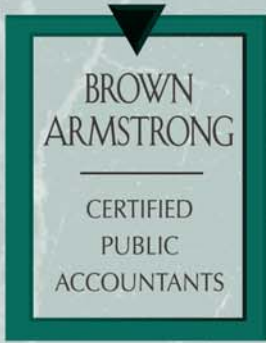


**BEAR MOUNTAIN RECREATION AND PARK DISTRICT**  
**FINANCIAL STATEMENTS**  
**WITH**  
**INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**BEAR MOUNTAIN RECREATION AND PARK DISTRICT  
JUNE 30, 2017**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Bear Mountain Recreation and Park District  
Lamont, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Bear Mountain Recreation and Park District (the District), as of and for the year ended June 30, 2017, 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; 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, as well as accounting systems prescribed by the State Controller's Office and state regulations governing Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of 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 basic financial statements.

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

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## **Emphasis of a Matter**

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. The District continues to operate with low reserves. As discussed in Note 11 – Going Concern, the District continues to rely on advances from the County of Kern due to lost program funding, which raises substantial doubt about its ability to continue operating. Management’s plan regarding those matters is also described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## **Opinions**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District as of June 30, 2017, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis (MD&A) and required supplementary information (RSI), 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 (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and RSI 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 June 18, 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 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.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
June 18, 2018

**BEAR MOUNTAIN RECREATION AND PARK DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

**Introduction**

The following discussion and analysis of the financial performance and activity of the Bear Mountain Recreation and Park District (the District) provides an introduction and understanding of the basic financial statements of the District. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

---

The District was established on June 27, 1957. A Board of Directors composed of five members governs the District.

The District provides leisure time activities for the people residing in the District.

**The Financial Statements**

The District adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*. GASB Statement No. 34 establishes the accounting and financial reporting standards for state and local governments, including special-purpose governments such as the District.

The District's basic financial statements include (1) the Statement of Net Position and (2) the Statement of Activities. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

**Significant Changes to the Financial Statements**

The Statement of Net Position reports assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. The entire equity section is combined to report total net position and is displayed in three components: net investment in capital assets, restricted, and unrestricted.

The net position component *net investment in capital assets* consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings attributable to the acquisition, construction, or improvements of those assets.

*Restricted* consists of assets where constraints on their use are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* consists of net position that does not meet the definition of restricted net position or net investment in capital assets.

The Statement of Activities is reported using the accrual basis of accounting. Revenue is reported when earned and expenses are reported when incurred, regardless of when cash is received or paid.

**Financial Highlights**

- Total net position for the District was \$1,506,293, which consisted of 112% net investment in capital assets, due to the negative unrestricted net position.
- The negative change in net position of \$96,768 was mostly due to the current year depreciation expense of \$58,317.

**Condensed Financial information**

The District had a decrease in net position of \$96,768 during the fiscal year 2016-17. Below is condensed information on the Statement of Activities and the Statement of Net Position.

## Statement of Activities

A summary of the District's Statement of Activities for fiscal year 2017 (with comparative amounts for 2016) is as follows:

	<u>2017</u>	<u>2016</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 75,086	\$ 70,091
Operating Grants and Contributions	-	26,000
General Revenues:		
Taxes Levied for General Purposes	659,947	608,371
Interest Earnings	83	54
Miscellaneous	53,941	15,321
Total Revenues	<u>789,057</u>	<u>719,837</u>
Expenses		
Recreational and Park Activities	<u>885,825</u>	<u>828,667</u>
Decrease in Net Position	<u>\$ (96,768)</u>	<u>\$ (108,830)</u>

The largest revenue categories listed on the Statement of Activities are taxes levied for general purposes and charges for services (84% of the total). This is consistent with the nature of governmental activities, which includes sources traditionally financed from general tax revenues and goods, services, or privileges provided by the District. Expenses for the year totaled \$885,825. All expenses were for program expenses.

## Statement of Net Position

The District's Statement of Net Position as of June 30, 2017, (with comparative amounts for 2016) is as follows:

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets	\$ 158,951	\$ 132,708
Noncurrent Assets - Capital Assets, Net	1,682,181	1,828,853
Total Assets	<u>\$ 1,841,132</u>	<u>\$ 1,961,561</u>
Deferred Outflows of Resources		
Total Deferred Outflows of Resources	<u>\$ 65,825</u>	<u>\$ 21,372</u>
Liabilities		
Current Liabilities	\$ 75,864	\$ 96,798
Noncurrent Liabilities	314,575	278,952
Total Liabilities	<u>\$ 390,439</u>	<u>\$ 375,750</u>
Deferred Inflows of Resources		
Total Deferred Inflows of Resources	<u>\$ 10,225</u>	<u>\$ 4,122</u>
Net Position		
Net Investment in Capital Assets	\$ 1,682,181	\$ 1,828,853
Unrestricted	(175,888)	(225,792)
Total Net Position	<u>\$ 1,506,293</u>	<u>\$ 1,603,061</u>

As shown above, total assets are \$1,841,132. Of the total, \$1,682,181 (91%) consists of capital assets net of accumulated depreciation. The District's net position was \$1,506,293 at June 30, 2017.

