



# **Avila Beach Community Services District**

## **Avila Beach, California**

### **Annual Financial Report**

**For the Fiscal Year Ended  
June 30, 2016**



## **AVILA BEACH COMMUNITY SERVICES DISTRICT**

### **List of Elected and District Staff**

**June 30, 2016**

#### **Elected Officials**

#### **BOARD OF DIRECTORS**

<b>President</b>	<b>Peter Kelley</b>
<b>Vice President</b>	<b>John Janowicz</b>
<b>Director</b>	<b>Ken San Filippo</b>
<b>Director</b>	<b>Lynn Helenius</b>
<b>Director</b>	<b>Eric DeWeese</b>

#### **District Staff**

<b>General Manager</b>	<b>Bradley Hagemann</b>
------------------------	-------------------------

**Avila Beach Community Services District  
Post Office Box 309  
191 San Miguel Street  
Avila Beach, California 93424  
(805) 595-2664 [www.avilabeachcsd.org](http://www.avilabeachcsd.org)**



**Avila Beach Community Services District**  
**Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2016**

**Avila Beach Community Services District  
Annual Financial Report  
For the Fiscal Year Ended June 30, 2016**

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## **Financial Section**





Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA, CGMA  
Jonathan P. Abadesco, CPA

# Fedak & Brown LLP

Certified Public Accountants

Cypress Office:  
6081 Orange Avenue  
Cypress, California 90630  
(657) 214-2307  
FAX (714) 527-9154

Riverside Office:  
4204 Riverwalk Pkwy. Ste. 390  
Riverside, California 92505  
(951) 977-9888

## Independent Auditors' Report

Board of Directors  
Avila Beach Community Services District  
Avila Beach, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Avila Beach Community Services District (District) as of and for the year ended June 30, 2016, 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Avila Beach Community Services District, as of June 30, 2016, and the respective changes in its net position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Independent Auditor's Report, continued**

### ***Other Matter***

The financial statements as of and for the year ended June 30, 2015, were audited by the predecessor auditor who expressed an unmodified opinion on their report dated October 5, 2015. In their report, the predecessor auditor reported an *Emphasis of Matter* regarding its inability to implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

As part of our audit of the 2016 financial statements, we also audited the adjustments described in Note 8 that were applied to restate the 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of the District other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, budgetary comparison information on pages 42 through 43, and the required supplementary information on pages 44 through 45 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 inquires 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 a report dated November 8, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 46 and 47.

*Fedak & Brown LLP*

**Fedak & Brown LLP**  
Cypress, California  
November 8, 2016

**Avila Beach Community Services District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2016**

The following Management's Discussion and Analysis of activities and financial performance of the Avila Beach Community Services District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The District's net position increased 5.46% or \$317,741 from \$5,818,061 to \$6,135,802 in 2016, as a result of current year operations.
- In 2016, total revenues from all sources increased 19.14% or \$264,382 from \$1,381,277 to \$1,645,659, primarily due to increases of \$242,608 in program revenues, and \$21,774 in general revenues.
- In 2016, total expenses from the District operations decreased 18.38% or \$299,058 from \$1,626,976 to \$1,327,918, primarily due to fund decreases of \$112,824 in general government, \$985 in street lighting, \$120,020 in water, and \$66,989 in sanitary, which were offset by fund increase of \$1,760 in refuse.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements**

**Statement of Net Position and Statement of Activities**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes, assessments and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include general government and street lighting. The business-type activities of the District include operations for sanitation (sewer), water, and refuse (trash and solid waste).

The government-wide financial statements can be found on pages 9 through 10 of this report.

**Avila Beach Community Services District  
Management's Discussion and Analysis, continued  
For the Year Ended June 30, 2016**

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and enterprise funds.

### **Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds**

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The District maintains two individual governmental funds: general and street lighting. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and street lighting fund, which are considered major funds. The District maintains no non-major governmental funds.

