

**SOUTH SANTA CLARA VALLEY
MEMORIAL DISTRICT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

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SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

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FINANCIAL SECTION

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

INDEPENDENT AUDITOR'S REPORT

Governing Board
South Santa Clara Valley Memorial District
Gilroy, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the South Santa Clara Valley Memorial District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 entity'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 entity'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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the District, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance 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 and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

We noted certain matters that we reported to management of the District in a separate letter dated December 1, 2018.

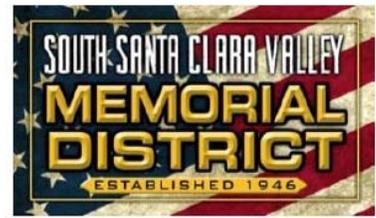
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 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 District's internal control over financial reporting and compliance.



Palo Alto, California
December 1, 2018

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT



MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

This section of South Santa Clara Valley Memorial District's (the District) financial report presents our discussion and analysis of the District's financial performance during the past two fiscal years that ended on June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations).

The *Fund Financial Statements* include statements for governmental activities, business-type activities, proprietary or fiduciary activities. The District operates only governmental activities. The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting. In the *Governmental activities*, the District has only one fund, General fund.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the South Santa Clara Valley Memorial District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing board's responsibility is to provide services to our veterans and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the services and the safety of our facilities will likely be an important component in this evaluation.

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

REPORTING THE DISTRICT'S GENERAL FUND

Fund Financial Statements

The fund financial statements provide detailed information about the District's general fund. All of the District's basic services are reported in this fund, which focuses on how money flows into and out of the fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. The fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$357,828 and \$289,925 for the fiscal years ended June 30, 2018 and 2017. Of these amounts \$278,830 and \$205,059 were unrestricted net position that represent the accumulated results of all past years' operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2018	2017
Assets		
Current and other assets	\$ 283,119	\$ 209,348
Capital assets	78,998	84,866
Total Assets	<u>362,117</u>	<u>294,214</u>
Liabilities		
Current liabilities	4,289	4,289
Total Liabilities	<u>4,289</u>	<u>4,289</u>
Net Position		
Net investment in capital assets	78,998	84,866
Unrestricted	278,830	205,059
Total Net Position	<u>\$ 357,828</u>	<u>\$ 289,925</u>

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 11. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities	
	2018	2017
Revenues		
Program revenues:		
Charges for services	\$ 66,151	\$ 44,962
General revenues:		
Property taxes	140,144	133,349
Interest and investment earnings	878	435
Total Revenues	<u>207,173</u>	<u>178,746</u>
Expenses		
Community services	139,270	116,874
Change in Net Position	<u>\$ 67,903</u>	<u>\$ 61,872</u>

Governmental Activities

As reported in the *Statement of Activities* on page 11, the cost of all of our governmental activities in 2018 and 2017 was \$139,270 and \$116,874, respectively. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$140,144 and \$133,349, respectively, because the cost was paid by those who benefited from the programs, \$66,151 and \$44,962, respectively.

Rental revenues may fluctuate from year to year due to the fact that the building rental for outside events is inconsistent and not fixed. Fluctuation in property tax depends on the local value of the real estate.

Any significant changes in expenses from year to year would most likely be due to repairs or improvements to the building due to its age.

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

THE DISTRICT'S FUND - GENERAL FUND

As the District completed the 2018 year, our General fund reported a total fund balance of \$278,830, which is an increase of \$73,771 from 2017 (Table 3).

Table 3

	General Fund	
	2018	2017
Beginning fund balance	\$ 205,059	\$ 210,116
Revenues	207,173	178,746
Expenditures	(133,402)	(183,803)
Ending fund balance	\$ 278,830	\$ 205,059

Revenues may fluctuate from year to year. The largest percent of the charges for service revenues is accrued from the rental of the building for outside events. There are many factors that may affect the increase and decrease of usage.

General Fund Budgetary Highlights

While most expenditures are fairly consistent throughout the years, there are exceptions with capital improvements and repairs due to the age of the building. During the 2017-18 fiscal year there were no expenditures on capital improvements, the only additional costs include repairs. Utilities costs increased slightly for gas, electricity and water due to rate and usage increases. However, the building's solar helps to reduce electricity costs.