## Capital Assets

As of the end of fiscal year 2017, the District's capital assets, before accumulated depreciation, were \$4,642,095. Total capital assets, net of accumulated depreciation, decreased during the year due to the current year depreciation. There were no significant additions to capital assets in the current year.

Details of the capital assets, net of accumulated depreciation as of June 30, 2017, (with comparative amounts for 2016) are as follows:

	2017	2016
Land	\$ 165,578	\$ 165,578
Buildings and Improvements	4,073,573	4,036,797
Equipment	402,944	381,403
Total	4,642,095	4,583,778
Less Accumulated Depreciation	(2,959,914)	(2,754,925)
Net Total	<u>\$ 1,682,181</u>	<u>\$ 1,828,853</u>

## Long-Term Debt

At June 30, 2017, the District had \$314,575 in long-term debt outstanding, which consisted of net pension liability. Please refer to Note 6 in the notes to the basic financial statements for further details.

## Analytical Review of Budget to Actual

Management employs formal budget integration for the General Fund as a means to control expenditures. The budget adopted for the General Fund is consistent with accounting principles generally accepted in the United States of America.

Below is a schedule of significant expenditure differences between budget and actual.

	Final Budget	Actual	Variance
Salaries and Employee Benefits	\$ 348,926	\$ 370,254	\$ (21,328)
Services and Supplies	263,023	317,902	(54,879)
Capital Outlay	-	58,317	(58,317)

## Salaries and Employee Benefits, Services and Supplies and Capital Outlay

The variances for services and supplies were due to additional expenses incurred by the District, including consulting services not budgeted. The variances for salaries and employee benefits are due to additional expenses incurred for payroll than budgeted. The variance for capital outlay is due to a roof repair.

## Overall Financial Condition

In the past years, the District has budgeted for ongoing improvement projects out of operating expenses, which caused the District's reserves to drop to very low levels, refer to Note 11. In addition to the attempt for grant funds, the District continues to monitor all expenditures and takes a conservative approach to spending to cut costs in the upcoming budget period and restore reserves.

## Contacting the District's Financial Management

The District's financial report is designed to provide the District's Board of Directors, management, creditors, legislative and oversight agencies, citizens, and customers with an overview of the District's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact Lorena G. Cervantes, District Manager, at 10300 San Diego Street, Lamont, California 93241.

**BEAR MOUNTAIN RECREATION AND PARK DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2017**

	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Cash	\$ 158,951
Capital Assets:	
Land	165,578
Buildings and Improvements	4,073,573
Equipment	402,944
Less: Accumulated Depreciation	<u>(2,959,914)</u>
TOTAL ASSETS	<u>1,841,132</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 65,825</u>
<b><u>LIABILITIES</u></b>	
Current Liabilities:	
Accounts Payable	\$ 24,030
Salaries Payable	26,869
Deposits and Unearned Revenue	6,894
Compensated Absences	<u>18,071</u>
Total Current Liabilities	<u>75,864</u>
Long-Term Liabilities:	
Net Pension Liability	<u>314,575</u>
Total Long-Term Liabilities	<u>314,575</u>
TOTAL LIABILITIES	<u>390,439</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>10,225</u>
<b><u>NET POSITION</u></b>	
Net Investment in Capital Assets	1,682,181
Unrestricted	<u>(175,888)</u>
TOTAL NET POSITION	<u>\$ 1,506,293</u>

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



**BEAR MOUNTAIN RECREATION AND PARK DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position	Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			
Governmental Activities:							
Recreational and Park Activities	\$ 885,825	\$ 75,086	\$ -	\$ -	\$ (810,739)	\$ (810,739)	\$ (810,739)
Totals	<u>\$ 885,825</u>	<u>\$ 75,086</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (810,739)</u>	<u>\$ (810,739)</u>	
General Revenues:							
Taxes and Subventions:							
							659,947
							83
							<u>53,941</u>
							<u>713,971</u>
							(96,768)
							<u>1,603,061</u>
							<u>\$ 1,506,293</u>

