

**Saddle Creek Community Services District**

**Management Report**

**Six Months Ended June 30, 2017**

**And**

**Fiscal Year Ended June 30, 2018**

# LARRY BAIN, CPA

An Accounting Corporation

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2148 Frascati Drive, El Dorado Hills, CA 95762 / 916.601-8894

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## COMMUNICATION OF MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES

To: Board of Directors  
Saddle Creek Community Services District

We have audited the financial statements of Saddle Creek Community Services District as of and for the six months ended June 30, 2017 and the fiscal year ended June 30, 2018, and have issued our reports thereon dated March 20, 2019. We conducted our audits in accordance with auditing standards generally accepted in the United States of America.

In planning and performing our audit, we considered Saddle Creek Community Services District's (District) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We consider findings FS 17-1, FS 18-1 and FS 18-2 in the following schedule of findings to be deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings FS 17-2, FS 18-3, FS 18-4, FS 18-5 and FS 18-6 in the following schedule of findings to be significant deficiencies in the District's internal control.

### **Purpose of this Report**

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

This report is intended solely for the information and use of the board of directors and management of Saddle Creek Community Services District.

*Larry Bain, CPA,  
An Accounting Corporation*

March 20, 2019

**SADDLE CREEK COMMUNITY SERVICES DISTRICT  
FINDINGS AND RECOMMENDATIONS  
June 30, 2017**

**Significant Deficiencies Deemed Material Weaknesses**

**Finding 17-1:** The District prepared its financial statements on the modified cash basis of accounting. Under this basis of accounting revenues are recognized when received and expenses are recognized when paid. The District general ledger provided for the audit was prepared under the modified accrual basis of accounting. As a result we prepared entries to reverse \$34,309 accounts payable accrual, we proposed an entry to reverse the prior year accounts payable accrual of \$32,793, we proposed an entry to reverse the credit card payable for \$23,745. Furthermore we proposed a \$30,270 journal entry to agree the District's cash with Calaveras County balance in the Calaveras county treasury.

Recommendation: The District should prepare year-end entries so that the general ledger reflects the basis of accounting that is reported in the financial statements. The District should also reconcile the cash with Calaveras County to the underlying balance.

**Significant Deficiencies Not Deemed Material Weaknesses**

**FS 17-2:** We noted the District has a lack of segregation of duties, as one person is capable of handling all aspects of processing transactions from beginning to end. A lack of segregation of duties increases the risk of potential errors or irregularities occurring without being detected; however, due to a limited number of personnel an adequate segregation of duties is not possible without incurring additional costs. We have also noted this comment in previous audits.

**SADDLE CREEK COMMUNITY SERVICES DISTRICT  
FINDINGS AND RECOMMENDATIONS**

**June 30, 2018**

**Significant Deficiencies Deemed Material Weaknesses**

**Finding 18-1:** The District prepared its financial statements on the modified cash basis of accounting. Under this basis of accounting revenues are recognized when received and expenses are recognized when paid. The District general ledger provided to us for the audit was prepared under the modified accrual basis of accounting. As a result we prepared entries to reverse the prior year \$34,309 accounts payable accrual, we proposed an entry to reverse the current year accounts payable accrual of \$18,345, we proposed an entry to reverse the prior year credit card payable for \$23,745 and we proposed a journal entry to reverse the current year credit card payable for \$14,556. Furthermore we proposed a \$16,046 journal entry to agree the District's cash with Calaveras County balance to the Calaveras county treasury.

Recommendation: The District should prepare year-end entries so that the general ledger reflects the basis of accounting that is reported in the financial statements. The District should also reconcile the cash with Calaveras County to the underlying balance.

**FS 18-2:** During our testing of material disbursements we noted the District entered into a contract for landscaping services with an unlicensed contractor. The unlicensed contractor informed the District he was working under a licensed contractor, however the contract was with the unlicensed contractor. The checks that were paid also were made out to the unlicensed contractor and there was no proof of insurance provided to the District for liability and workers compensation. We also noted that not all the work completed was supported by a contract and a \$12,000 payment made on November 1, 2017 with check 2201 did not have an invoice attached to support the payment. Upon further inquiry an invoice was obtained from the contractor, however the details on the invoice still did not support the payment. Furthermore some of the payments issued were supported by an estimate as opposed to an invoice and the estimates and invoices did not have appropriate contact information or an address of where to submit the payment.

Recommendation: We recommend the District only contract with licensed contractors when a contractor's license is required for the class of work being performed. We also recommend requiring proof of insurance and workers compensation liability for work being performed by contractors where there is significant exposure to property damage or injury to workers on the job. The District should also pay from an invoice and not from an estimate and verify that contact and billing information is present on the invoice. We also recommend reviewing invoices to verify that the details support the expected work that was performed.

**Significant Deficiencies Not Deemed Material Weaknesses**

**FS 18-3:** We noted the District has a lack of segregation of duties, as one person is capable of handling all aspects of processing transactions from beginning to end. A lack of segregation of duties increases the risk of potential errors or irregularities occurring without being detected; however, due to a limited number of personnel an adequate segregation of duties is not possible without incurring additional costs. We have also noted this comment in previous audits.

**FS 18-4:** We noted in our testing of cash that the District's main checking account at June 30, 2018 reconciled balance did not agree to the amount in the general ledger. There was a variance of \$7,929.