The District adopts an annual appropriated budget for its general fund and street lighting fund. A budgetary comparison statement has been provided for the general fund and street lighting fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11-14 of this report.

### **Statement of Net Position and Statement of Revenues, Expenditures and Changes in Fund Balance – Enterprise Funds**

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses three enterprise funds to account for its water, sanitary, and refuse.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund financial statements provide separate information for all three enterprise funds.

The basic enterprise fund financial statements can be found on pages 15 through 18 of this report.

**Avila Beach Community Services District  
Management's Discussion and Analysis, continued  
For the Year Ended June 30, 2016**

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 through 41 of this report.

## **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which can be found on pages 42 through 45 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$6,135,802 at the close of the most recent fiscal year, with an increase of \$317,741 compared with the prior year.

The largest portion of the District's net position (59.67%) reflects its net investment in capital assets (e.g. land, water/wastewater infrastructure and equipment). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

## **Statements of Net Position**

**Condensed Statements of Net Position**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total District</b>	
	<b>2016</b>	<b>As Restated</b>	<b>2016</b>	<b>As Restated</b>	<b>2016</b>	<b>As Restated</b>
<b>Assets:</b>						
Current assets	\$ 1,197,093	2,540,860	1,746,779	1,390,487	2,943,872	3,931,347
Capital assets, net	1,393	3,039	3,660,012	3,378,470	3,661,405	3,381,509
<b>Total assets</b>	<b>1,198,486</b>	<b>2,543,899</b>	<b>5,406,791</b>	<b>4,768,957</b>	<b>6,605,277</b>	<b>7,312,856</b>
<b>Deferred outflows of resources:</b>						
Deferred pension outflows	7,850	12,504	-	-	7,850	12,504
<b>Total deferred outflows of resources</b>	<b>7,850</b>	<b>12,504</b>	<b>-</b>	<b>-</b>	<b>7,850</b>	<b>12,504</b>
<b>Liabilities:</b>						
Current liabilities	18,439	401,488	326,694	963,302	345,133	1,364,790
Non-current liabilities	117,077	125,453	-	-	117,077	125,453
<b>Total liabilities</b>	<b>135,516</b>	<b>526,941</b>	<b>326,694</b>	<b>963,302</b>	<b>462,210</b>	<b>1,490,243</b>
<b>Deferred inflows of resources:</b>						
Deferred pension inflows	15,115	17,056	-	-	15,115	17,056
<b>Total deferred inflows of resources</b>	<b>15,115</b>	<b>17,056</b>	<b>-</b>	<b>-</b>	<b>15,115</b>	<b>17,056</b>
<b>Net position:</b>						
Net investment in capital assets	1,393	3,039	3,660,012	3,378,470	3,661,405	3,381,509
Unrestricted	1,054,312	2,009,367	1,420,085	427,185	2,474,397	2,436,552
<b>Total net position</b>	<b>\$ 1,055,705</b>	<b>2,012,406</b>	<b>5,080,097</b>	<b>3,805,655</b>	<b>6,135,802</b>	<b>5,818,061</b>

The remaining balance of unrestricted net position totaling \$2,474,397 may be used to meet the government's ongoing obligations.

**Avila Beach Community Services District**  
**Management's Discussion and Analysis, continued**  
**For the Year Ended June 30, 2016**

**Government-wide Financial Analysis, continued**

**Statements of Net Position, continued**

**Governmental activities** — Governmental activities decreased the District's net position by \$956,701 from the prior year. The decrease in net position was primarily due to decreases of \$133,392 from current year operations and \$823,310 from transfer out to support the operations of business-type activities.

**Business-type activities** — Business-type activities increased the District's net position by \$1,274,442 from the prior year. The increase in net position was primarily due to increases of \$451,133 from current year operations and \$823,310 from transfer in from governmental activities.

