

Saddle Creek Community Services District

Regular Meeting of August 15, 2017

AGENDA SUPPORTING DATA

7. DISCUSSION AND ACTION ITEMS

- a. Acceptance of the 2016 annual audit as prepared and presented by Larry Bain, CPA.

Recommended Motion

I move to accept and file the 2016 audit.

Background

California law requires that the District hire a qualified independent auditing firm to perform an annual audit, or test review of our financial statements to ensure that they are prepared in accordance with Generally Accepted Accounting Principles and various government auditing standards. As the Board cannot possibly be heavily involved in, and fully understanding of the daily financial affairs of the District, the Board hires a Manager and authorizes other staff or consultant positions to handle the routine financial matters. The Board adopts policies to guide how budgets are developed, and how money is spent, accounted for and the results reported to the Board. The auditor, working with management and on behalf of the Board will also test portions of the financial transactions to determine compliance with current Board policy.

Larry Bain, CPA was engaged to conduct the audit for the 2016 calendar year, and the final draft audit is attached for your review and acceptance. Mr. Bain will be in attendance to discuss the audit and answer questions from the Board and public during this meeting.

One of the primary duties of the Board is their fiduciary responsibility with regard to District finances. The Board must establish policies and ensure that the procedures and practices of District management provide the highest level of protection of public funds, and that these funds are invested in appropriate activities and means to achieve the level of service desired by the community, through this Board. The only way for the Board to confirm that this is occurring is to receive accurate and timely financial reporting.

As stated in the audit report, the auditor is not engaged to find every potential flaw in our financial system, but is required to report publicly to the Board if there are material weaknesses or breaches in our financial systems where policy was not followed, or methods were discovered where a substantial risk of fraud, embezzlement or other financial crimes could occur without immediate notice by management and/or the Board. The auditor will also make findings and recommendations for changes to our financial systems if they feel that material weaknesses could occur, or if there are actions that put the District at financial risk.

As was the case last year in 2014 and 2015, Mr. Bain once again in the 2016 Report on Internal Controls Over Financial Reporting, states that **no such material weaknesses** were **discovered** in his review of our financial statements. By comparing the findings and recommendations from 2013, 2014, 2015 and 2016, you can see that we continue to receive less and less deficiency findings, and always immediately address any concerns identified by the auditor. Last meeting, we adopted a policy regarding disposal of surplus property, which addresses Mr. Bain's stated concerns in that regard. Once again, I view this audit as a positive reflection of the Board and District staff. Saddle Creek taxpayers can be proud and confident in the financial practices of its special district.

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**SADDLE CREEK
COMMUNITY SERVICES DISTRICT**

**FINANCIAL STATEMENTS
Modified Cash Basis**

DECEMBER 31, 2016

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 year ended December 31, 2016, 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 December 31, 2016, 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.

The required supplementary information other than MD&A, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We have also issued a report dated June 30, 2017 on our consideration of the District's internal control over financial reporting. That report is an integral part of an audit and should be read in conjunction with this report in considering the results of our audit.

Larry Bain, CPA,
An Accounting Corporation
June 30, 2017

SADDLE CREEK COMMUNITY SERVICES DISTRICT

**Statement of Net Position
Modified Cash Basis
December 31, 2016**

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash and investments	\$ <u>678,936</u>
Total current assets	<u>678,936</u>
Capital assets:	
Easements	10,344,000
Equipment	346,583
Buildings	79,000
Infrastructure-Roads	2,360,462
Less: accumulated depreciation	<u>(937,846)</u>
Total Capital Assets-Net	<u>12,192,199</u>
 Total Assets	 \$ <u><u>12,871,135</u></u>
 Liabilities	
Current Liabilities	
Current portion of capital lease	<u>13,600</u>
Long Term Liabilities	
Long-term portion of capital lease	<u>49,734</u>
Total Liabilities	<u>63,334</u>
 Net Position	
Net Investment in capital assets	\$ 12,128,865
Unrestricted	<u>678,936</u>
 Total Net Postion	 \$ <u><u>12,807,801</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 Fiscal Year Ended December 31, 2016**