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

**BEAR MOUNTAIN RECREATION AND PARK DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2017**

	<u>General Fund</u>
<b><u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u></b>	
Assets:	
Cash and Investments	\$ 158,951
Total Assets	<u>158,951</u>
Deferred Outflows of Resources	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 158,951</u>
<b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</u></b>	
Liabilities:	
Accounts Payable	\$ 24,030
Salaries Payable	26,869
Deposits and Unearned Revenue	<u>6,894</u>
Total Liabilities	<u>57,793</u>
Deferred Inflows of Resources	<u>-</u>
Fund Balance:	
Unassigned	<u>101,158</u>
Total Fund Balance	<u>101,158</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 158,951</u>

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

**BEAR MOUNTAIN RECREATION AND PARK DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2017**

<b>Total Fund Balance - Governmental Fund</b>	\$	101,158
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund. The cost of the assets is \$4,642,095, and the accumulated depreciation is \$2,959,914.</p>		1,682,181
<p>Long-term liabilities are not due and payable in the current year and therefore are not reported as liabilities in the governmental fund. Long-term liabilities at year-end consist of:</p>		
Compensated absences		(18,071)
Net pension liability		(314,575)
<p>Deferred outflows of resources are not current assets or financial resources; and deferred inflows of resources are not due and payable in the current period and therefore not reported in the governmental funds.</p>		
Deferred outflows of resources		65,825
Deferred inflows of resources		(10,225)
		(10,225)
<b>Total Net Position - Governmental Activities</b>	<b>\$</b>	<b><u>1,506,293</u></b>

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

**BEAR MOUNTAIN RECREATION AND PARK DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>General Fund</u>
<b>OPERATING REVENUES</b>	
Property Taxes	\$ 659,947
Charges for Services and Facilities	75,086
Interest	83
Miscellaneous	<u>53,941</u>
Total Operating Revenues	<u>789,057</u>
<b>OPERATING EXPENDITURES</b>	
Salaries and Employee Benefits	370,254
Services and Supplies	317,902
Capital Outlay	<u>58,317</u>
Total Operating Expenditures	<u>746,473</u>
Net Change in Fund Balance	42,584
Fund Balance at Beginning of Year	<u>58,574</u>
Fund Balance at End of Year	<u><u>\$ 101,158</u></u>

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

**BEAR MOUNTAIN RECREATION AND PARK DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION TO  
THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

**Total Net Change in Fund Balance - Governmental Fund** \$ 42,584

Capital outlays are reported in the governmental fund as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount of additions to capital outlay (\$58,317) less the depreciation expense (\$204,989) in the period. (146,672)

Long-term compensated absences and pension expense are reported in the Statement of Activities, but they do not require the use of current financial resources. Therefore, long-term compensated absences and pension expense are not reported as expenditures in the governmental fund.

This change reflects a decrease in compensated absences that occurred during the year.

Pension expense - GASB Statement No. 68 4,593

2,727

**Total Change in Net Position - Governmental Activities** \$ (96,768)

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

**BEAR MOUNTAIN RECREATION AND PARK DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity and Accounting Policy

The Bear Mountain Recreation and Park District (the District) was established on June 27, 1957. The District operates under a Board of Directors (the Board) whose members are elected by registered voters within the District.

The purpose of the District is to provide leisure time activities for the people residing in the District. This is accomplished by the acquisition and development of park and recreation areas, development of supervised programs, construction and maintenance of recreational facilities, and cooperative efforts with other agencies in the area which provide like services.

The accompanying basic financial statements of the District include only the financial activities of the District. The District has no oversight responsibility or control over any other governmental activity.

B. Basis of Presentation

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the District.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

The government-wide statements are prepared using the *economic resources* measurement focus and the *full accrual* basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental fund.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### C. Basis of Accounting (Continued)

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The District considers all revenues reported in the governmental fund to be available if the revenues are collected within ninety days after year-end, except for property taxes which are considered revenue if collected within sixty days after year-end. Expenditures are recognized at the time a liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured. Capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as *other financing sources*.

### D. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate.

District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major and non-major funds as follows:

#### **Major Governmental Fund:**

The *General Fund* is the principal operating fund of the District. It is used to account for all financial resources except those required to be accounted in another fund.

#### **Non-Major Governmental Funds:**

The District currently does not have any non-major governmental funds.

### 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 expenses during the reporting period. Accordingly, actual results could differ from those estimates.