**Statements of Activities**

	Condensed Statements of Activities					
	Governmental Activities		Business-type Activities		Total District	
	2016	As Restated 2015	2016	As Restated 2015	2016	As Restated 2015
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 4,966	6,478	1,052,262	808,142	1,057,228	814,620
<b>General revenues:</b>						
Property taxes	245,284	284,707	295,813	243,146	541,097	527,853
Interest earnings	10,974	4,178	-	-	10,974	4,178
Rental income	36,360	34,626	-	-	36,360	34,626
<b>Total revenues</b>	<b>297,584</b>	<b>329,989</b>	<b>1,348,075</b>	<b>1,051,288</b>	<b>1,645,659</b>	<b>1,381,277</b>
<b>Expenses:</b>						
General government	421,039	533,863	-	-	421,039	533,863
Street lighting	9,937	10,922	-	-	9,937	10,922
Water	-	-	271,264	391,284	271,264	391,284
Sanitary	-	-	623,918	690,907	623,918	690,907
Refuse	-	-	1,760	-	1,760	-
<b>Total expenses</b>	<b>430,976</b>	<b>544,785</b>	<b>896,942</b>	<b>1,082,191</b>	<b>1,327,918</b>	<b>1,626,976</b>
<b>Change in net position</b>	<b>(133,392)</b>	<b>(214,796)</b>	<b>451,133</b>	<b>(30,903)</b>	<b>317,741</b>	<b>(245,699)</b>
<b>Transfers in/(out)</b>	<b>(823,310)</b>	<b>221,609</b>	<b>823,310</b>	<b>(221,609)</b>	<b>-</b>	<b>-</b>
<b>Net position, beginning of year</b>	<b>2,012,407</b>	<b>2,005,593</b>	<b>3,805,654</b>	<b>4,058,167</b>	<b>5,818,061</b>	<b>6,063,760</b>
<b>Net position, end of year</b>	<b>\$ 1,055,705</b>	<b>2,012,406</b>	<b>5,080,097</b>	<b>3,805,655</b>	<b>6,135,802</b>	<b>5,818,061</b>

- The District's net position increased 5.46% or \$317,741 from \$5,818,061 to \$6,135,802 in 2016, as a result of current year operations.
- In 2016, total revenues from all sources increased 19.14%, or \$264,382 from \$1,381,277 to \$1,645,659, primarily due to increases of \$242,608 in program revenues, and \$21,774 in general revenues.
- In 2016, total expenses from the District operations decreased 18.38%, or \$299,058 from \$1,626,976 to \$1,327,918, primarily due to fund decrease of \$112,824 in general government caused by the implementation of GASB statements 68 and 71; fund decrease of \$985 in street lighting caused by decrease in utility expenses, fund decrease of \$120,020 in water caused by decrease in water purchases, and fund decrease of \$66,989 in sanitary caused by decreases in contractual services, which were offset by fund increase of \$1,760 in refuse.

**Avila Beach Community Services District  
Management's Discussion and Analysis, continued  
For the Year Ended June 30, 2016**

**Government Funds' Financial Analysis**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The following discussion is correlated to the Balance Sheets – Governmental Funds found on page 11.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,178,654, a decrease of \$960,719 in comparison with the prior year. Of the total fund balance of \$1,178,654 for all governmental funds, 99.7% constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is assigned to indicate that it is not available for general spending because it has already been assigned for compensated absences.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, the fund balance of the general fund was \$1,178,342 of which \$3,431 was assigned for compensated absences. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 276.41% of total general fund expenditures, while total fund balance represents 277.22% of that same amount.

The fund balance of the District's general fund decreased \$1,178,034 as a result of \$144,925 loss from the current year's operations and \$1,033,109 transfer out to support the operations of the District's other funds.

The street lighting fund balance was \$312 which will be used for the ongoing maintenance and improvement of streets lights. The fund balance of the street light fund increased \$217,315 as a result of \$7,516 gain from the current year's operations and \$209,799 transfer in from the general fund to support its operations.

