</b>	<b>Actual Budgetary Basis</b>	<b>Variance Positive (Negative)</b>
<b>Revenues:</b>					
Property taxes	\$ 57,000	-	57,000	59,343	2,343
Special assessments	117,800	-	117,800	121,421	3,621
Charges for services	37,350	-	37,350	51,427	14,077
Interest earnings	6,600	-	6,600	5,570	(1,030)
Other	2,000	-	2,000	-	(2,000)
<b>Total revenues</b>	<b>220,750</b>	<b>-</b>	<b>220,750</b>	<b>237,761</b>	<b>17,011</b>
<b>Expenditures:</b>					
General government	98,788	-	98,788	120,894	(22,106)
Capital outlay	-	-	-	-	-
Debt service	127,662	-	127,662	127,640	22
<b>Total expenditures</b>	<b>226,450</b>	<b>-</b>	<b>226,450</b>	<b>248,534</b>	<b>(22,084)</b>
Excess(deficiency) of revenues over expenditures	(5,700)	-	(5,700)	(10,773)	(5,073)
<b>Other financing sources(uses):</b>					
Transfers in(out)	-	-	-	-	-
<b>Net change in fund balance</b>	<b>(5,700)</b>	<b>-</b>	<b>(5,700)</b>	<b>(10,773)</b>	<b>(5,073)</b>
<b>Fund balance, beginning of year</b>	<b>1,126,842</b>	<b>-</b>	<b>1,126,842</b>	<b>1,126,842</b>	
<b>Fund balance, end of year</b>	<b>\$ 1,121,142</b>	<b>-</b>	<b>1,121,142</b>	<b>1,116,069</b>	

***Budgetary Policies***

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. In accordance with District Ordinance 078-1, prior to May 1, each year the District Manager submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year. Public hearings are conducted to obtain taxpayer comments. Prior to June 30<sup>th</sup> the budget is legally enacted through passage of a Board resolution. Budgets for the Enterprise Funds are adopted on a basis consistent with generally accepted accounting principals (GAAP).

The Board of Directors must approve all supplemental appropriations to the budget and transfers between funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the general, public safety, and road funds.

**Stallion Springs Community Services District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual – Public Safety Fund – Major Fund**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>					
Property taxes	\$ 420,000	-	420,000	407,743	(12,257)
Special assessments	-	-	-	12	12
Charges for services	2,000	-	2,000	4,736	2,736
Federal, state and other aid	100,000	-	100,000	143,633	43,633
Interest earnings	1,000	-	1,000	480	(520)
Other	-	-	-	-	-
<b>Total revenues</b>	<u>523,000</u>	<u>-</u>	<u>523,000</u>	<u>556,604</u>	<u>33,604</u>
<b>Expenditures:</b>					
Public safety	508,650	-	508,650	572,754	(64,104)
Capital outlay	-	-	-	-	-
<b>Total expenditures</b>	<u>508,650</u>	<u>-</u>	<u>508,650</u>	<u>572,754</u>	<u>(64,104)</u>
Excess(deficiency) of revenues over expenditures	14,350	-	14,350	(16,150)	(30,500)
<b>Other financing sources(uses):</b>					
Transfers in(out)	-	-	-	-	-
<b>Net change in fund balance</b>	14,350	-	14,350	(16,150)	<u>(30,500)</u>
<b>Fund balance, beginning of year</b>	<u>96,456</u>	<u>-</u>	<u>96,456</u>	<u>96,456</u>	
<b>Fund balance, end of year</b>	<u>\$ 110,806</u>	<u>-</u>	<u>110,806</u>	<u>80,306</u>	

**Stallion Springs Community Services District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual – Road Fund – Major Fund**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>					
Special assessments	\$ 333,000	-	333,000	333,218	218
Interest earnings	1,500	-	1,500	1,977	477
Other	-	-	-	8,273	8,273
<b>Total revenues</b>	<u>334,500</u>	<u>-</u>	<u>334,500</u>	<u>343,468</u>	<u>8,968</u>
<b>Expenditures:</b>					
Roads	218,465	-	218,465	207,494	10,971
Capital outlay	70,000	-	70,000	5,175	64,825
<b>Total expenditures</b>	<u>288,465</u>	<u>-</u>	<u>288,465</u>	<u>212,669</u>	<u>75,796</u>
Excess(deficiency) of revenues over expenditures	46,035	-	46,035	130,799	84,764
<b>Other financing sources(uses):</b>					
Transfers in(out)	-	-	-	-	-
<b>Net change in fund balance</b>	46,035	-	46,035	130,799	<u>84,764</u>
<b>Fund balance, beginning of year</b>	<u>391,339</u>	<u>-</u>	<u>391,339</u>	<u>391,339</u>	
<b>Fund balance, end of year</b>	<u>\$ 437,374</u>	<u>-</u>	<u>437,374</u>	<u>522,138</u>	