### F. Assets, Liabilities, and Fund Balance

#### 1. Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized, but are expensed as incurred.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

F. Assets, Liabilities, and Fund Balance (Continued)

1. Capital Assets (Continued)

Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Land	N/A
Building	50
Site Improvements	15-20
Machinery and Tools	5-10
Furniture and Accessories	7-10
Office Equipment	5-7
Radio Equipment	10
Autos and Trucks	7

2. Cash

The District maintains its operating cash account on deposit with the Kern County (the County) Treasurer. The District is responsible for disbursing these funds directly. Prior to disbursing these funds, the District requests a transfer from its County operating account to its operating account maintained at a financial institution. The District then disburses directly from this operating account. The County operating account maintained on behalf of the District is interest bearing with interest credited to the District account quarterly.

3. Compensated Absences

**Vacation Time**

The District's vacation policy allows employees to accumulate vacation benefits as follows:

<u>Years of Service</u>	<u>Days Per Year</u>
1 – 5 years	10 days
6 – 13 years	15 days
Over 13 years	20 days

**Sick Leave**

The District's sick leave policy allows sick leave for regular employees to be accrued from the first day of service, but may not be used until three months of service have been completed with the District. The accrual is 8 hours (1 day) per month up to a maximum of 1,152 hours. Employees resigning in good standing from the District are paid for any unused sick leave as follows:

<u>Years of Service</u>	<u>Amount</u>
After 1 year of service	5%
After 2 years of service	10%
After 3 or more years of service	15% Not to exceed \$1,500



## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### F. Assets, Liabilities, and Fund Balance (Continued)

#### 3. Compensated Absences (Continued)

All vacation pay is accrued when incurred in the government-wide financial statements. The accumulated unpaid vacation and sick leave as of June 30, 2017, was \$18,071. The District does not track the history of accumulated unpaid vacation and sick leave to determine the current portion. As such, the current portion was not broken out in the Statement of Net Position, instead the entire amount was considered current.

#### 4. Fund Balance

In the fund financial statements, governmental funds report fund balance in five categories as follows: non-spendable, 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.

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

*Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance* – consists of funds that are set aside for a specific purpose by the District's highest level of decision making authority. The District has designated the Board to be the highest level of decision making authority. Commitments may be changed or lifted only by the Board taking the same formal action that imposed the constraint originally.

*Assigned fund balance* – consists of funds that are set aside with the intent to be used for a specific purpose, but are neither restricted nor committed, by the District's highest level of decision making authority or a body or official that has been given the authority to assign funds. The Board has authority to set aside or designate authority to set aside funds as assigned for an intended purpose. The Board hereby authorizes the General Manager as designee of the Board in identifying intended uses of funds and so assigning residual balances. The Board may also, from time to time, determine the need to assign funds for an intended use. Any such assignment will be documented by Board Action at a regularly scheduled meeting.

*Unassigned fund balance* – consists of the residual classification for the General Fund that includes amounts not contained in other classifications. The General Fund should be the only fund that reports a negative unassigned fund balance amount.

The District's policy does not specify whether to first apply committed resources and then assigned resources when an expenditure is incurred for purposes for which any amounts in any of these unrestricted value classifications could be used. However, when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts, and then unassigned amounts.

#### 5. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### F. Assets, Liabilities, and Fund Balance (Continued)

#### 6. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County bills and collects the taxes for the District. Tax revenues are recognized by the District when received.

### G. Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the District Manager submits to the Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted.
4. The District Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America.
7. Budgeted amounts are as originally adopted, or as amended. Individual amendments were not material in relation to the original appropriations which were amended.

### H. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### I. New Governmental Accounting Standards Board (GASB) Pronouncements Implemented in the Financial Statements

GASB Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68. The provisions of this statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. There was no effect on the District's accounting or financial reporting as a result of implementing this standard.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

I. New Governmental Accounting Standards Board (GASB) Pronouncements Implemented in the Financial Statements (Continued)

GASB Statement No. 74 – Financial Reporting for Postemployment Benefits Other than Pension Plans. The provisions of this statement are effective for fiscal years beginning after June 15, 2016. The statement focuses primarily on enhanced note disclosures and schedules of required supplementary information. There was no effect on the District's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 77 – Tax Abatement Disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2015. This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting governments tax revenues. There was no effect on the District's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. The requirements of this statement are effective for reporting periods beginning after December 15, 2015. This statement addresses certain issues regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. There was no effect on the District's accounting or financial reporting as a result of implementing this standard.

J. Future GASB Pronouncements

GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. This statement replaces GASB Statement No. 45, implemented by the District in 2009, and focuses primarily on enhanced note disclosures and schedules of required supplementary information. The District has not fully judged the effect of the implementation of GASB Statement No. 75 as of the date of the basic financial statements.

GASB Statement No. 80 – Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14. The requirements of this statement are effective for reporting periods beginning after June 30, 2017. Earlier application is encouraged. The District has not fully judged the effect of implementation of GASB Statement No. 80 as of the date of the financial statements.