**Enterprise funds** – The District's enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net position for all enterprise funds increased \$1,274,443 from the prior year. Changes in total net position from the prior year are as follows: water enterprise increased by \$295,111 as a result of current year operations; sanitary enterprise increased by \$964,002 of which \$823,310 related to transfer in from the general fund in support of its operations and an increase of \$140,692 as a result of current year operations; and refuse enterprise increased by \$15,330 as a result of current year operations.

**Governmental Activities Budgetary Highlights**

The final actual expenditures for the General Fund and Street Lighting Fund for the year ended June 30, 2016 were more than budgeted by \$11,330 and \$3,563, respectively. Actual revenues for the General Fund and Street Lighting Fund for the year ended June 30, 2016 were less than the anticipated budget by \$26,581 and \$1,303, respectively. At June 30, 2016, there were no differences between the original and final amended budgets. (See Budgetary Comparison Schedule for the General Fund and Street Lighting Fund under Required Supplementary Information section on pages 42 and 43).

**Avila Beach Community Services District  
Management's Discussion and Analysis, continued  
For the Year Ended June 30, 2016**

**Capital Asset Administration**

	Governmental Activities		Business-type Activities		Total District	
	2016	2015	2016	2015	2016	2015
<b>Capital assets:</b>						
Non-depreciable assets	\$ 20	20	78,107	60,294	78,127	60,314
Depreciable assets	42,570	42,570	6,192,792	5,768,783	6,235,362	5,811,353
Total capital assets	42,590	42,590	6,270,899	5,829,077	6,313,489	5,871,667
Accumulated depreciation	(41,197)	(39,551)	(2,610,887)	(2,450,606)	(2,652,084)	(2,490,157)
Total capital assets, net	\$ 1,393	3,039	3,660,012	3,378,471	3,661,405	3,381,510

At the end of fiscal year 2016, the District's investment in capital assets amounted to \$3,661,405 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment. The capital assets of the District are more fully analyzed in Note 5 to the basic financial statements.

**Requests for Information**

This financial report is designed to provide the District's present users, including funding sources, customers, stakeholders and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager, Bradley Hagemann at Avila Beach Community Services District, Post Office Box 309, Avila Beach, California 93424 or (805) 835-3163.

## **Basic Financial Statements**

**Avila Beach Community Services District**  
**Statement of Net Position**  
**June 30, 2016**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Current assets:</b>			
Cash and cash equivalents (note 2)	\$ 1,179,284	1,492,379	2,671,663
Accrued interest receivable	3,020	-	3,020
Accounts receivable – utilities, net (note 3)	-	253,084	253,084
Accounts receivable – other	7,318	-	7,318
Property taxes and assessments receivable	<u>7,471</u>	<u>1,316</u>	<u>8,787</u>
<b>Total current assets</b>	<u>1,197,093</u>	<u>1,746,779</u>	<u>2,943,872</u>
<b>Non-current assets:</b>			
Capital assets – not being depreciated (note 5)	20	78,107	78,127
Capital assets – being depreciated, net (note 5)	<u>1,373</u>	<u>3,581,905</u>	<u>3,583,278</u>
<b>Total non-current assets</b>	<u>1,393</u>	<u>3,660,012</u>	<u>3,661,405</u>
<b>Total assets</b>	<u>1,198,486</u>	<u>5,406,791</u>	<u>6,605,277</u>
<b>Deferred outflows of resources:</b>			
Deferred pension outflows (note 7)	<u>7,850</u>	<u>-</u>	<u>7,850</u>
<b>Total deferred outflows of resources</b>	<u>7,850</u>	<u>-</u>	<u>7,850</u>
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	11,174	67,167	78,341
Accrued wages and related payables	1,834	-	1,834
Deposits and unearned revenue	2,000	259,527	261,527
Compensated absences (note 6)	<u>3,431</u>	<u>-</u>	<u>3,431</u>
<b>Total current liabilities</b>	<u>18,439</u>	<u>326,694</u>	<u>345,133</u>
<b>Non-current liabilities:</b>			
Net pension liability (note 7)	<u>117,077</u>	<u>-</u>	<u>117,077</u>
<b>Total non-current liabilities</b>	<u>117,077</u>	<u>-</u>	<u>117,077</u>
<b>Total liabilities</b>	<u>135,516</u>	<u>326,694</u>	<u>462,210</u>
<b>Deferred inflows of resources:</b>			
Deferred pension inflows (note 7)	<u>15,115</u>	<u>-</u>	<u>15,115</u>
<b>Total deferred inflows of resources</b>	<u>15,115</u>	<u>-</u>	<u>15,115</u>
<b>Net position:</b>			
Net investment in capital assets	1,393	3,660,012	3,661,405
Unrestricted	<u>1,054,312</u>	<u>1,420,085</u>	<u>2,474,397</u>
<b>Total net position</b>	<u>\$ 1,055,705</u>	<u>5,080,097</u>	<u>6,135,802</u>