Recommendation: We recommend the reconciled bank balance agree to the general ledger. If adjustments to cash are posted after the bank reconciliation is completed then a new reconciliation should be printed, or notes should be made on the bank reconciliation providing an explanation for any changes made.

**SADDLE CREEK COMMUNITY SERVICES DISTRICT  
FINDINGS AND RECOMMENDATIONS  
June 30, 2018**

**FS 18-5:** During our testing of disbursements we noted a \$629.42 purchase made at Swingle Meat Co. on November 21, 2017 did not include a detail receipt as to what was purchased. The purchase appeared to be for Thanksgiving gifts for employees.

Recommendations: We recommend retaining a detail receipt for all District purchases. For the Thanksgiving gifts there should be a further explanation of what gifts were provided to each employee that should agree to the numbers of items purchased.

**FS 18-6:** During our testing of credit card activity we noted an employee was using the district credit card for personal purchases in May 2018. The personal purchases appeared to be reimbursed by the employee.

Recommendation: The District should communicate to employees that the District credit card cannot be used for personal purchases and that these types of employee loans are prohibited.

# LARRY BAIN, CPA

An Accounting Corporation

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2148 Frascati Drive, El Dorado Hills, CA 95762 / 916.601-8894

[lpbain@sbcglobal.net](mailto:lpbain@sbcglobal.net)

March 22, 2019

To the Board of Directors  
Saddle Creek Community Services District

We have audited the financial statements of the governmental-type activities of Saddle Creek Community Services District for the 6 months ended June 30, 2017 and the fiscal year ended June 30, 2018, and have issued our reports thereon dated March 20, 2019. Professional standards require that we provide you with the following information related to our audit.

### **Our responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated July 24, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit fieldwork according to the timing communicate in the engagement letter. Report issuance was delayed as a result of researching certain audit issues and additional time needed to prepare and finalize the audit reports.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Saddle Creek Community Services District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 6 months ended June 30, 2017 and the fiscal year ended June 30, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was (were):

Management's estimate of the useful lives of assets for calculating depreciation expense is based on GFOA recommended useful lives. We evaluated the key factors and assumptions used to develop the useful life estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate for budgeted revenues and expenditures is based on past experience along with known conditions expected during the budget year. We evaluated key factors and assumptions used to develop the budget to determine that it is reasonable in relation to the financial statements taken as a whole.

**Difficulties Encountered in performing the Audit**

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

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. These financial statements reflect all known audit entries discovered during the audit. We also proposed and recorded entries to convert from the fund financial statement presentation to the government-wide presentation.

**Disagreements with Management**

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

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated March 20, 2019.

**Management Consultation with Other Independent Accountants**

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

**Other Audit Findings or Issues**

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

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

Very truly yours,

Larry Bain, CPA,  
An Accounting Corporation

**SADDLE CREEK  
COMMUNITY SERVICES DISTRICT**

**FINANCIAL STATEMENTS  
Modified Cash Basis**

**SIX MONTHS ENDED JUNE 30, 2017**



**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

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# LARRY BAIN, CPA

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Saddle Creek Community Services District  
Copperopolis, California

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

We have audited the accompanying modified cash basis financial statements of the Saddle Creek Community Services District as of and for the six months ended June 30, 2017, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the modified cash basis financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

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

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

## **Opinion**

In our opinion the basic financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities and each major fund of the Saddle Creek Community Services District as of June 30, 2017, and the respective changes in financial position-modified cash basis, thereof for the six months then ended on the basis of accounting described in Note 1.

## **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to the matter.

## **Other Matters**

### *Required Supplementary Information*

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

Accounting principles generally accepted in the United States of America require that the supplementary information other than MD&A, as listed in the table of contents as the budgetary comparison for the General fund on page 16 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 (GASB), 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.

## **Emphasis of a Matter**

We draw attention to the District changing their fiscal year from December 31 end to June 30, starting with these June 30, 2017 financial statements. Because of the change the prior audited financial statements were as of December 31, 2016 and these financial statements cover the six month period from January 1, 2017 through June 30, 2017.

**Larry Bain, CPA,**  
**An Accounting Corporation**  
March 20, 2019

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Statement of Net Position  
Modified Cash Basis  
June 30, 2017**

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash and investments	\$ <u>539,160</u>
Total current assets	<u>539,160</u>
Capital assets:	
Easements	10,344,000
Equipment	368,749
Buildings	79,000
Infrastructure-Roads	2,360,462
Less: accumulated depreciation	<u>(980,773)</u>
Total Capital Assets-Net	<u>12,171,438</u>
 Total Assets	 \$ <u><u>12,710,598</u></u>
 Liabilities	
Current Liabilities	
Current portion of capital lease	\$ <u>13,600</u>
Long Term Liabilities	
Long-term portion of capital lease	<u>43,006</u>
Total Liabilities	<u>56,606</u>
 Net Position	
Net Investment in capital assets	12,114,832
Unrestricted	<u>539,160</u>
 Total Net Postion	 \$ <u><u>12,653,992</u></u>

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

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Statement of Activities  
Modified Cash Basis  
For the Six Months Ended June 30, 2017**

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Total</u>
Governmental Activities:				
Community service	\$ 430,613	\$ 268,219	\$ -	\$ (162,394)
Interest expense	<u>1,287</u>			<u>(1,287)</u>
 Total Governmental Activities	 <u>\$ 431,900</u>	 <u>\$ 268,219</u>	 <u>\$ -</u>	 <u>(163,681)</u>

