

Capistrano Bay Community Services District

**Basic Financial Statements and
Independent Auditor's Report**

For the fiscal year ended June 30, 2018

Capistrano Bay Community Services District
Basic Financial Statements
For the fiscal year ended June 30, 2018

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Financial Section



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscpa.net

Independent Auditor's Report

PARTNERS

Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Bradferd A. Welebir, CPA, MBA, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

MANAGERS / STAFF

Jenny Liu, CPA, MST
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Gardenya Duran, CPA
Brianna Schultz, CPA
Samuel Singery, CPA
Jing Wu, CPA
Evelyn Morentin-Barcena, CPA
Jin Gu, CPA, MT
Veronica Hernandez, CPA

To the Board of Directors
Capistrano Bay Community Services District
Capistrano Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Capistrano Bay Community Services District, California (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the remaining aggregate fund information of the District as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
February 27, 2019

**Capistrano Bay Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Capistrano Bay Community Services District (the District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 6.86% or \$226,149 to \$3,522,766 in 2018 as a result of this year's operations.
- During the year, the District's property tax revenues increased by 9.48% or \$82,843 in 2018.
- Total revenues from all sources increased by 15.82% or \$182,914 to \$1,339,498 in 2018 primarily due to additional developmental impact fees and an increase in property taxes.
- Total expenses increased by 5.44% or \$57,459 to \$1,113,349 in 2018 primarily due to increase in salaries and wages.

Using This Financial Report

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

Government-Wide Financial Statements

Statement of Net Position and Statement of Activities

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

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

**Capistrano Bay Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Governmental Funds Financial Statements

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

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

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

Notes to the Basic Financial Statements

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$3,522,766 as of June 30, 2018.

	<u>2018</u>	<u>2017</u>	<u>% change</u>	<u>\$ change</u>
Assets:				
Current and other	\$ 1,888,592	\$ 1,543,252	22.38%	\$ 345,340
Capital, net	<u>1,702,757</u>	<u>1,816,103</u>	-6.24%	(113,346)
Total assets	<u>3,591,349</u>	<u>3,359,355</u>		
Liabilities:				
Current	64,747	57,054	13.48%	7,693
Due in more than one year	<u>3,836</u>	<u>5,684</u>	-32.51%	(1,848)
Total liabilities	<u>68,583</u>	<u>62,738</u>		
Net position:				
Investment in capital assets	1,702,757	1,816,103	-6.24%	(113,346)
Unrestricted	<u>1,820,009</u>	<u>1,480,514</u>	22.93%	339,495
Total net position	<u>\$ 3,522,766</u>	<u>\$ 3,296,617</u>	6.86%	226,149

**Capistrano Bay Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

A portion of the District's net position 48.34% or \$1,702,757 as of June 30, 2018, reflects its investment in capital assets (net of accumulated depreciation), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to operate the District; consequently, these assets are *not* available for future spending. At the end of fiscal year 2018, the District showed a positive balance in its unrestricted net position of \$1,820,009 that may be utilized in future years.

	<u>2018</u>	<u>2017</u>	<u>% change</u>	<u>\$ change</u>
Expenses:	<u>\$ 1,113,349</u>	<u>\$ 1,055,890</u>		
Total expenses	<u>1,113,349</u>	<u>1,055,890</u>	5.44%	\$ 57,459
Program revenues:				
Charges for services	<u>379,886</u>	<u>280,882</u>	35.25%	99,004
Net program expense	<u>733,463</u>	<u>775,008</u>	-5.36%	(41,545)
General revenues:				
Property taxes	956,467	873,624	9.48%	82,843
Other	<u>3,145</u>	<u>2,078</u>	51.35%	1,067
Total general revenues	<u>959,612</u>	<u>875,702</u>	9.58%	83,910
Change in net position	226,149	100,694	124.59%	125,455
Net position, beginning of year	<u>3,296,617</u>	<u>3,195,923</u>		
Net position, end of year	<u><u>\$ 3,522,766</u></u>	<u><u>\$ 3,296,617</u></u>		

The statement of activities shows how the government's net position changed during the fiscal year. In the case of the District, net position increased by \$226,149 for the fiscal year ended June 30, 2018.