See accompanying notes to the basic financial statements

**Avila Beach Community Services District**  
**Statement of Activities**  
**For the Year Ended June 30, 2016**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>	<b>Net (Expense) Revenue and Changes in Net Position</b>		
		<b>Charges for Services</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Governmental activities:</b>					
General government	\$ 421,039	3,865	(417,174)	-	(417,174)
Lighting	9,937	1,101	(8,836)	-	(8,836)
<b>Total governmental activities</b>	<b>430,976</b>	<b>4,966</b>	<b>(426,010)</b>	<b>-</b>	<b>(426,010)</b>
<b>Business-type activities:</b>					
Water	271,264	484,614	-	213,350	213,350
Sanitary	623,918	550,558	-	(73,360)	(73,360)
Refuse	1,760	17,090	-	15,330	15,330
<b>Total business-type activities</b>	<b>896,942</b>	<b>1,052,262</b>	<b>-</b>	<b>155,320</b>	<b>155,320</b>
<b>Total</b>	<b>\$ 1,327,918</b>	<b>1,057,228</b>	<b>(426,010)</b>	<b>155,320</b>	<b>(270,690)</b>
<b>General revenues:</b>					
Property taxes		\$ 245,284	295,813	541,097	
Interest earnings		10,974	-	10,974	
Rental income		36,360	-	36,360	
Transfers in/(out)		(823,310)	823,310	-	
<b>Total general revenues</b>		<b>(530,692)</b>	<b>1,119,123</b>	<b>588,431</b>	
<b>Change in net position</b>		<b>(956,702)</b>	<b>1,274,443</b>	<b>317,741</b>	
<b>Net position, beginning of year - as restated (note 8)</b>		<b>2,012,407</b>	<b>3,805,654</b>	<b>5,818,061</b>	
<b>Net position, end of year</b>	<b>\$ 1,055,705</b>	<b>5,080,097</b>	<b>6,135,802</b>		

See accompanying notes to the basic financial statements

**Avila Beach Community Services District**  
**Balance Sheet – Governmental Funds**  
**June 30, 2016**

	<u>General</u>	<u>Streets Lighting</u>	<u>Total Governmental Activities</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 1,179,284	-	1,179,284
Accrued interest receivable	3,020	-	3,020
Accounts receivable – other	7,006	312	7,318
Property taxes and assessments receivable	<u>7,471</u>	<u>-</u>	<u>7,471</u>
<b>Total assets</b>	<b>\$ 1,196,781</b>	<b>312</b>	<b>1,197,093</b>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 11,174	-	11,174
Accrued wages and related payables	1,834	-	1,834
Deposits and unearned revenue	2,000	-	2,000
Compensated absences (note 7)	<u>3,431</u>	<u>-</u>	<u>3,431</u>
<b>Total liabilities</b>	<b><u>18,439</u></b>	<b><u>-</u></b>	<b><u>18,439</u></b>
<b>Fund balance: (note 10)</b>			
Assigned	3,431	-	3,431
Unassigned	<u>1,174,911</u>	<u>312</u>	<u>1,175,223</u>
<b>Total fund balance</b>	<b><u>1,178,342</u></b>	<b><u>312</u></b>	<b><u>1,178,654</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 1,196,781</u></b>	<b><u>312</u></b>	<b><u>1,197,093</u></b>