General Revenues:

Investment income	371
Other	<u>9,501</u>
Total general revenues	<u>9,872</u>
Change in net position	(153,809)
Net position - beginning	<u>12,807,801</u>
Net position - ending	<u>\$ 12,653,992</u>

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

SADDLE CREEK COMMUNITY SERVICES DISTRICT

Balance Sheet  
Governmental Funds  
Modified Cash Basis  
June 30, 2017

	General Fund	Totals Governmental Funds
	<u>                    </u>	<u>                    </u>
Assets		
Cash and investments	\$ 539,160	\$ 539,160
Total Assets	<u>\$ 539,160</u>	<u>\$ 539,160</u>
Liabilities and Fund Balance		
Liabilities		
Accrued liabilities	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>
Fund Balance		
Assigned	31,128	31,128
Unassigned	<u>508,032</u>	<u>508,032</u>
Total Fund Balance	<u>\$ 539,160</u>	<u>\$ 539,160</u>

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

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Reconciliation of the Governmental Funds Balance Sheet,  
To The Statement of Net Position  
Modified Cash Basis  
June 30, 2017**

Fund Balances of Governmental Funds	\$ 539,160
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets, net of accumulated depreciation, are not current financial resources and are not included in the governmental funds.	12,171,438
Long term debt is not due and payable in the current period and therefore is not reported in the funds	<u>(56,606)</u>
Net position of governmental activities	<u><u>\$ 12,653,992</u></u>

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

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Modified Cash Basis  
For the Six Months Ended June 30, 2017**

	General Fund	Total Governmental Funds
	<u>          </u>	<u>          </u>
Revenues		
Use of money and property	\$          371	\$          371
Special assessment	268,219	268,219
Other	9,501	9,501
Total Revenues	<u>278,091</u>	<u>278,091</u>
Expenditures		
Current:		
Community services	387,686	387,686
Debt		
Principal	6,728	6,728
Interest	1,287	1,287
Capital outlay	22,166	22,166
Total Expenditures	<u>417,867</u>	<u>417,867</u>
Excess (Deficit) of Revenues over Expenditures	<u>(139,776)</u>	<u>(139,776)</u>
Fund Balance, January 1, 2017	<u>678,936</u>	<u>678,936</u>
Fund Balance, June 30, 2017	<u><u>\$ 539,160</u></u>	<u><u>\$ 539,160</u></u>

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



**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures and Changes in Fund Balances to the Statement of Activities  
Modified Cash Basis  
June 30, 2017**

Net Change in Fund Balances - Total Governmental Funds \$ (139,776)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Capital Outlay	22,166
Depreciation expense	(42,927)

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

6,728

Change in net position of governmental activities \$ (153,809)

# SADDLE CREEK COMMUNITY SERVICES DISTRICT

## Notes to the Modified Cash Basis Financial Statements June 30, 2017

### Note 1: Summary of Significant Accounting Policies

The Saddle Creek Community Services District was formed on August 18, 1995, by resolution of the Board of Supervisors of Calaveras County and approved by the Local Agency Formation Commission. The purpose of the District is to maintain Saddle Creek Community Services District owned facilities and easements including sidewalks, storm drains, landscaping, lighting, parks, security, weed and mosquito abatement, road improvement and maintenance, reserves, and administration. The District is a separate legal entity of the County of Calaveras and operates pursuant to Government Code Section 61600.

The District receives assessments levied upon property located within the District by the County of Calaveras. The District's Board of Directors determines the assessments and the assessments are collected by the tax collector of the County.

The accounting policies of the District are prepared on the modified cash basis of accounting. This basis of accounting is other than generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

#### A. Reporting Entity

The District has defined its reporting entity in accordance with accounting principles generally accepted in the United States of America, which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The primary criterion for including a potential component unit within the reporting entity is the governing body's financial accountability. A primary governmental entity is financially accountable if it appoints a voting majority of a component unit's governing body and it is able to impose its will on the component unit, or if there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if a component unit is fiscally dependent on the primary governmental entity regardless of whether the component unit has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

Based on the aforementioned oversight criteria, there are no component units in accordance with Governmental Accounting Standards Board Statement No. 61.

#### B. Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following are some of the ways that the modified cash basis of accounting differs from accounting principles generally accepted in the United States of America.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

# SADDLE CREEK COMMUNITY SERVICES DISTRICT

## Notes to the Financial Statements June 30, 2017

### Note 1: Summary of Significant Accounting Policies (continued)

#### B. Basis of Accounting (continued)

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or as a reservation of fund balance. Property taxes are considered available if they are collected within sixty-days after year-end.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt, as well as compensated absences and claims and judgments are recorded only when payment is due. General capital acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financial sources.

The Saddle Creek Community Services District recognizes revenues when they are received by the District. The modified cash basis of accounting recognizes all expenditures when they are paid. Accrued assets and liabilities are presented if they are material to the financial statements.

Consequently, the District has not recognized receivables or accounts payable to vendors and their related effects on earnings in the accompanying financial statements. The District does recognize capital assets and long-term debt in the government-wide financial statements in accordance with GASB 34.

#### C. Non-Current Governmental Assets/Liabilities

GASB Statement 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide statement of net position.

#### D. Basis of Presentation

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The District's resources are accounted for in these individual funds based on the purposes for which they are to be spent and the means by which spending activity is controlled. For financial reporting, these funds have been grouped into the fund type discussed below.