GASB Statement No. 81 – Irrevocable Split-Interest Agreements. The requirements of this statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. The District has not fully judged the effect of implementation of GASB Statement No. 81 as of the date of the financial statements.

GASB Statement No. 82 – Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73. The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The District has not fully judged the effect of implementation of GASB Statement No. 82 as of the date of the financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

J. Future GASB Pronouncements (Continued)

GASB Statement No. 83 – Certain Asset Retirement Obligations. The requirements of this statement are effective for the reporting periods beginning after June 15, 2018. Earlier application is encouraged. The District has not fully judged the effect of implementation of GASB Statement No. 83 as of the date of the basic financial statements.

GASB Statement No. 84 – Fiduciary Activities. The requirements for this statement are effective for fiscal years beginning after December 15, 2018. The District believes the statement will not apply.

GASB Statement No. 85 – Omnibus 2017. The requirements for this statement are effective for fiscal years beginning after June 15, 2017. This statement addresses practice issues that have been identified during implementation of various GASB Statements, including *Fair Value Measurement and Application*. The District has not fully judged the effect of implementation of GASB Statement No. 85 as of the date of the financial statements.

GASB Statement No. 86 – Certain Debt Extinguishment Issues. The requirements of this statement are effective for periods beginning after June 15, 2017. The District has not fully judged the effect of implementation of GASB Statement No. 86 as of the date of the basic financial statements.

GASB Statement No. 87 – Leases. The requirements of this statement are effective for periods beginning after December 15, 2019. The District has not fully judged the effect of implementation of GASB Statement No. 87 as of the date of the basic financial statements

GASB Statement No. 88 – Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. The requirements for this statement are effective for fiscal years beginning after June 15, 2018. Earlier application is encouraged. The primary object of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The District has not fully judged the effect of implementation of GASB Statement No. 88 as of the date of the financial statements.

**NOTE 2 – CASH AND INVESTMENTS**

Cash on hand and on deposit as of June 30, 2017, consisted of the following:

<u>Cash and Investments</u>	
Cash on Hand	\$ 1,294
Cash in County of Kern Treasury	81,977
Cash in Banks	<u>75,680</u>
Total Cash and Investments	<u>\$ 158,951</u>

## NOTE 2 – CASH AND INVESTMENTS (Continued)

### Cash on Hand and Cash in Banks

### **Investments Authorized by the California Government Code and the District's Investment Policy**

The table below identifies the investment types that are authorized for the 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 the custodial of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Negotiable Certificates of Deposit	5 years	None	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	None	None
Medium-Term Notes	5 years	None	None
Mutual Funds	N/A	None	None
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	5 years	None	None
Pooled Investment Funds	N/A	100%	None
Local Agency Investment Fund (LAIF)	N/A	None	None

### **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 an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District did not have any investments as of June 30, 2017.

### **Disclosures Relating to 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 District did not have any investments as of June 30, 2017.

### **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 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 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 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.

**NOTE 2 – CASH AND INVESTMENTS** (Continued)Cash on Hand and Cash in Banks (Continued)**Custodial Credit Risk** (Continued)

GASB Statement No. 40 – *Deposit and Investment Risk Disclosures* requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: None of the District's deposits with financial institutions were in excess of federal depository insurance limits and were held in collateralized accounts.

**NOTE 3 – CAPITAL ASSETS**

A summary of changes in capital assets at June 30, 2017, is as follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets Not Being Depreciated:				
Land	\$ 165,578	\$ -	\$ -	\$ 165,578
Total Capital Assets Not Being Depreciated	<u>165,578</u>	<u>-</u>	<u>-</u>	<u>165,578</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	4,036,797	36,776	-	4,073,573
Equipment	381,403	21,541	-	402,944
Total Capital Assets Being Depreciated	<u>4,418,200</u>	<u>58,317</u>	<u>-</u>	<u>4,476,517</u>
Accumulated Depreciation For:				
Buildings and Improvements	2,426,091	191,590	-	2,617,681
Equipment	328,834	13,399	-	342,233
Total Accumulated Depreciation	<u>2,754,925</u>	<u>204,989</u>	<u>-</u>	<u>2,959,914</u>
Total Capital Assets Being Depreciated, Net	<u>1,516,603</u>	<u>(146,672)</u>	<u>-</u>	<u>1,516,603</u>
Governmental Activity Capital Assets, Net	<u>\$ 1,828,853</u>	<u>\$ (146,672)</u>	<u>\$ -</u>	<u>\$ 1,682,181</u>

Depreciation expense for the year ended June 30, 2017, was \$204,989.