Governmental Funds Financial Analysis

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

As of June 30, 2018, the District's Public Safety Fund reported a fund balance of \$1,691,464. This amount is constituted by the District's *assigned* portion of \$497,459, *unassigned* portion of \$1,189,609, and nonspendable portion of \$4,396. The District's Road Fund reported a fund balance of \$133,659. This amount is constituted by the District's unassigned portion of \$133,659.

**Capistrano Bay Community Services District
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

Capital Asset Administration

Changes in capital assets for fiscal year 2018 were as follows:

	<u>2018</u>	<u>2017</u>	<u>% change</u>	<u>\$ change</u>
Depreciable assets	\$ 2,867,963	\$ 2,892,319	-0.84%	\$ (24,356)
Accumulated depreciation	<u>(1,165,206)</u>	<u>(1,076,216)</u>	8.27%	(88,990)
Total capital assets, net	<u>\$ 1,702,757</u>	<u>\$ 1,816,103</u>	-6.24%	(113,346)

At the end of fiscal year 2018, the District's investment in capital assets amounted to \$1,702,757 (net of accumulated depreciation). This investment in capital assets is primarily comprised of basic infrastructure assets. The District's investment in capital assets is more fully analyzed in Note 4 to the basic financial statements.

Long-term Liabilities Administration

Changes in long-term liabilities for fiscal year 2018 were as follows:

	<u>2018</u>	<u>2017</u>	<u>% change</u>	<u>\$ change</u>
Compensated absences	\$ 5,114	\$ 7,579	-32.52%	\$ (2,465)
Less current portion	<u>(1,278)</u>	<u>(1,895)</u>	-32.56%	617
Total long-term liabilities	<u>\$ 3,836</u>	<u>\$ 5,684</u>	-32.51%	(1,848)

At the end of fiscal year 2018, the District's had \$5,114 in compensated absences of which \$3,836 is designated as long-term. The District's long-term liabilities is more fully analyzed in Note 5 to the basic financial statements.

Conditions Affecting Current Financial Position

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

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 35000 Beach Road, Capistrano Beach, CA 92624.

Basic Financial Statements

**Capistrano Bay Community Services District
Statement of Net Position
June 30, 2018**

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,845,657
Accounts receivable, net	24,110
Property tax receivable	14,429
Prepaid expenses	4,396
Capital assets being depreciated, net	1,702,757
Total assets	3,591,349
Liabilities	
Accounts payable	59,164
Other current liabilities	4,305
Noncurrent liabilities:	
Due within one year	1,278
Due in more than one year	3,836
Total liabilities	68,583
Net position	
Investment in capital assets	1,702,757
Unrestricted	1,820,009
Total net position	\$ 3,522,766

The accompanying notes are an integral part of these financial statements.

**Capistrano Bay Community Services District
Statement of Activities
For the year ended June 30, 2018**

Governmental activities	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Governmental Activities
Public safety	\$ 983,440	\$ 379,886	\$ -	\$ -	\$ (603,554)
Roads	129,909	-	-	-	(129,909)
Total governmental activities	\$ 1,113,349	\$ 379,886	\$ -	\$ -	(733,463)
General revenues:					
Property taxes					956,467
Other					3,145
Total general revenues					959,612
Change in net position					226,149
Net position, beginning of year					3,296,617
Net position, end of year					\$ 3,522,766

The accompanying notes are an integral part of these financial statements.

Capistrano Bay Community Services District
Balance Sheet – Governmental Funds
June 30, 2018

	Public Safety Fund	<u>Non-major Fund</u> Roads Fund	Total Governmental Funds
Assets			
Cash and investments	\$ 1,727,416	\$ 118,241	\$ 1,845,657
Accounts receivable, net	7,717	16,393	24,110
Property tax receivables	14,429	-	14,429
Prepaid expenses	4,396	-	4,396
	<u>1,753,958</u>	<u>134,634</u>	<u>1,888,592</u>
Total assets	<u>\$ 1,753,958</u>	<u>\$ 134,634</u>	<u>\$ 1,888,592</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 58,189	\$ 975	\$ 59,164
Other current liabilities	4,305	-	4,305
	<u>62,494</u>	<u>975</u>	<u>63,469</u>
Total liabilities	<u>62,494</u>	<u>975</u>	<u>63,469</u>
Fund balance:			
Nonspendable	4,396	-	4,396
Assigned	497,459	-	497,459
Unassigned	1,189,609	133,659	1,323,268
	<u>1,691,464</u>	<u>133,659</u>	<u>1,825,123</u>
Total fund balance	<u>1,691,464</u>	<u>133,659</u>	<u>1,825,123</u>
Total liabilities and fund balance	<u>\$ 1,753,958</u>	<u>\$ 134,634</u>	<u>\$ 1,888,592</u>