##### Governmental Fund Type

Governmental funds are used to account for the District's expendable financial resources and related liabilities (except those accounted for in proprietary and similar trust funds). The measurement focus is based upon determination of changes in financial position. The following are the District's governmental funds:

General Fund - This fund accounts for all the financial resources not required to be accounted for in another fund. This fund consists primarily of general government type activities.

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Notes to the Modified Cash Basis Financial Statements  
June 30, 2017**

Note 1: Summary of Significant Accounting Policies (Continued)

E. Use of Estimates

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

F. Restricted Assets

Restricted assets are financial resources generated for a specific purpose such as construction of improvements and financing of debt obligations. These amounts are restricted, as their use is limited by applicable bond covenants or other external requirements.

G. Fund Equity

Restrictions of fund balances of governmental funds are established to either (1) satisfy legal covenants that require a portion of fund balance to be segregated or (2) identify the portion of the fund balance that is not appropriate for future expenditures.

H. Property Assessments

The Board of Directors sets fees for the operation of the District, which are collected by the County of Calaveras and remitted to the District. The 2016/17 fiscal year assessment was as follows:

Improved lots                      \$1,075.00 per year

I. Capital Assets

Capital assets, recorded at historical cost or estimated historical cost if actual historical cost is not available, are reported in governmental activities column of the government-wide financial statements. Contributed fixed assets are valued at their estimated fair market value. Capital assets include easements, buildings, roads and equipment. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is recorded in the government-wide financial statements using mid- year convention, on the straight-line basis over the useful life of the assets as follows:

<u>Assets</u>	<u>Useful Life</u>
Buildings	50 years
Building improvements	20 years
Other improvements	35 years
Equipment and machinery	5 to 20 years
Infrastructure	50 years

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Notes to the Financial Statements  
June 30, 2017**

Note 2: Cash and Investments

Cash at June 30, 2017 consisted of the following:

General checking	\$	382,099
General savings		126,791
Cash with county		<u>30,270</u>
Total	\$	<u><u>539,160</u></u>

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>Investment in One Issuer</u>
Investment pools authorized under CA			
Statutes governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Accounts	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-Purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of and investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment maturity:

<u>Investment type</u>	<u>Totals</u>	<u>Remaining Maturity (in Months)</u>	
		<u>12 Months or Less</u>	<u>13-48 Months</u>
Calaveras County*	\$ 30,270	\$ 30,270	\$ -
Totals	<u>\$ 30,270</u>	<u>\$ 30,270</u>	<u>\$ -</u>

\* Not subject to categorization

Investments made by the District are summarized below. The investments that are represented by specific identifiable investment securities are classified as to three levels of custodial credit risk within the following categories:

Category 1 - insured or registered, with securities held by District or its agent in the District's name.

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Notes to the Modified Cash Basis Financial Statements  
June 30, 2017**

Note 2: Cash and Investments (continued)

**C. Concentrations of Credit Risk**

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

**D. Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secured deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2017, the District's deposits balance, including certificates of deposit, was \$503,893 and the carrying amount was \$508,890. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, all was covered by the Federal Depository Insurance and none was covered by collateral held in the pledging bank's trust department in the District's name.

**E. Investment in Government Pool**

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

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Notes to the Financial Statements  
June 30, 2017**

Note 3: Property Plant and Equipment

Activity for the assets capitalized by the District is summarized below:

	Balance			Balance
	January 1, 2017	Additions	Deletions	June 30, 2017
Governmental Activities				
Capital assets, not being depreciated				
Easements	\$ 10,344,000	\$ -	\$ -	\$ 10,344,000
Capital assets, being depreciated				
Equipment	346,583	22,166		368,749
Buildings	79,000	-	-	79,000
Roads	2,360,462	-	-	2,360,462
Total capital assets, being depreciated	2,786,045	22,166	-	2,808,211
Less accumulated depreciation for;				
Equipment	(206,813)	(18,532)		(225,345)
Buildings	(19,750)	(790)	-	(20,540)
Roads	(711,283)	(23,605)	-	(734,888)
Total accumulated depreciation	(937,846)	(42,927)	-	(980,773)
Total capital assets, being depreciated, net	1,848,199	(20,761)	-	1,827,438
Total governmental activities, capital assets, net	\$ 12,192,198.81	\$ (20,761)	\$ -	\$ 12,171,438

Note 4: Long-Term Liabilities

A summary of the changes in the District's long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2017:

	Balance			Balance	Due within
	January 1, 2017	Additions	Retirements	June 30, 2017	one year
Governmental Activities					
Capital lease	\$ 63,334	\$ -	\$ (6,728)	\$ 56,606	\$ 14,189
Total	\$ 63,334	\$ -	\$ (6,728)	\$ 56,606	\$ 14,189

**Capital Lease**

On May 1, 2016, the District Board of Directors authorized the financing and purchase of a utility tractor. The cost of the equipment was \$72,340 and the underwriting fee was \$425. The District 60 monthly payments of \$1,335.71 include the vehicle cost and finance charges with the interest rate set at 4.25%. The following is the 5 year amortization schedule of principal and interest payments:

Fiscal Year Ending	Principal	Interest	Total
June 30,			
2018	\$ 14,189	\$ 1,840	\$ 16,029
2019	14,804	1,225	16,029
2020	15,445	583	16,028
2021	5,296	47	5,343
Totals	\$ 49,734	\$ 3,695	\$ 53,429

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Notes to the Modified Cash Basis Financial Statements  
June 30, 2017**

Note 5: 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; and natural disasters. The District purchases commercial insurance to cover the risk of loss. The general liability and the director and officers' liability coverage are limited to \$1,000,000 each. The District pays an annual premium to Special Districts Risk Management Authority for its general liability and workers compensation insurance. The District also has a \$100,000 dishonesty bond to provide protection from potential losses due to embezzlement by employees.