**NOTE 4 – SHORT-TERM DEBT**

During the year, the District advanced from the County \$400,000 of its 2016-17 property taxes to fund current operations. During the year, the District repaid \$400,000 as shown in the following schedule:

Beginning Balance	Additions	Reductions	Ending Balance
\$ -	\$ 400,000	\$ 400,000	\$ -

**NOTE 5 – CHANGES IN LONG-TERM DEBT**

A summary of changes in long-term debt at June 30, 2017, follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Compensated Absences	\$ 22,664	\$ 13,364	\$ 17,957	\$ 18,071	\$ 18,071
Totals	<u>\$ 22,664</u>	<u>\$ 13,364</u>	<u>\$ 17,957</u>	<u>\$ 18,071</u>	<u>\$ 18,071</u>

**NOTE 6 – DEFINED BENEFIT PENSION PLAN**

A. General Information about the Pension Plan

**Plan Description** – All qualified permanent and probationary employees are eligible to participate in the District’s separate Miscellaneous Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by CalPERS. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the Plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

**Benefits Provided** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments (COLA), and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The COLA for the plan are applied as specified by the California Public Employees’ Retirement Law.

The Plan’s provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit Formula	2% @ 60	2.2% at 62
Benefit Vesting Schedule	5 years of service	7 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	60	62
Monthly Benefits, as a Percentage of Eligible Compensation	2% to 2.7%	1.0% to 2.5%
Required Employee Contribution Rates	7.00%	6.25%
Required Employer Contribution Rates	7.20%	6.53%

**Contributions** – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

**NOTE 6 – DEFINED BENEFIT PENSION PLAN** (Continued)

A. General Information about the Pension Plan (Continued)

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	<u>Miscellaneous</u>
Contributions - Employer	\$ 8,582
Contributions - Employee (Paid by Employer)	-

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2017, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 314,575
Total Net Pension Liability	<u>\$ 314,575</u>

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2017 and 2016, was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2016	0.0080%
Proportion - June 30, 2017	0.0080%
Change - Increase (Decrease)	(0.000000)



**NOTE 6 – DEFINED BENEFIT PENSION PLAN** (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

For the year ended June 30, 2017, the District recognized a pension expense of \$2,727. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions Subsequent to Measurement Date	\$ -	\$ -
Differences between Actual and Expected Experience	430	6,158
Changes in Assumptions	53,333	4,067
Change in Employer's Proportion and Differences between the Employer's Contributions and the Employer's Proportionate Share of Contributions	-	-
Net Differences between Projected and Actual Earnings on Plan Investments	<u>12,062</u>	<u>-</u>
Total	<u>\$ 65,825</u>	<u>\$ 10,225</u>

\$0 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	
2018	\$ 12,934
2019	31,135
2020	18,692
2021	(7,161)
2022	-
Thereafter	<u>-</u>
Total	<u>\$ 55,600</u>

**NOTE 6 – DEFINED BENEFIT PENSION PLAN** (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

**Actuarial Assumptions** – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate <sup>(1)</sup>	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50%
Mortality <sup>(2)</sup>	Derived using CalPERS' Membership Data for all Funds
Post-Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor purchasing power, applies 2.75% thereafter

<sup>(1)</sup> Net of pension plan investment expenses, including inflation.

<sup>(2)</sup> The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.15% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.15%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

**NOTE 6 – DEFINED BENEFIT PENSION PLAN** (Continued)

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions** (Continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS' Board Action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statements No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as it has changed its methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>
Global equity	47%
Fixed income	19%
Inflation assets	6%
Private equity	12%
Real estate	11%
Infrastructure and forestland	3%
Liquidity	2%
Total	<u>100%</u>

**NOTE 6 – DEFINED BENEFIT PENSION PLAN** (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease Net Pension Liability	6.15% \$ 490,377
Current Discount Rate Net Pension Liability	7.15% \$ 314,575
1% Increase Net Pension Liability	8.15% \$ 168,973

***Pension Plan Fiduciary Net Position*** – Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to the Pension Plan

At June 30, 2017, the District had no payables for contributions to the pension plan for the year ended June 30, 2017.

**NOTE 7 – OPERATING LEASES**

The District entered into an operating lease with an unrelated party to lease District owned property with lease terms in excess of one year. The term of the lease commenced on July 3, 2006, and expired on December 31, 2009. The District renewed the lease on February 1, 2011, and the new term expired on January 31, 2012. Rent was due on the first day of each month, in the sum of \$2,000 per month payable on the first of each month from July 1, 2010, through January 31, 2011, and on February 1, 2011, the rent was increased to \$2,400 per month. On February 23, 2012, the Board approved the rent to increase from \$2,400 per month to \$2,500 per month and extended the term of the lease. The rent is to increase by \$100 each year on the anniversary of the lease commencement date. Effective May 1, 2017, rent increased to \$2,900. For the year ended June 30, 2017, the District received lease income of \$33,800.