The accompanying notes are an integral part of these financial statements.

**Capistrano Bay Community Services District
 Reconciliation of the Balance Sheet of Governmental
 Funds to the Statement of Net Position
 June 30, 2018**

Fund balance of governmental funds	\$ 1,825,123
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,702,757
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds.	
Compensated absences payable	<u>(5,114)</u>
Net position of governmental activities	<u><u>\$ 3,522,766</u></u>

The accompanying notes are an integral part of these financial statements.

Capistrano Bay Community Services District
Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2018

	Public Safety Fund	<u>Non-major Fund</u> Roads Fund	Total Governmental Funds
Revenues			
Property taxes	\$ 956,467	\$ -	\$ 956,467
User fees	225,235	-	225,235
Parking fees	38,200	-	38,200
Trash collection	4,410	-	4,410
Investment earnings	3,145	-	3,145
Other	10,325	101,716	112,041
	<u>1,237,782</u>	<u>101,716</u>	<u>1,339,498</u>
Expenditures			
Salaries and wages	161,621	-	161,621
Repairs and maintenance	67,556	32,416	99,972
Professional services	160,172	-	160,172
Security services	438,084	-	438,084
Utilities	69,038	-	69,038
Insurance	36,894	-	36,894
Admin	36,687	-	36,687
	<u>970,052</u>	<u>32,416</u>	<u>1,002,468</u>
Excess of revenues over (under) expenditures	<u>267,730</u>	<u>69,300</u>	<u>337,030</u>
Other financing sources (uses)			
Transfers in	-	(91,178)	(91,178)
Transfers out	91,178	-	91,178
	<u>91,178</u>	<u>(91,178)</u>	<u>-</u>
Net change in fund balances	358,908	(21,878)	337,030
Fund balances, beginning of year	<u>1,332,556</u>	<u>155,537</u>	<u>1,488,093</u>
Fund balances, end of year	<u>\$ 1,691,464</u>	<u>\$ 133,659</u>	<u>\$ 1,825,123</u>

The accompanying notes are an integral part of these financial statements.

**Capistrano Bay Community Services District
 Reconciliation of the Statement of Revenues,
 Expenditures and Changes in Fund Balances of Governmental
 Funds to the Statement of Activities
 For the year ended June 30, 2018**

Net change in fund balance - total governmental funds \$ 337,030

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported 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:

Cost of assets capitalized	1,595
Depreciation expense	(105,971)
Loss on disposal of assets	(8,970)

Compensated absences expenses reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

2,465

Change in net position of governmental activities \$ 226,149

The accompanying notes are an integral part of these financial statements.

**Capistrano Bay Community Services District
Notes to the Basic Financial Statements
For the year ended June 30, 2018**

(1) Reporting entity and summary of significant accounting policies

A. Organization and operations of the reporting entity

Capistrano Bay Community Services District (the District) is located in Capistrano Beach, California and was formed December 8, 1959, under the provisions of the Community Services District Law, Section 61000-61934 of the Government Code for the purpose of furnishing street lighting, road maintenance, solid waste disposal and security services for residents of the District. The District is governed by a Board of Directors consisting of five members elected at large. The Board employs and is assisted by a General Manager, Secretary/Clerk of the Board, and such other personnel as are required to operate the District.

General administration and management of the District is under the direction of a duly elected Board of Directors consisting of five members. The members of the Board of Directors as of June 30, 2018 were as follows:

Stephen M. Schwartz - President
Michael C. Haack - Vice President
Kurtis D. Breeding - Director
Stephen J. Muller - Director
Carter B. Clark - Director

B. Basis of accounting and measurement focus

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

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Financial reporting is based upon all pronouncements of the Governmental Accounting Standards Board (GASB).