CAPITAL ASSETS

Capital Assets

On June 30, 2018, the District had \$78,998 in a broad range of capital assets (net of depreciation), including land, furniture, and equipment (Table 4). Cost of the building is not included as it was built in 1951; the original cost is not available and has been fully depreciated. Management considers that the net building amount is not material to the financial statement. The yearend amount represents \$5,868 in depreciation, resulting in a net decrease of \$5,868 from fiscal year 2017 (see Note 3 for more details).

Table 4

	Governmental Activities	
	2018	2017
Land	\$ 8,020	\$ 8,020
Buildings and improvements	69,858	74,382
Equipment	1,120	2,464
Total	\$ 78,998	\$ 84,866

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Future Capital Expenditures

With limited revenue available from taxes and rentals, and significant expenses due to maintenance and utilities, funds are limited for 2018-19 capital projects. As a result, the District launched a capital improvement campaign in May 2018 in hopes of raising \$250,000 over the next year. The capital improvement campaign includes a bathroom and kitchen remodel, upgrade of the security and electrical systems, door and window replacement and front porch reinforcement. The improvements will only proceed when funds are raised.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2017-2018 ARE NOTED BELOW:

Since the Veterans Memorial Hall was built in 1951, maintenance is an ongoing effort. However, no major building improvements were started during FY17-18 due to the lack of significant funds. Only small improvements/investments such as minor plumbing and electrical repairs.

Instead management focus was on planning for the future. The District Board invested in grant research and a planning workshop. Though the grant research wasn't fruitful, it was a necessary step. The planning workshop focused on reviewing the history of the building, revisiting the capital improvement projects previously identified, reviewing the budget and finally, identifying potential funding options. Among the options were a capital improvement campaign, individual fundraising events, increasing rentals through additional reservations, continuing to research grants, tax-exempt financing, ballot/tax measure, increasing boundaries, and seeking legislative support. The Ballot/Tax Measure option was the only option eliminated due to expense and return on investment. All other options will be considered and researched further.

Staff also continued to streamline operations, transparency and compliance with local and state requirements for special district. While some costs were reduced, such as legal fees, others were increased, such as insurance. It will be an ongoing challenge to reduce costs because it is already lean. However, prudent spending will always be the goal.

Staff continued to focus on customer service for events. Now Staff is on-site to help with event set up and coordination with the bar and security. This has resulted in events running more smoothly and highly satisfied renters. This year there was a couple of repeat renters, but more importantly, new renters were the result of positive referrals.

These efforts, though modest, continue to help move the District to a more stable and healthy position for the long term.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

To forecast the District budget for the 2018-19 year, the governing board and staff used the following key factors:

- The Gilroy Economic Development Corp projects Gilroy's population to grow 7.6% over the next 5 years and therefore projecting the number of households to increase at about the same rate. As a result, the District can conservatively estimate a 1% growth of tax revenue over the next 5 years.

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

- While there are still opportunities to rent the Hall, the prime days for rentals (Saturdays) are limited. At some point in time, the availability will max out and the only way to increase revenue is through increased rates.
- Since this is an election year, the budget must reflect the potential for election costs (\$62,000 based on 2015 estimates.)
- Capital Improvement Projects (see Capital Improvement Plan) scheduled for 2018-19 total \$43,000 have been included in the expense budget. On the revenue side the Capital Improvement Campaign could bring in as much as \$250,000, with additional projects scheduled for following year.
- Utilities are all increasing beginning July 1, 2018.
- Other services (insurance, memberships, HVAC maintenance, Solar maintenance, Floor and Bathroom cleaning) have also increased between 2% and 10%.
- The District will now pay for professional liability insurance (\$1,700) for the executive director.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Executive Director at South Santa Clara Valley Memorial District, 74 West Sixth Street, Gilroy, California, 95020, or e-mail at sscvmd@gmail.com.

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	\$ 269,729
Accounts receivable	7,078
Prepaid expenses	6,312
Capital assets not depreciated	8,020
Capital assets, net of accumulated depreciation	70,978
Total Assets	362,117
LIABILITIES	
Accounts payable	4,289
Total Liabilities	4,289
NET POSITION	
Net investment in capital assets	78,998
Unrestricted	278,830
Total Net Position	\$ 357,828

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

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

GOVERNMENTAL FUND BALANCE SHEET JUNE 30, 2018

	<u>General Fund</u>
ASSETS	
Deposits and investments	\$ 269,729
Receivables	7,078
Prepaid expenditures	6,312
Total Assets	<u>\$ 283,119</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 4,289
 Fund Balances:	
Nonspendable	6,312
Unassigned	272,518
Total Fund Balances	<u>278,830</u>
Total Liabilities and Fund Balances	<u>\$ 283,119</u>