Future rental payment to be received is as follows:

<u>Year Ended June 30,</u>	
2017	<u>\$ 33,800</u>
Total	<u><u>\$ 33,800</u></u>

## **NOTE 8 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2017, expenditures exceeded appropriations in the District's fund categories as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
Salaries and employee benefits	\$ 21,328
Services and supplies	54,879
Capital outlay	58,317

## **NOTE 9 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the California Association for Parks and Recreation Insurance (CAPRI) which is a risk-sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the CAPRI is to manage and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2017, the District participated in the liability and property programs of the CAPRI as follows:

- Comprehensive general and automobile liability coverage: Total risk financing self-insurance limits of \$1,000,000 per occurrence for personal injury and property damage to which the coverage applies. The District purchased additional excess coverage layers: with limits of \$24,000,000 excess of \$1,000,000 for general, automobile, and public officials and employee liability coverage. There is no deductible to the District for general liability claims.

In addition to the above, the District also has the following insurance coverage:

- Public officials and employee practices liability with a \$25,000,000 annual aggregate limit per member because of wrongful act(s) which occurs during the coverage period for which the coverage applies. There is a \$20,000 deductible for each occurrence for judgment or settlement and payments for defense costs as they are incurred. If the District consults with its general counsel and if such counsel has experience with labor and employment law, or with its labor and employment counsel, or CAPRI – recommended labor and employment counsel prior to termination, layoffs, downsizing or other employment related matter, the deductible will be reduced to \$5,000 for any employment liability lawsuit brought to that employee.
- All-risk property loss coverage, including boiler and machinery coverage, is subject to a \$2,000 deductible per occurrence. All risk property coverage has an annual aggregate limit of \$1,000,000. Boiler and machinery has an excess limit of \$100,000,000.
- Workers' compensation coverage with \$350,000 in limits. Insurance is up to statutory limits per occurrence.
- Flood coverage has an annual aggregate limit of \$10,000,000. Earthquake coverage has an annual aggregate limit of \$5,000,000 for all member districts. The deductible for all loss or damage arising from the risks of flood and/or earthquake is \$50,000 per occurrence or 5% of the value of the building, contents and/or structure damaged, whichever is greater. The deductible for all loss or damage arising from the risk of flood is \$20,000.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years.

There were no reductions in insurance coverage in fiscal year 2017. 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 claims payable as of June 30, 2017.

## **NOTE 10 – SUBSEQUENT EVENTS**

In July 2017 and January 2018, the District approved two additional advances from its property taxes in the amounts of \$200,000 and \$200,000, respectively. As of the date of this report, the District has paid off \$400,000 of the \$400,000 in advances.

The date to which events occurring after June 30, 2017, have been evaluated for possible adjustments to the financial statements or disclosures is June 18, 2018, which is the date that the financial statements were available to be issued.

## **NOTE 11 – GOING CONCERN**

In 2009, the District incurred an operating deficit mostly as a result of major capital expenditures for the construction of two community pools. This operating deficit was the major factor that caused the deficit in the District's fund balance and caused the District to be strapped for cash and depend on property tax advances from the County to fund current operations.

In response to these fiscal pressures, the District implemented District-wide cost cutting measures in 2010, which included major reductions in staffing and costs, including the dismissal of key management positions. The result of this and other measures taken resulted in a positive change in fund balance of \$231,466 for the June 30, 2010, financial statements. In 2011, the District continued with its efforts to keep costs down by leaving positions unfilled until the District's situation improves. However, on June 7, 2011, the District was notified by the City of Arvin that it would terminate its contract for After School Programs; earlier in 2011, the City of Lamont also terminated its contract with the District for the same After School Programs. The approximate net loss of revenue to the District for future years was \$25,000, which represents about 28% of total charges for services.

During 2011, the District hired a consultant to assist the District with grant applications to fund various District capital projects. However, as of the date of this report, the District has been unsuccessful in obtaining any grants. During 2016-17, the District no longer had assistance from a consultant for grant applications.

To fund current operations, the District mainly relies on property taxes from the County, which make up about 84% of total revenues. Because the payment of salaries and benefits take approximately 56% of property taxes, the District continues to rely on advances from the County to fund operations. In the current fiscal year, the County advanced \$400,000 of the District's 2016-17 property taxes, of which \$400,000 has been repaid (refer to Note 4). However, in July 2017, the District received one additional advance from the County in the amounts of \$200,000 from its 2016-17 property taxes (refer to Note 10). The District plans to monitor its expenses, managing its operations more closely, delaying filling certain vacant positions, and increasing its revenues by obtaining additional grant funding.