**Stallion Springs Community Services District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual – Parks and Recreation Fund – Non-Major Fund**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>					
Property taxes	\$ 200,000	-	200,000	195,471	(4,529)
Charges for services	65,000	-	65,000	65,995	995
Interest earnings	-	-	-	37	37
Other	-	-	-	-	-
<b>Total revenues</b>	<u>265,000</u>	<u>-</u>	<u>265,000</u>	<u>261,503</u>	<u>(3,497)</u>
<b>Expenditures:</b>					
Parks and recreation	194,893	-	194,893	193,564	1,329
Capital outlay	-	-	-	6,720	(6,720)
Debt service	63,448	-	63,448	63,393	55
<b>Total expenditures</b>	<u>258,341</u>	<u>-</u>	<u>258,341</u>	<u>263,677</u>	<u>(5,336)</u>
Excess(deficiency) of revenues over expenditures	6,659	-	6,659	(2,174)	(8,833)
<b>Other financing sources(uses):</b>					
Transfers in(out)	-	-	-	-	-
<b>Net change in fund balance</b>	6,659	-	6,659	(2,174)	<u>(8,833)</u>
<b>Fund balance, beginning of year</b>	<u>97,325</u>	<u>-</u>	<u>115,408</u>	<u>115,408</u>	
<b>Fund balance, end of year</b>	<u>\$ 103,984</u>	<u>-</u>	<u>122,067</u>	<u>113,234</u>	

**Stallion Springs Community Services District**  
**Schedule of Revenues, Expenses and Changes in Net Position**  
**Budget and Actual – Water Fund**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Basis</u>	<u>Variance Positive (Negative)</u>
<b>Operating revenues:</b>					
Water consumption sales	\$ 750,000	-	750,000	773,314	23,314
Other charges for services	<u>15,000</u>	<u>-</u>	<u>15,000</u>	<u>19,365</u>	<u>4,365</u>
<b>Total operating revenues</b>	<u>765,000</u>	<u>-</u>	<u>765,000</u>	<u>792,679</u>	<u>27,679</u>
<b>Operating expenses:</b>					
Operations	<u>650,000</u>	<u>-</u>	<u>650,000</u>	<u>633,380</u>	<u>16,620</u>
<b>Total operating expenses</b>	<u>650,000</u>	<u>-</u>	<u>650,000</u>	<u>633,380</u>	<u>16,620</u>
Operating income(loss) before capital	115,000	-	115,000	159,299	44,299
Depreciation expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,638)</u>	<u>31,638</u>
<b>Operating income (loss)</b>	<u>115,000</u>	<u>-</u>	<u>115,000</u>	<u>127,661</u>	<u>12,661</u>
<b>Non-operating revenue (expense):</b>					
Interest earnings	1,000	-	1,000	3,209	2,209
Transfers in(out)	-	-	-	-	-
Interest expense	<u>(23,000)</u>	<u>-</u>	<u>(23,000)</u>	<u>(22,880)</u>	<u>120</u>
Total non-operating, net	<u>(22,000)</u>	<u>-</u>	<u>(22,000)</u>	<u>(19,671)</u>	<u>2,329</u>
<b>Capital contributions and purchases:</b>					
Capital outlay	-	-	-	-	-
Connection fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,075</u>	<u>93,075</u>
Total capital contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,075</u>	<u>93,075</u>
<b>Change in net position</b>	93,000	-	93,000	201,065	<u>108,065</u>
<b>Net position, beginning of year</b>	<u>4,084,211</u>	<u>-</u>	<u>4,084,211</u>	<u>4,084,211</u>	
<b>Net position, end of year</b>	<u>\$ 4,177,211</u>	<u>-</u>	<u>4,177,211</u>	<u>4,285,276</u>	

**Stallion Springs Community Services District**  
**Schedule of Revenues, Expenses and Changes in Net Position**  
**Budget and Actual – Wastewater Fund**  
**For the Fiscal Year Ended June 30, 2014**