Note 6: Gann Limit

Proceeds-all sources for 2017	\$	278,091
GANN limit for 2017		1,286,189
Amount (under)/over limit	\$	<u>(1,008,098)</u>

Note 7: Revenue Limitations Imposed by California Proposition 218

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

Note 8: Contingent Liabilities

Grants are subject to audit to determine compliance with their requirements. District officials believe that if any refunds are required, they would not have a significant effect on the financial condition or liquidity of the District. The District is unaware of any pending litigation or other contingencies which would have a material effect on the financial condition or liquidity of the District.

The District has open lines of credit with various vendors for purchase of supplies and a credit card issued by Bank of the West with a credit limit of \$40,000. At June 30, 2017, the district had open professional service agreements for management and other services.



**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Required Supplementary Information  
Budgetary Comparison Schedule-General Fund  
Modified Cash Basis  
For The Six Months Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Special assessments	\$ 300,950	\$ 300,950	\$ 268,219	\$ (32,731)
Use of money and property	-	-	371	371
Other	8,450	8,450	9,501	1,051
Total Revenues	309,400	309,400	278,091	(31,309)
Expenditures				
Salaries and benefits	182,063	182,063	179,753	2,310
Services and supplies	213,048	213,048	207,933	5,115
Principal Expense	6,762	6,762	6,728	34
Interest Expense	1,288	1,288	1,287	1
Capital outlay	28,336	28,336	22,166	6,170
Total Expenditures	431,497	431,497	417,867	13,630
Excess of revenues over expenditures*	<u>\$ (122,097)</u>	<u>\$ (122,097)</u>	<u>(139,776)</u>	<u>\$ (17,679)</u>
Fund Balance, January 1, 2017			<u>678,936</u>	
Fund Balance, June 30, 2017			<u>\$ 539,160</u>	

\*The budget deficit was made up with allocation of unassigned fund balance

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Findings and Recommendations  
June 30, 2017**

Note 1: Budgets and Budgetary Accounting

As required by State law, the District is required to prepare and legally adopt a final operating budget. Public hearings are required to be conducted on the proposed and final budget to review all appropriations and the sources of financing.

The budget for the general fund is required to be adopted on the modified cash basis of accounting. The budget for the general fund is the only legally adopted budgets.

At the object level, actual expenditures cannot exceed budgeted appropriations. Management can transfer budgeted amounts between expenditure accounts within an object without the approval of the Board of Directors. Significant amendments and appropriation transfers between objects or funds must be approved by the Board of Directors. Appropriations lapse at year end.

**SADDLE CREEK  
COMMUNITY SERVICES DISTRICT**

**FINANCIAL STATEMENTS  
Modified Cash Basis**

**FISCAL YEAR ENDED JUNE 30, 2018**

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

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# LARRY BAIN, CPA

An Accounting Corporation

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Saddle Creek Community Services District  
Copperopolis, California

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

We have audited the accompanying modified cash basis financial statements of the Saddle Creek Community Services District as of and for the fiscal year ended June 30, 2018, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the modified cash basis financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

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

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

## **Opinion**

In our opinion the basic financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities and each major fund of the Saddle Creek Community Services District as of June 30, 2018, and the respective changes in financial position-modified cash basis, thereof for the year then ended on the basis of accounting described in Note 1.

## **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to the matter.

## **Other Matters**

### *Required Supplementary Information*

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

Accounting principles generally accepted in the United States of America require that the supplementary information other than MD&A, as listed in the table of contents as the budgetary comparison for the General fund on page 16 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 (GASB), 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.

**Larry Bain, CPA,**  
**An Accounting Corporation**  
March 20, 2019

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Statement of Net Position  
Modified Cash Basis  
June 30, 2018**

	<u>Governmental Activities</u>
<b>Assets</b>	
Current assets	
Cash and investments	\$ 687,122
Restricted cash and investment	700,006
Total current assets	<u>1,387,128</u>
Capital assets:	
Easements	10,344,000
Construction in progress	39,718
Equipment	397,709
Buildings	79,000
Infrastructure-Roads	2,360,462
Less: accumulated depreciation	<u>(1,069,733)</u>
Total Capital Assets-Net	<u>12,151,156</u>
 Total Assets	 <u>\$ 13,538,284</u>
 <b>Liabilities</b>	
Current Liabilities	
Current portion of long-term debt	<u>74,438</u>
Long Term Liabilities	
Long-term portion of installment debt	640,055
Long-term portion of capital lease	27,924
Total Long-Term Liabilities	<u>667,979</u>
Total Liabilities	<u>742,417</u>
 <b>Net Position</b>	
Restricted	\$ 700,006
Net Investment in capital assets	11,408,739
Unrestricted	<u>687,122</u>
 Total Net Postion	 <u>\$ 12,795,867</u>

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

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Statement of Activities  
Modified Cash Basis  
For the Fiscal Year Ended June 30, 2018**