	<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	\$ 658,620	\$ 590,146	\$ -	\$ (68,474)
Interest expense	<u>1,679</u>			<u>(1,679)</u>
 Total Governmental Activities	 <u>\$ 660,299</u>	 <u>\$ 590,146</u>	 <u>\$ -</u>	 <u>(70,153)</u>

General Revenues:

Investment income	820
Other	<u>14,555</u>
Total general revenues	<u>15,375</u>
Change in net position	(54,778)
Net position - beginning	<u>12,862,579</u>
Net position - ending	<u>\$ 12,807,801</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
December 31, 2016**

	General Fund	Totals Governmental Funds
	<u> </u>	<u> </u>
Assets		
Cash and investments	\$ 678,936	\$ 678,936
Prepaid expense	-	-
Total Assets	<u>\$ 678,936</u>	<u>\$ 678,936</u>
 Liabilities and Fund Balance		
Liabilities		
Accrued liabilities	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	<u>-</u>	<u>-</u>
 Fund Balance		
Nonspendable	-	-
Assigned	31,128	31,128
Unassigned	<u>647,808</u>	<u>647,808</u>
Total Fund Balance	<u>\$ 678,936</u>	<u>\$ 678,936</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
December 31, 2016**

Fund Balances of Governmental Funds	\$ 678,936
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.	12,192,199
Long term debt is not due and payable in the current period and therefore is not reported in the funds	<u>(63,334)</u>
Net position of governmental activities	<u><u>\$ 12,807,801</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 Year Ended December 31, 2016**

	General Fund	Total Governmental Funds
	<u> </u>	<u> </u>
Revenues		
Use of money and property	\$ 820	\$ 820
Special assessment	590,146	590,146
Other	<u>14,555</u>	<u>14,555</u>
Total Revenues	<u>605,521</u>	<u>605,521</u>
Expenditures		
Current:		
Community services	589,903	589,903
Debt		
Principal	9,006	9,006
Interest	1,679	1,679
Capital outlay	<u>79,736</u>	<u>79,736</u>
Total Expenditures	<u>680,324</u>	<u>680,324</u>
Excess (Deficit) of Revenues over Expenditures		
Before Other Financing Sources	<u>(74,803)</u>	<u>(74,803)</u>
Other Financing Sources		
Proceed of Debt	<u>72,340</u>	<u>72,340</u>
Total Other Financing Sources	<u>72,340</u>	<u>72,340</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures	(2,463)	(2,463)
Fund Balance, January 1	<u>681,399</u>	<u>681,399</u>
Fund Balance, December 31	<u><u>\$ 678,936</u></u>	<u><u>\$ 678,936</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
December 31, 2016**

Net Change in Fund Balances - Total Governmental Funds \$ (74,803)

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	79,736
Depreciation expense	(68,717)

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.

9,006

Change in net position of governmental activities

\$ (54,778)

SADDLE CREEK COMMUNITY SERVICES DISTRICT

Notes to the Modified Cash Basis Financial Statements December 31, 2016

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 December 31, 2016

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
December 31, 2016**

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 2015/16 fiscal year assessment was as follows:

Improved lots \$1,042.36 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
December 31, 2016**

Note 2: Cash and Investments

Cash at December 31, 2016 consisted of the following:

General checking	\$	227,669
General savings		126,678
Cash with county		<u>324,589</u>
Total	\$	<u><u>678,936</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.

Authorized Investment Type	Maximum Maturity	Percentage of Portfolio	Investment in One Issuer
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>	Totals	Remaining Maturity (in Months)	
		12 Months or Less	13-48 Months
Calaveras County*	\$ 324,589	\$ 324,589	\$ -
Totals	<u>\$ 324,589</u>	<u>\$ 324,589</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 December 31, 2016

Note 2: Cash and Investments (continued)

B. Disclosures Relating to Interest Rate Risk (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 December 31, 2016, the District's deposits balance, including certificates of deposit, was \$349,753 and the carrying amount was \$354,347. 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
December 31, 2016**