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the District are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and, 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Capistrano Bay Community Services District
Notes to the Basic Financial Statements
For the year ended June 30, 2018**

(1) Reporting entity and summary of significant accounting policies, continued

B. Basis of accounting and measurement focus, continued

Governmental Funds Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in fund balance as presented in these statements to the net position presented in the Government-wide Financial Statements. The District has presented its public safety fund as its General Fund, and its major fund, in these financial statements to meet the qualifications of Generally Accepted Accounting Principles.

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

Public Safety - This fund is used to account for the revenues received from property taxes and other general revenues as well as the expenditures for the public safety needs of the District.

The District also reports the following governmental fund:

Roads - This fund is used to account for road maintenance and operations expenditures.

C. Assets, liabilities and equity

1. Use of estimates

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

2. Cash and investments

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

Capistrano Bay Community Services District
Notes to the Basic Financial Statements
For the year ended June 30, 2018

(1) Reporting entity and summary of significant accounting policies, continued

C. Assets, liabilities and equity, continued

3. Investments and investment policy

The District has adopted an investment policy. Investments are to be made in the following areas:

- Local Agency Investment Fund (LAIF)
- Passbook savings accounts

Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

4. Prepaid expenses

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

5. Capital assets

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

Structures	40 years
Infrastructure (roads and drainage systems)	30 years
Entryway	25 years
Security equipment	5 to 12 years
Maintenance equipment	3 to 15 years
Administrative (office equipment)	3 to 10 years

6. Compensated absences

The District's personnel policies provide for paid vacation and sick leave (employee benefits) to its full-time employees and is granted each year on January 1st. Liabilities for vacation leave are recorded when granted. Full cash payment is paid each year for unused vacation at the employee's anniversary date or upon termination. Accrued sick leave is not available upon retirement or termination.

**Capistrano Bay Community Services District
Notes to the Basic Financial Statements
For the year ended June 30, 2018**

(1) Reporting entity and summary of significant accounting policies, continued

C. Assets, liabilities and equity, continued

7. Property taxes and special assessments

Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations. Secured property taxes are levied on July 1 and become delinquent on December 10 and April 10, for the first and second installments, respectively. Unsecured personal property taxes are collected in one installment and become delinquent August 31.

Property taxes and special assessments are allocated on the County of Orange's annual tax bills to property owners who receive service by the District. The County of Orange's Tax Collector's Office collects the property taxes and special assessment payments from the property owners and transfers the collections to the District's bank account.

8. Budgetary policies

Prior to June 30th each fiscal year, the District adopts an annual appropriated budget for planning, control, and evaluation purposes. The budget includes proposed expenditures and the means of financing them. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. The Board approves total budgeted appropriations and any amendments to the appropriations throughout the year. Actual expenses may not exceed budgeted appropriations, except by 2/3 vote of the Board. Formal budgetary integration is employed as a management control device during the year. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

9. Net position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted net position** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that do not meet the definition of *restricted* or *net investment in capital assets*.

10. Fund equity

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

- **Nonspendable fund balance** - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

**Capistrano Bay Community Services District
Notes to the Basic Financial Statements
For the year ended June 30, 2018**

(1) Reporting entity and summary of significant accounting policies, continued

C. Assets, liabilities and equity, continued

- **Restricted fund balance** - Amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- **Committed fund balance** - Amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** - Amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the District's special revenue funds.
- **Unassigned fund balance** - The residual classification for the District's operating fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

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

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

Fund balance policy

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

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

(2) Cash and investments

Cash and investments are presented in the financial statements as of June 30 as follows:

Statement of net position

Cash	\$ 1,845,657
Total cash and investments	\$ 1,845,657

**Capistrano Bay Community Services District
Notes to the Basic Financial Statements
For the year ended June 30, 2018**

(2) Cash and investments, continued

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

Statement of net position	
Bank deposits with financial institutions	\$ 1,626,929
Local Agency Investment Fund	<u>218,728</u>
Total cash and investments	<u><u>\$ 1,845,657</u></u>

Investment in State investment pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which is part of the Pooled Money Investment Account that is regulated by the California Government Code under the oversight of the Treasurer of the State of California, Director of Finance and State Controller. The District may invest up to \$65 million in the LAIF fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. All investments with LAIF are secured by the full faith and credit of the State of California. Separate LAIF financial statements are available from the California State Treasurer's Office on the Internet at www.treasurer.ca.gov.

