

**DRAFT for discussion only**

# **ITEM 8b AD99-1**

**Assessment District No. 99-1 of the  
Capistrano Bay Community Services District**

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

**For the fiscal year ended June 30, 2018**

**Draft - for discussion purposes only**

**Assessment District No 99-1  
of the Capistrano Bay Community Services District  
Basic Financial Statements  
For the fiscal year ended June 30, 2018**

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## **Financial Section**

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## ***Independent Auditor's Report***

To the Board of Directors  
Assessment District AD 99-1 of the  
Capistrano Bay Community Services District

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

We have audited the accompanying financial statements of the Assessment District AD 99-1 of the Capistrano Bay Community Services District (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 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 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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2018, and the changes in financial position and cash flows 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**

#### *Prior Year Comparative Information*

We have previously audited the District's 2017 financial statements, and we expressed an unmodified opinion in our report dated February 27, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

#### *Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated **December xx, 2018**, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

San Bernardino, California  
**December xx, 2018**

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# **Basic Financial Statements**

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**Assessment District No. 99-1  
of the Capistrano Bay Community Services District  
Statements of Net Position  
June 30, 2018  
(with comparative data for prior year)**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash and cash equivalents	<u>\$ -</u>	<u>\$ 52,155</u>
Total assets	<u>-</u>	<u>52,155</u>
<b>Liabilities</b>		
Accrued interest payable	-	1,250
Long-term liabilities:		
Due in one year	<u>-</u>	<u>40,000</u>
Total liabilities	<u>-</u>	<u>41,250</u>
<b>Net position</b>		
Unrestricted	<u>-</u>	<u>10,905</u>
Total net position	<u><u>\$ -</u></u>	<u><u>\$ 10,905</u></u>

**Assessment District No. 99-1  
of the Capistrano Bay Community Services District  
Statements of Revenues, Expenses and Changes in Net Position  
For the year ended June 30, 2018  
(with comparative data for prior year)**

	2018	2017
<b>Revenues</b>		
Investment earnings	\$ 70	\$ 51
Total revenues	70	51
<b>Expenses</b>		
Operating expenses	10,725	8,067
Interest expense	250	3,438
Total expenses	10,975	11,505
Change in net position	(10,905)	(11,454)
Net position, beginning of year	10,905	22,359
Net position, end of year	\$ -	\$ 10,905

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



**Assessment District No. 99-1  
of the Capistrano Bay Community Services District  
Statements of Cash Flows  
For the year ended June 30, 2018  
(with comparative data for prior year)**

	2018	2017
<b>Cash flows from operating activities</b>		
Professional fees	\$ -	\$ (8,067)
Payment to Capistrano Bay Community Services District	(10,725)	-
Net cash used by operating activities	(10,725)	(8,067)
<b>Cash flows from capital and related financing activities</b>		
Receipts for assessment collections	-	963
Principal payments on bonds payable	(40,000)	(45,000)
Interest payments on bonds payable	(1,500)	(4,688)
Net cash used by capital and related financing activities	(41,500)	(48,725)
<b>Cash flows from investing activities</b>		
Proceeds from investment earnings	70	51
Net cash provided by investing activities	70	51
Net decrease in cash and cash equivalents	(52,155)	(56,741)
Cash and cash equivalents, beginning of year	52,155	108,896
Cash and cash equivalents, end of year	\$ -	\$ 52,155

**Assessment District No. 99-1  
of the Capistrano Bay Community Services District  
Notes to the Basic Financial Statements  
June 30, 2018**

**(1) Reporting entity and summary of significant accounting policies**

***A. Organization and operations of the reporting entity***

The Assessment District No. 99-1 of the Capistrano Bay Community Services District (District) was established to provide financing for the construction and improvement of the District's roads and underground utilities. On August 2, 2002, the District issued \$495,000 in Improvement Bonds, Series 2002, Assessment District No. 99-1. The District provides administrative duties such as planning assessments on the County tax rolls and submitting payments to the trustee for the assessment bond holders. The infrastructure improvements constructed from the debt issuance have been contributed to the Capistrano Bay Community Services District.

***B. Basis of accounting and measurement focus***

The District operates and reports as an enterprise utilizing the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, taxes, and investment earnings result from non-exchange transactions or ancillary activities.