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

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balance - Governmental Fund	\$ 278,830
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	78,998
Total Net Position - Governmental Activities	<u>\$ 357,828</u>

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

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 140,144
Rental income	66,151
Interest income	878
Total Revenues	<u>207,173</u>
EXPENDITURES	
Current - community services	
Insurance	6,820
Janitorial	15,475
Office expenses	8,398
Outside services	1,441
Professional services	43,699
Repairs and maintenance	29,553
Utilities	17,748
Other	10,268
Total Expenditures	<u>133,402</u>
NET CHANGE IN FUND BALANCE	73,771
Fund Balance - Beginning	<u>205,059</u>
Fund Balance - Ending	<u>\$ 278,830</u>

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

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Fund \$ 73,771

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This amount is the depreciation in the period.

	<u>(5,868)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 67,903</u></u>

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

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The South Santa Clara Valley Memorial District (the District) was formed on August 26, 1946 and operated under Division 6, Chapter 1, commencing at Section 1170 of the Military and Veterans' Code of the State of California. The District owns and maintains a building at 74 West Sixth Street, Gilroy, for the use of veterans in the District. Local posts of the American Legion, Veterans of Foreign Wars and auxiliaries of these groups use the building. These organizations have formed a Bar Council, which operates the bar and clubroom in the building. The District area is generally bounded on the North by an Easterly prolongation of Church Avenue and on the East, South and West by the Santa Clara County line.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary. The District has only a governmental fund category.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The District operates only one general fund.

General Fund The General Fund is the chief and only operating fund for the District. It is used to account for the ordinary operations of the District. All transactions are accounted for in this fund.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, of the District and for each governmental function. 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 combined its depreciation indirect expenses to its only function, community services, in the *Statement of Activities*. Program revenues include charges paid by the recipients of the goods or services offered by the programs. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District does not have restricted net position as of June 30, 2018.

Fund Financial Statements Fund financial statements report detailed information about the District.

Governmental Fund The District operates only one governmental fund, the general fund. The fund is accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 90 days.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, such as property taxes. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental fund as expenditures. Allocations of costs, such as depreciation, are not recognized in the governmental fund but are recognized in the entity-wide statements.

Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county are determined by the program sponsor.

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental fund and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental fund.

However, long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Fund Balances - Governmental Fund

As of June 30, 2018, fund balances of the governmental fund is classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District currently does not have any restricted funds.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes. The District currently does not have any assigned funds.

Unassigned - all other spendable amounts.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The District has no related debt outstanding as of June 30, 2018. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. All of the District's net positions are unrestricted as of June 30, 2018.

Spending Order Policy

When an expenditure is incurred for purposes by which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

In fiscal year 2013-2014, the governing board adopted a minimum fund balance policy for the General fund in order to protect the District against revenue shortfalls or unpredicted on-time expenditures. The policy requires a reserve for emergency, capital improvement and election costs of unassigned amounts equal to no less than 50 percent of General fund expenditures.

Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The District's governing board approves each year's budget prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the governing board. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption.

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Clara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	\$ 253,076
Investments in county pool	16,653
Total Deposits and Investments	<u>\$ 269,729</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer. The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

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 manages its exposure to interest rate risk by investing in the County Treasury Pool. The fair value of the deposits with the County Treasury at June 30, 2018, was \$16,519 and the weighted average of the pool was 479 days or 1.31 years.

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. The District's investments in the County Pool are not rated as June 30, 2018.

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, 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 percent of the total amount deposited by the public agency. As of June 30, 2018, \$3,074 of the District's bank balance was exposed to custodial credit risk.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in possession of an outside party. As of June 30, 2018 the District's investment portfolio is not exposed to custodial credit risk because the portfolio consists exclusively of investments in the Santa Clara County Investment Pool. Investments in governmental external investment pools are not considered to have exposure to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Fair Value Measurements

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. Investments in the Santa Clara County Treasury Investment Pool are uncategorized because transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value.

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 8,020	\$ -	\$ -	\$ 8,020
Capital Assets Being Depreciated:				
Building improvements	465,859	-	-	465,859
Furniture and equipment	44,883	-	-	44,883
Total Capital Assets Being Depreciated	510,742	-	-	510,742
Total Capital Assets	518,762	-	-	518,762
Less Accumulated Depreciation:				
Building improvements	391,477	4,524	-	396,001
Furniture and equipment	42,419	1,344	-	43,763
Total Accumulated Depreciation	428,028	5,868	-	439,764
Governmental Activities Capital Assets, Net	\$ 90,734	\$ (5,868)	\$ -	\$ 78,998

Depreciation expense was charged as a direct expense to community services.