The District's investment in this pool is reported in the accompanying financial statements at cost which approximates fair value at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling \$1,549.080 million, which represents 1.74% of the total LAIF portfolio of \$88.818 billion as of June 30, 2018. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Local Agency investment fund is not rated by such an organization.

Custodial credit risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District has deposits with various banks with various bank balances as of June 30, 2018, respectively. Of the bank balances, up to \$250,000 per bank for specific accounts are federally insured and any remaining balances are collateralized in accordance with the Code.

Capistrano Bay Community Services District
Notes to the Basic Financial Statements
For the year ended June 30, 2018

(2) Cash and investments, continued

Custodial credit risk, continued

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. Currently, LAIF has a maturity of 12 months or less.

Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District has no investments subject to the fair value hierarchy established by generally accepted accounting principles.

(3) Transfers in and out

Individual fund transfers in and transfers out activity as of June 30, 2018 was \$91,178. The transfers represent the revenue transactions related to the development impact fee revenue brought in to pay for the road expenditures.

Capistrano Bay Community Services District
Notes to the Basic Financial Statements
For the year ended June 30, 2018

(4) Capital assets

Changes in capital assets for the year were as follows:

Depreciable assets	Beginning balance	Additions	Deletions	Ending balance
Structures	\$ 236,234	\$ -	\$ (8,565)	\$ 227,669
Security	27,797	-	-	27,797
Maintenance	37,502	-	(1,550)	35,952
Administrative	8,217	1,595	(4,480)	5,332
Road system	1,017,475	-	(11,356)	1,006,119
Storm drains	156,529	-	-	156,529
Entryway	1,408,565	-	-	1,408,565
Total depreciable assets	2,892,319	1,595	(25,951)	2,867,963
Accumulated depreciation				
Structures	(90,527)	(7,731)	7,923	(90,335)
Security	(26,075)	(493)	-	(26,568)
Maintenance	(29,551)	(1,947)	1,550	(29,948)
Administrative	(8,742)	(254)	4,480	(4,516)
Road system	(472,886)	(33,916)	3,028	(503,774)
Storm drains	(55,293)	(5,218)	-	(60,511)
Entryway	(393,142)	(56,412)	-	(449,554)
Total accumulated depreciation	(1,076,216)	(105,971)	16,981	(1,165,206)
Total capital assets, net	\$ 1,816,103	\$ (104,376)	\$ (8,970)	\$ 1,702,757

Depreciation expense was charged to governmental activities as follows:

Public safety	\$ 8,478
Roads	97,493
Total	\$ 105,971

(5) Compensated absences

Compensated absences comprise unpaid vacation leave which is accrued as earned. The District's liability for compensated absences is determined annually.

The changes to compensated absences balances at June 30, 2018 were as follows:

Compensated absences	Beginning balance	Additions	Deletions	Ending balance	Current portion
	\$ 7,579	\$ 6,257	\$ (8,722)	\$ 5,114	\$ 1,278

**Capistrano Bay Community Services District
Notes to the Basic Financial Statements
For the year ended June 30, 2018**

(6) Fund balances

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (See Note 1.C.10 for a description of these categories). A detailed schedule of fund balances and their funding composition at June 30, 2018 is as follows:

<u>Description</u>	<u>Amount</u>
Nonspendable:	
Prepaid expenses	\$ 4,396
Assigned:	
Emergency reserve	250,000
Operating reserve	247,459
Total assigned	497,459
Unassigned	1,323,268
Total fund balance	\$ 1,825,123

(7) Risk management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For its liability coverage, the District purchases insurance from private insurers. For workers compensation insurance, the District participates in a joint venture under a joint powers agreement (JPA) with the Special District Risk Management Authority (the Authority). The Authority is a risk-pooling, self-insurance authority created under the provisions of California Government Code Section 6500 et. sec.