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Total</u>
Governmental Activities:				
Community service	\$ 799,915	\$ 925,075	\$ -	\$ 125,160
Interest expense	<u>1,840</u>			<u>(1,840)</u>
 Total Governmental Activities	 <u>\$ 801,755</u>	 <u>\$ 925,075</u>	 <u>\$ -</u>	 <u>123,320</u>

General Revenues:

Investment income	1,015
Other	<u>17,540</u>
Total general revenues	<u>18,555</u>
Change in net position	141,875
Net position - beginning	<u>12,653,992</u>
Net position - ending	<u>\$ 12,795,867</u>

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



**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Balance Sheet  
Governmental Funds  
Modified Cash Basis  
June 30, 2018**

	General Fund	Totals Governmental Funds
	<u>          </u>	<u>          </u>
<b>Assets</b>		
Cash and investments	\$ 687,122	\$ 687,122
Restricted cash and investments	700,006	700,006
	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 1,387,128</u>	<u>\$ 1,387,128</u>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities</b>		
Accrued liabilities	\$ -	\$ -
	<u>          </u>	<u>          </u>
Total Liabilities	<u>-</u>	<u>-</u>
<b>Fund Balance</b>		
Restricted for road project	700,006	700,006
Unassigned	687,122	687,122
	<u>          </u>	<u>          </u>
Total Fund Balance	<u>\$ 1,387,128</u>	<u>\$ 1,387,128</u>

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

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Reconciliation of the Governmental Funds Balance Sheet,  
To The Statement of Net Position  
Modified Cash Basis  
June 30, 2018**

Fund Balances of Governmental Funds	\$ 1,387,128
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets, net of accumulated depreciation, are not current financial resources and are not included in the governmental funds.	12,151,156
Long term debt is not due and payable in the current period and therefore is not reported in the funds	<u>(742,417)</u>
Net position of governmental activities	<u><u>\$ 12,795,867</u></u>

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

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Modified Cash Basis  
For the Fiscal Year Ended June 30, 2018**

	General Fund	Total Governmental Funds
	<u>          </u>	<u>          </u>
Revenues		
Use of money and property	\$      1,015	\$      1,015
Special assessment	925,075	925,075
Other	<u>17,540</u>	<u>17,540</u>
Total Revenues	<u>943,630</u>	<u>943,630</u>
Expenditures		
Current:		
Community services	710,955	710,955
Debt		
Principal	14,189	14,189
Interest	1,840	1,840
Capital outlay	<u>68,678</u>	<u>68,678</u>
Total Expenditures	<u>795,662</u>	<u>795,662</u>
Excess (Deficit) of Revenues over Expenditures		
Before Other Financing Sources	<u>147,968</u>	<u>147,968</u>
Other Financing Sources		
Proceed of Debt	<u>700,000</u>	<u>700,000</u>
Total Other Financing Sources	<u>700,000</u>	<u>700,000</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures	847,968	847,968
Fund Balance, July 1, 2017	<u>539,160</u>	<u>539,160</u>
Fund Balance, June 30, 2018	<u><u>\$     1,387,128</u></u>	<u><u>\$     1,387,128</u></u>

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

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures and Changes in Fund Balances to the Statement of Activities  
Modified Cash Basis  
June 30, 2018**

Net Change in Fund Balances - Total Governmental Funds	\$ 847,968
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:	
Capital Outlay	68,678
Depreciation expense	(88,960)
Proceeds of debt is an other financing source in the governmental funds but is recognized as a liability in the Statement of Net Position	(700,000)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	<u>14,189</u>
Change in net position of governmental activities	<u><u>\$ 141,875</u></u>

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

# SADDLE CREEK COMMUNITY SERVICES DISTRICT

## Notes to the Modified Cash Basis Financial Statements June 30, 2018

### Note 1: Summary of Significant Accounting Policies

The Saddle Creek Community Services District was formed on August 18, 1995, by resolution of the Board of Supervisors of Calaveras County and approved by the Local Agency Formation Commission. The purpose of the District is to maintain Saddle Creek Community Services District owned facilities and easements including sidewalks, storm drains, landscaping, lighting, parks, security, weed and mosquito abatement, road improvement and maintenance, reserves, and administration. The District is a separate legal entity of the County of Calaveras and operates pursuant to Government Code Section 61600.

The District receives assessments levied upon property located within the District by the County of Calaveras. The District's Board of Directors determines the assessments and the assessments are collected by the tax collector of the County.

The accounting policies of the District are prepared on the modified cash basis of accounting. This basis of accounting is other than generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

#### A. Reporting Entity

The District has defined its reporting entity in accordance with accounting principles generally accepted in the United States of America, which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The primary criterion for including a potential component unit within the reporting entity is the governing body's financial accountability. A primary governmental entity is financially accountable if it appoints a voting majority of a component unit's governing body and it is able to impose its will on the component unit, or if there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if a component unit is fiscally dependent on the primary governmental entity regardless of whether the component unit has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

Based on the aforementioned oversight criteria, there are no component units in accordance with Governmental Accounting Standards Board Statement No. 61.

#### B. Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following are some of the ways that the modified cash basis of accounting differs from accounting principles generally accepted in the United States of America.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

# SADDLE CREEK COMMUNITY SERVICES DISTRICT

## Notes to the Financial Statements June 30, 2018

### Note 1: Summary of Significant Accounting Policies (continued)

#### B. Basis of Accounting (continued)

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or as a reservation of fund balance. Property taxes are considered available if they are collected within sixty-days after year-end.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt, as well as compensated absences and claims and judgments are recorded only when payment is due. General capital acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financial sources.