Continued on next page

See accompanying notes to the basic financial statements

**Avila Beach Community Services District**  
**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position**  
**June 30, 2016**

**Reconciliation:**

Total Fund Balances of Governmental Funds	\$ 1,178,654
Amounts reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, not in the governmental funds balance sheet. However, the statement of net position includes those capital position among the assets of the District as a whole.	1,393
Deferred outflows of resources applicable to the consumption of resources to be used in future periods	7,850
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as governmental fund liabilities. All liabilities' both current and long-term, are reported in the statement of net position as follows:	
Net pension liability	(117,077)
Deferred inflows of resources applicable to the aquisition of resources to be used in future periods	(15,115)
Net Position of Governmental Activities	\$ 1,055,705

See accompanying notes to the basic financial statements

**Avila Beach Community Services District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds**  
**For the Year Ended June 30, 2016**

	<u>General</u>	<u>Streets Lighting</u>	<u>Total Governmental Activities</u>
<b>Revenues:</b>			
Property taxes	\$ 228,932	16,352	245,284
Interest earnings	10,974	-	10,974
Rents and royalties	36,360	-	36,360
Charges for services	<u>3,865</u>	<u>1,101</u>	<u>4,966</u>
<b>Total revenues</b>	<b><u>280,131</u></b>	<b><u>17,453</u></b>	<b><u>297,584</u></b>
<b>Expenditures:</b>			
General government	425,056	-	425,056
Street lighting	<u>-</u>	<u>9,937</u>	<u>9,937</u>
<b>Total expenditures</b>	<b><u>425,056</u></b>	<b><u>9,937</u></b>	<b><u>434,993</u></b>
Excess (deficiency) of revenues over expenditures	(144,925)	7,516	(137,409)
<b>Other financing sources (uses):</b>			
Operating transfers in (out)	<u>(1,033,109)</u>	<u>209,799</u>	<u>(823,310)</u>
<b>Net change in fund balance</b>	<b><u>(1,178,034)</u></b>	<b><u>217,315</u></b>	<b><u>(960,719)</u></b>
<b>Fund balance, beginning of year - as restated (note 8)</b>	<b><u>2,356,376</u></b>	<b><u>(217,003)</u></b>	<b><u>2,139,373</u></b>
<b>Fund balance, end of year</b>	<b><u>\$ 1,178,342</u></b>	<b><u>312</u></b>	<b><u>1,178,654</u></b>

Continued on next page

See accompanying notes to the basic financial statements.

**Avila Beach Community Services District**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of**  
**Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2016**

**Reconciliation:**

Net Changes in Fund Balances – Total Governmental Funds	\$ (960,719)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense as follows:

Depreciation expense	(1,646)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenses in governmental funds as follows:

Net change in pension obligations for the current period	5,663
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Change in Net Position of Governmental Activities	\$ (956,702)
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See accompanying notes to the basic financial statements