The ability of the District to continue as a going concern is dependent upon the continued monitoring of expenses and the success of the District in improving the District's fiscal position.

The financial statements do not include any adjustments that might be necessary if the District is unable to continue operating.

**REQUIRED SUPPLEMENTARY INFORMATION**

**BEAR MOUNTAIN RECREATION AND PARK DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
(GAAP) GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>OPERATING REVENUES</b>				
Property Taxes	\$ 571,000	\$ 571,000	\$ 659,947	\$ 88,947
Charges for Services and Facilities	71,700	71,700	75,086	3,386
Interest Income	-	-	83	83
Miscellaneous	8,000	8,000	53,941	45,941
<b>Total Operating Revenues</b>	<u>650,700</u>	<u>650,700</u>	<u>789,057</u>	<u>138,357</u>
<b>OPERATING EXPENDITURES</b>				
Salaries and Employee Benefits	348,926	348,926	370,254	(21,328)
Services and Supplies	263,023	263,023	317,902	(54,879)
Capital Outlay	-	-	58,317	(58,317)
<b>Total Operating Expenditures</b>	<u>611,949</u>	<u>611,949</u>	<u>746,473</u>	<u>(134,524)</u>
<b>Net Change in Fund Balance</b>	38,751	38,751	42,584	<u>\$ 3,833</u>
<b>Fund Balance at Beginning of Year</b>	<u>58,574</u>	<u>58,574</u>	<u>58,574</u>	
<b>Fund Balance at End of Year</b>	<u>\$ 97,325</u>	<u>\$ 97,325</u>	<u>\$ 101,158</u>	



**BEAR MOUNTAIN RECREATION AND PARK DISTRICT  
COST-SHARING DEFINED BENEFIT PENSION PLAN  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
AS OF JUNE 30, 2017  
LAST 10 YEARS\***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the Net Pension Liability	0.0080%	0.0080%	0.0091%
Proportionate Share of the Net Pension Liability	\$ 314,575	\$ 278,952	\$ 201,076
Covered-Employee Payroll	\$ 244,803	\$ 246,058	\$ 305,657
Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	128.50%	113.37%	81.74%
Plan's Fiduciary Net Position	\$ 1,110,918	\$ 1,133,957	\$ 992,302
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	353.15%	406.51%	397.16%

\* Fiscal year 2015 was the 1<sup>st</sup> year of implementation; therefore, only three years are shown.

**Notes to Schedule:**

**Benefit changes.** In 2015, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

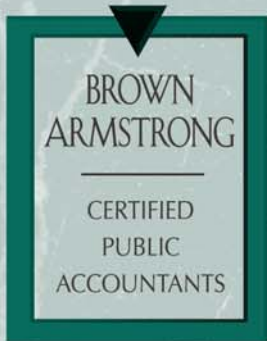
**Changes in assumptions.** In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

**BEAR MOUNTAIN RECREATION AND PARK DISTRICT  
 COST-SHARING DEFINED BENEFIT PENSION PLAN  
 SCHEDULE OF CONTRIBUTIONS  
 AS OF JUNE 30, 2017  
 LAST 10 YEARS\***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution (Actuarially Determined)	\$ 8,582	\$ 11,898	\$ 14,447
Contributions in Relation to the Actuarially Determined Contributions	<u>-</u>	<u>-</u>	<u>-</u>
Contribution Deficiency (Excess)	<u>\$ 8,582</u>	<u>\$ 11,898</u>	<u>\$ 14,447</u>
Covered-Employee Payroll	\$ 244,803	\$ 246,058	\$ 305,657
Contributions as a Percentage of Covered- Employee Payroll	3.51%	4.84%	4.73%

\* Fiscal year 2015 was the 1<sup>st</sup> year of implementation; therefore, only three years are shown.

## **OTHER REPORT**



**INDEPENDENT AUDITOR'S 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**

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Bear Mountain Recreation and Park District  
Lamont, California

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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 governmental activities and the major fund of the Bear Mountain Recreation and Park District (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 18, 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 District'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 deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic 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*.

We also noted other matters that we have reported to the management of the District in a separate letter dated June 18, 2018.

## Purpose of this Report

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

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
June 18, 2018

## **FINDINGS AND RECOMMENDATIONS SECTION**

**BEAR MOUNTAIN RECREATION AND PARK DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2017**

Current Year Findings:

None.

**BEAR MOUNTAIN RECREATION AND PARK DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2017**

Prior Year Findings:

None.