Note 3: Property Plant and Equipment

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

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016
Governmental Activities				
Capital assets, not being depreciated				
Easements	\$ 10,344,000	\$ -	\$ -	\$ 10,344,000
Capital assets, being depreciated				
Equipment	283,139	79,736	(16,292)	346,583
Buildings	79,000	-	-	79,000
Roads	2,360,462	-	-	2,360,462
Total capital assets, being depreciated	2,722,601	79,736	(16,292)	2,786,045
Less accumulated depreciation for;				
Equipment	(203,177)	(19,928)	16,292	(206,813)
Buildings	(18,170)	(1,580)	-	(19,750)
Roads	(664,074)	(47,209)	-	(711,283)
Total accumulated depreciation	(885,421)	(68,717)	16,292	(937,846)
Total capital assets, being depreciated, net	1,837,180	11,019	-	1,848,199
Total governmental activities, capital assets, net	\$ 12,181,179.81	\$ 11,019	\$ -	\$ 12,192,199

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 December 31, 2016:

	Balance January 1, 2016	Additions	Retirements	Balance December 31, 2016	Due within one year
Governmental Activities					
Capital lease	\$ -	\$ 72,340	\$ (9,006)	\$ 63,334	\$ 13,600
Total	\$ -	\$ 72,340	\$ (9,006)	\$ 63,334	\$ 13,600

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
December 31,			
2017	\$ 13,600	\$ 2,429	\$ 16,029
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	\$ 63,334	\$ 6,124	\$ 69,458

SADDLE CREEK COMMUNITY SERVICES DISTRICT

**Notes to the Modified Cash Basis Financial Statements
December 31, 2016**

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 2016	\$	605,521
GANN limit for 2016		1,152,714
Amount (under)/over limit	\$	<u>(547,193)</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 December 31, 2016, 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
December 31, 2016**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Use of money and property	\$ -	\$ -	\$ 820	\$ 820
Charges for services-property assessments	590,142	590,142	590,146	4
Other	21,134	21,134	14,555	(6,579)
Total Revenues	<u>611,276</u>	<u>611,276</u>	<u>605,521</u>	<u>(5,754)</u>
Expenditures				
Salaries and benefits	361,603	361,603	343,762	17,841
Services and supplies	266,361	266,361	246,141	20,220
Principal Expense	9,006	9,006	9,006	-
Interest Expense	5,434	5,434	1,679	3,755
Capital outlay	72,157	91,657	79,736	11,921
Total Expenditures	<u>714,561</u>	<u>734,061</u>	<u>680,324</u>	<u>53,737</u>
Excess of revenues over expenditures	<u>(103,285)</u>	<u>(122,785)</u>	<u>(74,803)</u>	<u>47,983</u>
Other Financing Sources	<u>72,157</u>	<u>72,157</u>	<u>72,340</u>	<u>183</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures	<u>\$ (31,128)</u>	<u>\$ (50,628)</u>	<u>(2,463)</u>	<u>\$ 48,166</u>
Fund Balance, January 1, 2016			<u>681,399</u>	
Fund Balance, December 31, 2016			<u>\$ 678,936</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
December 31, 2016**

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.

LARRY BAIN, CPA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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 fiscal year ended December 2016, and have issued our report thereon dated June 30, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any 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 finding 16-1 through 16-2 in the following schedule of findings to be significant deficiencies in the District's internal control:

Saddle Creek Community Services District's Response to Findings

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

Purpose of this Report

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

This report is intended solely for the information and use of the board of directors, management, Calaveras County Auditor Controllers Office and the Controller's Office of the State of California.

Larry Bain, CPA,
An Accounting Corporation
June 30, 2017

SADDLE CREEK COMMUNITY SERVICES DISTRICT

Findings and Recommendations

December 31, 2016

Significant Deficiencies Not Deemed Material Weaknesses

FS 16-1: 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 16-2: During our testing of capital assets we noted the District removed assets from the depreciation schedule. We inquired if these assets had been surplus with Board approval and they had not. All capital assets removed from service regardless of being sold or disposed of are subject to Board approval.

We also noted the District capitalized a lawn mower for \$8,140.89. Per review, the invoice had other items listed such as super glue and welding gloves which were capitalized with the lawn mower. We adjusted the cost to the appropriate value of the asset.

Recommendation: We recommend the Board of Directors approve surplus assets and provide staff with instructions on the disposition of the District assets. We also recommend the District only capitalize the cost of assets that meet the definition of a capital assets and not the cost of unrelated items.