**Avila Beach Community Services District**  
**Statement of Net Position – Enterprise Funds**  
**June 30, 2016**

	<b>Water</b>	<b>Sanitary</b>	<b>Refuse</b>	<b>Total Business-type Activities</b>
<b>Current assets:</b>				
Cash and cash equivalents (note 2)	\$ 1,471,178	-	21,201	1,492,379
Accounts receivable – utilities, net	101,484	151,600	-	253,084
Property taxes and assessments receivable	-	1,316	-	1,316
<b>Total current assets</b>	<b>1,572,662</b>	<b>152,916</b>	<b>21,201</b>	<b>1,746,779</b>
<b>Non-current assets:</b>				
Capital assets – not being depreciated (note 5)	4,587	73,520	-	78,107
Capital assets – being depreciated, net (note 5)	547,203	3,034,702	-	3,581,905
<b>Total non-current assets</b>	<b>551,790</b>	<b>3,108,222</b>	<b>-</b>	<b>3,660,012</b>
<b>Total assets</b>	<b>2,124,452</b>	<b>3,261,138</b>	<b>21,201</b>	<b>5,406,791</b>
<b>Current liabilities:</b>				
Accounts payable and accrued expenses	42,350	24,817	-	67,167
Unearned revenue	148,798	110,729	-	259,527
<b>Total current liabilities</b>	<b>191,148</b>	<b>135,546</b>	<b>-</b>	<b>326,694</b>
<b>Total liabilities</b>	<b>191,148</b>	<b>135,546</b>	<b>-</b>	<b>326,694</b>
<b>Net position:</b>				
Net investment in capital assets (note 10)	551,790	3,108,222	-	3,660,012
Unrestricted (note 12)	1,381,514	17,370	21,201	1,420,085
<b>Total net position</b>	<b>\$ 1,933,304</b>	<b>3,125,592</b>	<b>21,201</b>	<b>5,080,097</b>

See accompanying notes to the basic financial statements

**Avila Beach Community Services District**  
**Statement of Revenues, Expenses and Changes in Fund Net Position – Enterprise Funds**  
**For the Year Ended June 30, 2016**

	<b>Water</b>	<b>Sanitary</b>	<b>Refuse</b>	<b>Total Business-type Activities</b>
<b>Operating revenues:</b>				
Water consumption sales	\$ 484,515	-	-	484,515
Sanitary service charges	-	550,433	-	550,433
Refuse franchise charges	-	-	17,090	17,090
Other charges for service	99	125	-	224
<b>Total operating revenue</b>	<b>484,614</b>	<b>550,558</b>	<b>17,090</b>	<b>1,052,262</b>
<b>Operating expenses:</b>				
Professional services	61,617	148,684	-	210,301
Utilities	654	23,306	-	23,960
Repairs and maintenance	11,335	52,297	-	63,632
Supplies	5,262	70,709	-	75,971
Insurance	4,772	4,772	-	9,544
Capital purchases	6,714	17,756	-	24,470
Administrative expenses	7,433	146,456	1,760	155,649
Materials and services	<u>146,600</u>	<u>24,244</u>	-	<u>170,844</u>
<b>Total operating expenses</b>	<b>244,387</b>	<b>488,224</b>	<b>1,760</b>	<b>734,371</b>
Operating income before depreciation expense	240,227	62,334	15,330	317,891
Depreciation expense	<u>(26,877)</u>	<u>(135,694)</u>	-	<u>(162,571)</u>
<b>Operating income (loss)</b>	<b>213,350</b>	<b>(73,360)</b>	<b>15,330</b>	<b>155,320</b>
<b>Non-operating revenue:</b>				
Property taxes	81,761	214,052	-	295,813
Total non-operating revenues	<u>81,761</u>	<u>214,052</u>	-	<u>295,813</u>
<b>Operating transfers in</b>				
<b>Change in net position</b>	<b>-</b>	<b>823,310</b>	<b>-</b>	<b>823,310</b>
<b>Net position, beginning of year</b>	<b>295,111</b>	<b>964,002</b>	<b>15,330</b>	<b>1,274,443</b>
<b>Net position, end of year</b>	<b>\$ 1,638,193</b>	<b>2,161,590</b>	<b>5,871</b>	<b>3,805,654</b>
	<b>\$ 1,933,304</b>	<b>3,125,592</b>	<b>21,201</b>	<b>5,080,097</b>

See accompanying notes to the basic financial statements

**Avila Beach Community Services District  
Statement of Cash Flows – Enterprise Funds  
For the Year Ended June 30, 2016**