The Saddle Creek Community Services District recognizes revenues when they are received by the District. The modified cash basis of accounting recognizes all expenditures when they are paid. Accrued assets and liabilities are presented if they are material to the financial statements.

Consequently, the District has not recognized receivables or accounts payable to vendors and their related effects on earnings in the accompanying financial statements. The District does recognize capital assets and long-term debt in the government-wide financial statements in accordance with GASB 34.

#### C. Non-Current Governmental Assets/Liabilities

GASB Statement 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide statement of net position.

#### D. Basis of Presentation

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The District's resources are accounted for in these individual funds based on the purposes for which they are to be spent and the means by which spending activity is controlled. For financial reporting, these funds have been grouped into the fund type discussed below.

##### Governmental Fund Type

Governmental funds are used to account for the District's expendable financial resources and related liabilities (except those accounted for in proprietary and similar trust funds). The measurement focus is based upon determination of changes in financial position. The following are the District's governmental funds:

General Fund - This fund accounts for all the financial resources not required to be accounted for in another fund. This fund consists primarily of general government type activities.

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Notes to the Modified Cash Basis Financial Statements  
June 30, 2018**

Note 1: Summary of Significant Accounting Policies (Continued)

E. Use of Estimates

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

F. Restricted Assets

Restricted assets are financial resources generated for a specific purpose such as construction of improvements and financing of debt obligations. These amounts are restricted, as their use is limited by applicable bond covenants or other external requirements.

G. Fund Equity

Restrictions of fund balances of governmental funds are established to either (1) satisfy legal covenants that require a portion of fund balance to be segregated or (2) identify the portion of the fund balance that is not appropriate for future expenditures.

H. Property Assessments

The Board of Directors sets fees for the operation of the District, which are collected by the County of Calaveras and remitted to the District. The 2017/18 fiscal year assessments as approved by Measure A are as follows:

Improved lots	\$1,300.00 per residential lot
Large undeveloped properties	\$549.62 per acre or portion thereof
Sports club property	\$488.55 per acre or portion thereof
Golf course property	\$48,748.09 per parcel

I. Capital Assets

Capital assets, recorded at historical cost or estimated historical cost if actual historical cost is not available, are reported in governmental activities column of the government-wide financial statements. Contributed fixed assets are valued at their estimated fair market value. Capital assets include easements, buildings, roads and equipment. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is recorded in the government-wide financial statements using mid- year convention, on the straight-line basis over the useful life of the assets as follows:

<u>Assets</u>	<u>Useful Life</u>
Buildings	50 years
Building improvements	20 years
Other improvements	35 years
Equipment and machinery	5 to 20 years
Infrastructure	50 years

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Notes to the Financial Statements  
June 30, 2018**

Note 2: Cash and Investments

Cash at June 30, 2018 consisted of the following:

General checking	\$	540,490
Restricted checking		700,006
LAIF		100,000
Cash with county		46,632
Total	\$	<u>1,387,128</u>

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>Investment in One Issuer</u>
Investment pools authorized under CA			
Statutes governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Accounts	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-Purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of and investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment maturity:

<u>Investment type</u>	<u>Totals</u>	<u>Remaining Maturity (in Months)</u>	
		<u>12 Months or Less</u>	<u>13-48 Months</u>
Calaveras County*	\$ 46,632	\$ 46,632	\$ -
Local Agency Investment Fund*	100,000	100,000	
Totals	<u>\$ 146,632</u>	<u>\$ 146,632</u>	<u>\$ -</u>

\* Not subject to categorization

Investments made by the District are summarized below. The investments that are represented by specific identifiable investment securities are classified as to three levels of custodial credit risk within the following categories:

Category 1 - insured or registered, with securities held by District or its agent in the District's name.



## SADDLE CREEK COMMUNITY SERVICES DISTRICT

### Notes to the Modified Cash Basis Financial Statements June 30, 2018

Note 2: Cash and Investments (continued)

#### C. Concentrations of Credit Risk

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

#### D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secured deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2018, the District's deposits balance, including certificates of deposit, was \$1,240,717 and the carrying amount was \$1,240,496. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, all was covered by the Federal Depository Insurance and none was covered by collateral held in the pledging bank's trust department in the District's name.

#### E. Investments in Government Pools

LAIF is included in the State's Pooled Money Investment Account. The amount invested by all public agencies in the State's Pooled Money Investment Account approximates \$88.94 billion. Of the \$88.94 billion managed by the State Treasurer, 100% is invested in non-derivative financial products and 2.67% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by statute.