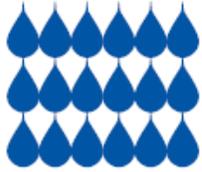
	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Final Budget</u>	<u>Actual Basis</u>	<u>Variance Positive (Negative)</u>
<b>Operating revenues:</b>					
Wastewater service charges	\$ 188,200	-	188,200	225,013	36,813
Other charges for services	<u>2,000</u>	<u>-</u>	<u>2,000</u>	<u>6,431</u>	<u>4,431</u>
<b>Total operating revenues</b>	<u>190,200</u>	<u>-</u>	<u>190,200</u>	<u>231,444</u>	<u>41,244</u>
<b>Operating expenses:</b>					
Operations	<u>194,564</u>	<u>-</u>	<u>194,564</u>	<u>202,027</u>	<u>(7,463)</u>
<b>Total operating expenses</b>	<u>194,564</u>	<u>-</u>	<u>194,564</u>	<u>202,027</u>	<u>(7,463)</u>
Operating income(loss) before capital	(4,364)	-	(4,364)	29,417	33,781
Depreciation expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,437)</u>	<u>17,437</u>
<b>Operating income (loss)</b>	<u>(4,364)</u>	<u>-</u>	<u>(4,364)</u>	<u>11,980</u>	<u>16,344</u>
<b>Non-operating revenue (expense):</b>					
Interest earnings	-	-	-	74	74
Transfers in(out)	-	-	-	-	-
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>74</u>	<u>74</u>
<b>Capital contributions and purchases:</b>					
Capital outlay	-	-	-	10,000	(10,000)
Connection fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>10,000</u>
Total capital contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>20,000</u>
<b>Change in net position</b>	<u>(4,364)</u>	<u>-</u>	<u>(4,364)</u>	<u>32,054</u>	<u>36,418</u>
<b>Net position, beginning of year</b>	<u>286,808</u>	<u>-</u>	<u>286,808</u>	<u>286,808</u>	
<b>Net position, end of year</b>	<u>\$ 282,444</u>	<u>-</u>	<u>282,444</u>	<u>318,862</u>	

**Stallion Springs Community Services District**  
**Schedule of Revenues, Expenses and Changes in Net Position**  
**Budget and Actual – Solid Waste Fund**  
**For the Fiscal Year Ended June 30, 2014**

	<b>Adopted Original Budget</b>	<b>Board Approved Changes</b>	<b>Revised Final Budget</b>	<b>Actual Basis</b>	<b>Variance Positive (Negative)</b>
<b>Operating revenues:</b>					
Solid waste collection charges	\$ 152,000	-	152,000	154,993	2,993
Other charges for services	-	-	-	-	-
<b>Total operating revenues</b>	<u>152,000</u>	<u>-</u>	<u>152,000</u>	<u>154,993</u>	<u>2,993</u>
<b>Operating expenses:</b>					
Operations	127,253	-	127,253	125,227	2,026
<b>Total operating expenses</b>	<u>127,253</u>	<u>-</u>	<u>127,253</u>	<u>125,227</u>	<u>2,026</u>
Operating income(loss) before capital	24,747	-	24,747	29,766	5,019
Depreciation expense	-	-	-	-	-
<b>Operating income (loss)</b>	<u>24,747</u>	<u>-</u>	<u>24,747</u>	<u>29,766</u>	<u>5,019</u>
<b>Non-operating revenue (expense):</b>					
Interest earnings	-	-	-	218	218
Transfers in(out)	-	-	-	-	-
Interest expense	-	-	-	-	-
Total non-operating, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>218</u>	<u>218</u>
<b>Capital contributions and purchases:</b>					
Capital outlay	-	-	-	-	-
Total capital contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Change in net position</b>	<u>24,747</u>	<u>-</u>	<u>24,747</u>	<u>29,984</u>	<u>5,237</u>
<b>Net position, beginning of year</b>	<u>263,304</u>	<u>-</u>	<u>263,304</u>	<u>263,304</u>	
<b>Net position, end of year</b>	<u>\$ 288,051</u>	<u>-</u>	<u>288,051</u>	<u>293,288</u>	

# **Report on Compliance and Internal Controls**





Charles Z. Fedak, CPA, MBA  
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Christopher J. Brown, CPA

# Charles Z. Fedak & Company

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## **Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Stallion Springs Community Services District  
Tehachapi, 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 Stallion Springs Community Services District (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated October 31, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audits 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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.

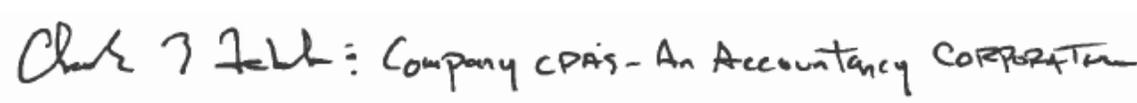
### **Compliance and Other Matters**

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 audits, 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*.

**Independent Auditor's Report on Internal Controls Over Financial Reporting  
And on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*, (continued)**

**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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles Z. Fedak: Company CPAs - An Accountancy Corporation

**Charles Z. Fedak and Company, CPAs – An Accountancy Corporation**  
Cypress, California  
October 31, 2014