The Authority is governed by a board consisting of a representative from a member agency. The board controls the operations of the Authority including selection of CEO and approval of operating budgets. The relationship between the District and the Authority is such that the Authority is not a component unit of the District for financial reporting purposes.

The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Copies of the Authority's annual financial report may be obtained from their office at 1112 "I" Street, Suite 300, Sacramento, CA 95814. Copies are also available on the Member Plus Portal and mailed to members each year. At June 30, 2018, the District's participation in the self-insurance programs of the Authority was as follows:

- Workers' compensation coverage and employer's liability up to statutory limits per occurrence for workers' compensation and \$10 million for employer's liability coverage, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage.

**Capistrano Bay Community Services District
Notes to the Basic Financial Statements
For the year ended June 30, 2018**

(7) Risk management, continued

The Districts liability coverage, purchased from private insurers, is as follows:

- Commercial liability coverage with limits up to \$1,000,000 per occurrence with no deductibles. In addition, the District has purchased an umbrella liability policy with coverage up to \$50,000,000 per occurrence.
- Directors and officers coverage up to \$1,000,000 for personal injury and \$2,000,000 for general aggregate with a \$1,000 deductible.
- Automobile liability coverage with limits of \$1,000,000 with no deductible.
- Employee dishonesty coverage up to \$1,300,000 per loss includes public employee dishonesty, forgery or alteration and theft with a \$10,000 deductible.
- Property loss coverage of \$598,900 per occurrence with a \$1,000 deductible.

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

(8) Commitments and contingencies

Operating Lease

The District leases space within the railroad right of way from the Orange County Transportation Authority for the purpose of providing parking space for District residents. Costs associated with the lease are born by District residents which pay a yearly fee for each parking space. The lease commenced on January 1, 1998, and continues on a month-to-month basis which may be terminated by either party upon one year's notice. Provisions of the lease call for annual rent payments of \$15,100 for the first year, increasing by \$2,000 per year for the next seven years. Thereafter, terms of the lease call for annual lease payment adjustments based on the Consumer Price Index. As of June 30, 2018, the rent expense was \$37,803.

The following is a schedule of future minimum lease payments due under the non-cancelable operating lease at June 30:

<u>Fiscal year</u>	<u>Amount</u>
2018	<u><u>\$ 38,125</u></u>

**Capistrano Bay Community Services District
Notes to the Basic Financial Statements
For the year ended June 30, 2018**

(8) Commitments and contingencies, continued

The District entered into a 63 month operating lease commencing February 2015 with Coast To Coast Business Equipment, Inc. for one copier. The lease expense for the year ended June 30, 2018 was \$2,508. The future minimum payments on the lease are as follows:

<u>Fiscal Year Ending</u>	<u>Lease Payments</u>
6/30/2019	\$ 2,508
6/30/2020	<u>2,299</u>
Total	<u>\$ 4,807</u>

Litigation

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

(9) Expenditures in excess of budget

At June 30, expenditures exceeding the budget in all funds combined are as follows:

Excess of expenditures over appropriations in all funds are as follows:

<u>Fund</u>	<u>Expenditures</u>	<u>Budgeted</u>	<u>Excess</u>
Professional services	160,172	112,980	(47,192)
Security services	438,084	433,260	(4,824)

(10) Subsequent event

Events occurring after June 30, 2018 have been evaluated for possible adjustment to the financial statements or disclosure as of February 27, 2019, which is the date the financial statements were available to be issued.

Required Supplementary Information

Required Supplementary Information
Capistrano Bay Community Services District
Budgetary Comparison Schedule – All Funds Combined
For the year ended June 30, 2018