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

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Notes to the Financial Statements  
June 30, 2018**

Note 3: Property Plant and Equipment

Activity for the assets capitalized by the District is summarized below:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<b>Governmental Activities</b>				
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 39,718	\$ -	\$ 39,718
Easements	10,344,000	-	-	10,344,000
Capital assets, being depreciated				
Equipment	368,749	28,960		397,709
Buildings	79,000	-	-	79,000
Roads	2,360,462	-	-	2,360,462
Total capital assets, being depreciated	2,808,211	28,960	-	2,837,171
Less accumulated depreciation for:				
Equipment	(225,345)	(40,171)		(265,516)
Buildings	(20,540)	(1,580)	-	(22,120)
Roads	(734,888)	(47,209)	-	(782,097)
Total accumulated depreciation	(980,773)	(88,960)	-	(1,069,733)
Total capital assets, being depreciated, net	1,827,438	(60,000)	-	1,767,438
Total governmental activities, capital assets, net	\$ 12,171,438	\$ (20,282)	\$ -	\$ 12,151,156

Note 4: Long-Term Liabilities

A summary of the changes in the District's long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Due within one year
<b>Governmental Activities</b>					
Installment Sale	\$ -	\$ 700,000	\$ -	\$ 700,000	\$ 59,945
Capital lease	56,606	-	(14,189)	42,417	14,493
Total	\$ 56,606	\$ 700,000	\$ (14,189)	\$ 742,417	\$ 74,438

**Capital Lease**

On May 1, 2016, the District Board of Directors authorized the financing and purchase of a utility tractor. The cost of the equipment was \$72,340 and the underwriting fee was \$425. The District 60 monthly payments of \$1,335.71 include the vehicle cost and finance charges with the interest rate set at 4.25%. The following is the remaining amortization schedule of principal and interest payments:

Fiscal Year Ending	Principal	Interest	Total
June 30,			
2019	\$ 14,493	\$ 1,535	16,028
2020	15,121	907	16,028
2021	13,103	256	13,359
Totals	\$ 42,717	\$ 2,698	\$ 45,415

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Notes to the Modified Cash Basis Financial Statements  
June 30, 2018**

Note 4: Long-Term Liabilities (Continued)

On March 21, 2018 the District entered into an installment sale agreement with municipal finance corporation whereas the District borrowed \$700,000 at an interest rate of 3.4% for the purpose of funding construction projects within the District boundaries. The installment sale agreement was assigned to City National Bank on March 21, 2018. The repayment term is 10 years as follows:

Fiscal Year Ending	Principal	Interest	Total
June 30,			
2019	\$ 59,945	\$ 23,800	\$ 83,745
2020	61,983	21,762	83,745
2021	64,091	19,654	83,745
2022	66,270	17,475	83,745
2023	68,523	15,222	83,745
2024-2028	379,188	39,540	418,728
Totals	\$ 700,000	\$ 137,453	\$ 837,453

Note 5: 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; and natural disasters. The District purchases commercial insurance to cover the risk of loss. The general liability and the director and officers' liability coverage are limited to \$1,000,000 each. The District pays an annual premium to Special Districts Risk Management Authority for its general liability and workers compensation insurance. The District also has a \$100,000 dishonesty bond to provide protection from potential losses due to embezzlement by employees.

Note 6: Gann Limit

Proceeds-all sources for 2018	\$	943,630
GANN limit for 2018		1,332,106
Amount (under)/over limit	\$	<u>(388,476)</u>

Note 7: Revenue Limitations Imposed by California Proposition 218

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

Note 8: Contingent Liabilities

Grants are subject to audit to determine compliance with their requirements. District officials believe that if any refunds are required, they would not have a significant effect on the financial condition or liquidity of the District. The District is unaware of any pending litigation or other contingencies which would have a material effect on the financial condition or liquidity of the District.

The District has open lines of credit with various vendors for purchase of supplies and a credit card issued by Bank of the West with a credit limit of \$40,000. At June 30, 2018, the district had open professional service agreements for management and other services.

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Required Supplementary Information  
Budgetary Comparison Schedule-General Fund  
Modified Cash Basis  
For The Fiscal Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Favorable (Unfavorable)
Revenues				
Special assessments	\$ 924,447	\$ 924,447	\$ 925,075	\$ 628
Use of money and property	-	-	1,015	1,015
Other	13,400	13,400	17,540	4,140
Total Revenues	<u>937,847</u>	<u>937,847</u>	<u>943,630</u>	<u>5,783</u>
Expenditures				
Salaries and benefits	450,908	450,908	360,043	90,865
Services and supplies	401,193	401,193	350,912	50,281
Principal Expense	14,189	14,189	14,189	-
Interest Expense	1,911	1,911	1,840	71
Capital outlay	287,000	287,000	68,678	218,322
Total Expenditures	<u>1,155,201</u>	<u>1,155,201</u>	<u>795,662</u>	<u>359,539</u>
Excess of revenues over expenditures	<u>(217,354)</u>	<u>(217,354)</u>	<u>147,968</u>	<u>365,322</u>
Other Financing Sources			<u>700,000</u>	<u>700,000</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures	<u>\$ (217,354)</u>	<u>\$ (217,354)</u>	<u>847,968</u>	<u>\$ 1,065,322</u>
Fund Balance, July 1, 2017			<u>539,160</u>	
Fund Balance, June 30, 2018			<u>\$ 1,387,128</u>	

The note to the required supplementary information is an integral part of this schedule

**SADDLE CREEK COMMUNITY SERVICES DISTRICT**

**Note to the Required Supplementary Information  
June 30, 2018**

Note 1: Budgets and Budgetary Accounting

As required by State law, the District is required to prepare and legally adopt a final operating budget. Public hearings are required to be conducted on the proposed and final budget to review all appropriations and the sources of financing.

The budget for the general fund is required to be adopted on the modified cash basis of accounting. The budget for the general fund is the only legally adopted budgets.

At the object level, actual expenditures cannot exceed budgeted appropriations. Management can transfer budgeted amounts between expenditure accounts within an object without the approval of the Board of Directors. Significant amendments and appropriation transfers between objects or funds must be approved by the Board of Directors. Appropriations lapse at year end.