NOTE 4 - FUND BALANCES

At June 30, 2018, the District's general fund ended the year with nonspendable fund balance of \$6,312 and unassigned fund balance of \$272,518. Of the unassigned amount, \$66,701 (50% of the current year General Fund expenditures) is reserved for emergency, capital improvement and election costs per the District's minimum fund balance policy.

REQUIRED SUPPLEMENTARY INFORMATION

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SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Positive
				(Negative)
			Final	to Actual
REVENUES				
Property taxes	\$ 122,577	\$ 122,577	\$ 140,144	\$ 17,567
Rental income	45,000	45,000	66,151	21,151
Interest income	-	-	878	878
Total Revenues	<u>167,577</u>	<u>167,577</u>	<u>207,173</u>	<u>39,596</u>
EXPENDITURES				
Current				
Insurance	6,097	6,097	6,820	(723)
Janitorial	14,880	14,880	15,475	(595)
Office expenses	3,000	3,000	8,398	(5,398)
Outside services	27,064	27,064	1,441	25,623
Professional services	19,100	19,100	43,699	(24,599)
Repairs and maintenance	58,636	58,636	29,553	29,083
Utilities	14,881	14,881	17,748	(2,867)
Other	3,627	3,627	10,268	(6,641)
Total Expenditures	<u>147,286</u>	<u>147,286</u>	<u>133,402</u>	<u>13,884</u>
NET CHANGE IN FUND BALANCE	<u>20,291</u>	<u>20,291</u>	<u>73,771</u>	<u>53,480</u>
Fund Balance - Beginning	205,059	205,059	205,059	-
Fund Balance - Ending	<u>\$ 225,350</u>	<u>\$ 225,350</u>	<u>\$ 278,830</u>	<u>\$ 53,480</u>

See accompanying note to required supplementary information.

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - BUDGETS AND BUDGETARY DATA

Comparisons with financial results for the current fiscal period are presented as required supplementary information and include, in addition to actual expenditures, amounts that have been appropriated for projects and programs. Unexpended capital budget appropriations are carried forward to subsequent years. The budget represents a process through which policy decisions are made, implemented and controlled. Appropriations may be adjusted during the year with the approval of the district. Accordingly the legal level of budgetary control by the district is the general fund level. The schedule is prepared using current resources measurement focus and the modified accrual basis of accounting.

INDEPENDENT AUDITOR'S REPORT

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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**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***

Governing Board
South Santa Clara Valley Memorial District
Gilroy, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of South Santa Clara Valley Memorial 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, and have issued our report thereon dated December 1, 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 South Santa Clara Valley Memorial District's internal control. Accordingly, we do not express an opinion on the effectiveness of South Santa Clara Valley Memorial 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

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*.

We noted certain matters that we reported to management of the District in a separate letter dated December 1, 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.

A handwritten signature in black ink that reads "Davsinek, Trine, Day & Co., LLP". The signature is written in a cursive, flowing style.

Palo Alto, California
December 1, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

**SUMMARY SCHEDULE OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SOUTH SANTA CLARA VALLEY MEMORIAL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

There were no audit findings reported in the prior year's schedule of financial statement findings.

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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Governing Board
South Santa Clara Valley Memorial District
Gilroy, California

In planning and performing our audit of the financial statements of South Santa Clara Valley Memorial District, for the year ended June 30, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 1, 2018 on the government-wide financial statements of the District.

Findings

The District's bank reconciliation balance for the operating account was not reconciled to the same balance on the general ledger. In addition, the beginning fund balance on management activities and rental activities do not agree to prior year's audited ending fund balances. We noted the discrepancies by comparing a trial balance report we obtained from the prior year's audit to a report printed during current year's audit.

As both discrepancies are immaterial to the financial statements, we did not propose audit adjustments. However, these types of errors could be significant and result in unexpected variances with the operating budget.

Recommendation

Bank reconciliation should be performed timely and properly. All reconciliations performed shall be reviewed, initialed and documented that the review was performed. Also, after the year end book closed, the Quickbook file should be locked and should not be changed after the audited financial report issued.

We will review the status of the current year comments during our next audit engagement.

Palo Alto, California
December 1, 2018