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

***C. Financial reporting***

The District's basic financial statements are presented in conformance with the Governmental Accounting Standards Board (GASB). GASB established financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB pronouncements provide for a statement of net position which reports assets, liabilities, and the difference between them as net position. A statement of revenues, expenses and changes in net position is required. A statement of cash flows is also required. It must be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

***D. Assets, liabilities and net position***

***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.

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**Assessment District No. 99-1  
of the Capistrano Bay Community Services District  
Notes to the Basic Financial Statements  
June 30, 2018**

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

***D. Assets, liabilities and net position, continued***

*2. Cash and cash equivalents*

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

*3. Investments and investment policy*

The District has adopted an investment policy to deposit funds in the following: Passbook Savings Accounts, Certificate of Deposits, Credit Union Accounts and Local Agency Investment Funds (LAIF). Investments are stated at fair value based on the last reported sales price published on the national exchange. 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.

*4. Deferred outflows and deferred inflows of resources*

Deferred outflows of resources are transactions that result in the consumption of net position in one period that are applicable to future periods and are not considered assets as described by the statement. Deferred outflows of resources are required to be presented separately after assets on the statement of net position. Currently, the District does not report any deferred outflows of resources.

Deferred inflows of resources are transactions that result in the acquisition of net position in one period that are applicable to future periods and are not considered to be liabilities as described by the statement. Deferred inflows of resources are required to be presented separately after liabilities on the statement of net position. Currently, the District does not report any deferred inflow of resources.

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

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**Assessment District No. 99-1  
of the Capistrano Bay Community Services District  
Notes to the Basic Financial Statements  
June 30, 2018**

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

***D. Assets, liabilities and net position, continued***

*6. Prior year amounts*

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

*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. Unearned revenue*

Unearned revenues arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has a legal claim to the resources, the unearned revenue is removed from the statement of net position and revenue is recognized.

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**Assessment District No. 99-1  
of the Capistrano Bay Community Services District  
Notes to the Basic Financial Statements  
June 30, 2018**

**(2) Cash and cash equivalents**

Cash and cash equivalents as of June 30, 2018 and 2017 are \$0 and \$52,155, respectively.

*Authorized deposits and investments*

Under provisions of the District's investment policy, and in accordance with Section 53601 of the California Government Code, the District may invest in certain types of investments as listed in Note 1(D)(3) to the financial statements. Investments of debt proceeds held by bond trustees are governed by the provisions of debt agreements with the District.

*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) 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. Of the District's bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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

*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.

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**Assessment District No. 99-1  
of the Capistrano Bay Community Services District  
Notes to the Basic Financial Statements  
June 30, 2018**

**(2) Cash and cash equivalents, continued**

*Credit risk*

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

*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) Long-term debt - bonds payable**

Changes in long-term debt amounts for 2018 were as follows:

	Beginning balance	Additions	Deletions	Ending balance	Current portion
Bonds payable	\$ 40,000	\$ -	\$ (40,000)	\$ -	\$ -

Bonds payable consist of Assessment District No. 99-1 term bonds issued on August 2, 2002 to provide the District the means to construct various infrastructure improvements within the District. Bonds were issued in several series totaling \$115,000, \$155,000 and \$225,000 with interest rates ranging from 6.00% to 7.50%. Principal is payable annually and interest is payable semiannually with the bonds maturing on September 2, 2007, 2012, and 2017 respectively. The bonds are subject to mandatory redemption as of September 2, 2003 and optional redemption in advance of maturity. The terms of optional redemption call for a sixty day prior notice of redemption plus, payment of a 1.00% to 3.00% redemption premium. Bonds payable were paid off during the current fiscal year.

The annual debt service requirements at June 30, 2018 are \$0.

**Assessment District No. 99-1  
of the Capistrano Bay Community Services District  
Notes to the Basic Financial Statements  
June 30, 2018**

**(4) Commitments and contingencies**

*Litigation*

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

**(5) Assessment district**

During the current year, the District paid off remaining the AD No. 99-1 bonds.

# **Report on Internal Controls and Compliance**

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

*Independent 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 Assessment District AD 99-1 of the Capistrano Bay Community Services District (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 **December xx, 2018**.

***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.

San Bernardino, California  
December xx, 2018

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