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
Revenues				
Property taxes	\$ 883,485	\$ 883,485	\$ 956,467	\$ 72,982
User fees	225,225	225,225	225,235	10
Parking fees	38,200	38,200	38,200	-
Trash collection	3,995	3,995	4,410	415
Investment earnings	944	944	3,145	2,201
Admin	13,475	13,475	112,041	98,566
	<u>1,165,324</u>	<u>1,165,324</u>	<u>1,339,498</u>	<u>174,174</u>
Total revenues				
Expenditures				
Salaries and wages	212,420	212,420	161,621	50,799
Repairs and maintenance	113,770	113,770	99,972	13,798
Professional services	112,980	112,980	160,172	(47,192)
Security services	433,260	433,260	438,084	(4,824)
Utilities	73,110	73,110	69,038	4,072
Insurance	40,545	40,545	36,894	3,651
Admin	38,540	38,540	36,687	1,853
	<u>1,024,625</u>	<u>1,024,625</u>	<u>1,002,468</u>	<u>22,157</u>
Total expenditures				
Net change in fund balance	140,699	140,699	337,030	196,331
Fund balance, beginning of year	<u>1,488,093</u>	<u>1,488,093</u>	<u>1,488,093</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 1,628,792</u></u>	<u><u>\$ 1,628,792</u></u>	<u><u>\$ 1,825,123</u></u>	<u><u>\$ 196,331</u></u>

See accompanying note to budgetary comparison schedule

Required Supplementary Information
Capistrano Bay Community Services District
Note to Budgetary Comparison Schedule – All Funds Combined
For the year ended June 30, 2018

Note 1 - Budgetary Information

The District adopts an annual budget prepared on the full accrual basis of accounting for all funds. The Board approves total budgeted appropriations and any amendments to the appropriations throughout the year. Actual expenses may not exceed budgeted appropriations, except by 2/3 vote of the Board. Formal budgetary integration is employed as a management control device during the year.

Actual expenditures in the budgetary comparison schedule are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current revenues and expenditures are included. The budgeted amounts are presented using the *accrual basis of accounting*. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Below is a reconciliation of the final budget amounts on the full accrual basis to the actual amounts on the full accrual basis at June 30, 2018.

	Budgeted amounts <u>Final</u>	Modified Accrual Actual amounts	Adjustment	Accrual Basis Actual amounts	Variance with final budget
Revenues					
Property taxes	\$ 883,485	\$ 956,467	\$ -	\$ 956,467	\$ 72,982
User fees	225,225	225,235	-	225,235	10
Parking fees	38,200	38,200	-	38,200	-
Trash collection	3,995	4,410	-	4,410	415
Investment earnings	944.00	3,145	-	3,145	2,201
Admin	13,475	112,041	-	112,041	98,566
	<u>1,165,324</u>	<u>1,339,498</u>	<u>-</u>	<u>1,339,498</u>	<u>174,174</u>
Expenditures					
Salaries and wages	212,420	161,621	(2,465)	159,156	53,264
Repairs and maintenance	113,770	99,972	113,346	213,318	(99,548)
Professional services	112,980	160,172	-	160,172	(47,192)
Security services	433,260	438,084	-	438,084	(4,824)
Utilities	73,110	69,038	-	69,038	4,072
Insurance	40,545	36,894	-	36,894	3,651
Admin	38,540	36,687	-	36,687	1,853
	<u>1,024,625</u>	<u>1,002,468</u>	<u>110,881</u>	<u>1,113,349</u>	<u>(88,724)</u>
Net change in fund balance	<u>\$ 140,699</u>	<u>\$ 337,030</u>	<u>\$ (110,881)</u>	<u>\$ 226,149</u>	<u>\$ 85,450</u>

The reconciling adjustment is made up of the following:

Adjustments:

Cost of assets capitalized, less net book value of disposals	\$ 7,375
Depreciation expense	105,971
Change in compensated absences	(2,465)
	<u>\$ 110,881</u>

Report on Internal Control and Compliance



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramsca.net

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

PARTNERS

Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Bradferd A. Welebir, CPA, MBA, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

MANAGERS / STAFF

Jenny Liu, CPA, MST
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Gardenya Duran, CPA
Brianna Schultz, CPA
Samuel Singery, CPA
Jing Wu, CPA
Evelyn Morentin-Barcena, CPA
Jin Gu, CPA, MT
Veronica Hernandez, CPA

Independent Auditor's Report

Board of Directors
Capistrano Bay Community Services District
Capistrano Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Capistrano Bay Community Services District, California (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated February 27, 2019.

Internal control over financial reporting

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

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

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

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Compliance and other matters

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

Purpose of this report

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

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
February 27, 2019