	<b><u>2016</u></b>
<b>Cash flows from operating activities:</b>	
Cash receipts from customers for water sales and services	\$ 1,017,277
Cash paid to vendors and suppliers for materials and services	(183,203)
Cash paid to employees for salaries and wages	<u>(175,374)</u>
Net cash provided by operating activities	<u>658,700</u>
<b>Cash flows from non-capital financing activities:</b>	
Proceeds from property taxes – ad valorem	295,813
Operating transfers in	<u>823,310</u>
Net cash provided by non-capital financing activities	<u>1,119,123</u>
<b>Cash flows from capital and related financing activities</b>	
Acquisition and construction of capital assets	<u>(444,112)</u>
Net cash used in capital and related financing activities	<u>(444,112)</u>
<b>Net increase in cash and cash equivalents</b>	1,333,711
<b>Cash and cash equivalents, beginning of year</b>	<u>158,668</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,492,379</u>

Continued on next page

See accompanying notes to the basic financial statements

**Avila Beach Community Services District**  
**Statement of Cash Flows – Enterprise Funds, continued**  
**For the Year Ended June 30, 2016**

**2016**

**Reconciliation of operating income to net cash provided by  
operating activities:**

Operating income	\$ 155,320
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**Adjustments to reconcile operating income to net cash  
provided by operating activities:**

Depreciation expense	162,571
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**Changes in asset and liabilities:**

(Increase) decrease in assets:	
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Accounts receivable – water sales and services, net	(189,901)
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Accounts receivable – other	380,324
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Increase (decrease) in liabilities:	
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Accounts payable and accrued expenses	(4,530)
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Unearned revenue	<u>154,916</u>
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<b>Net cash provided by by operating activities</b>	<u>\$ 658,700</u>
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See accompanying notes to the basic financial statements

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2016**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. Organization and Operations of the Reporting Entity**

The Avila Beach Community Services District (District) serves as the local government for Avila Beach community. The District is similar to a city government, supplying such services as fire protection, street lighting, potable water, wastewater treatment, and solid waste disposal. The District exists under California State law governing special districts (Government Code, Sec 61000 et. seq.). The District was formed in February 1997, with the combining of the Avila Beach County Water District and the Avila Lighting District. Previously, in 1974, the Avila Beach County Water District was formed by combining the Avila Fire Protection District and the Avila Sanitary District. The District is governed by a five-member Board of Directors who are elected at large. The directors entrust the responsibility for the efficient execution of District policies to their designated representative, the General Manager.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The District has no blended or discretely-presented component units.

**B. Basis of Accounting and Measurement Focus**

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

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

***Government-wide Financial Statements***

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-type activities. Accordingly, all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which operating expenses of a given function are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function. The types of transactions reported as operating revenues for the District are charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes, operating grants and other items not properly included among operating revenues are reported instead as non-operating revenues. Contributed capital and capital grants are included as capital contributions.

***Fund Financial Statements***

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Accompanying these statements are schedules to reconcile and explain the differences in fund balances as presented in these statements to the net position presented in the Government-wide Financial Statements.

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**B. Basis of Accounting and Measurement Focus, continued**

***Fund Financial Statements, continued***

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

The accrual basis of accounting is followed by the proprietary enterprise funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as, unbilled but utilized utility services are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues and expenses, such as water sales, wastewater service, solid waste collection and purchases of water, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories, such as interest income and interest expense, are reported as non-operating revenues and expenses.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities, or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operation fund of the District, or meets the following criteria:

- a) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.
- c) The entity has determined that a fund is important to the financial statement user.

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**B. Basis of Accounting and Measurement Focus, continued**

***Fund Financial Statements, continued***

The funds of the financial reporting entity are described below:

***Governmental Funds***

**General** – This fund acts as the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. This fund also includes all activity and assets of the emergency and unemployment compensation funds.

**Lighting** – This fund accounts for the operations and maintenance of the Front Street Plaza lights and additional 27 streetlights in various locations around the community of the District.

***Enterprise Funds***

**Water** – This fund accounts for the water transmission and distribution operations of the District.

**Sanitary** – This fund accounts for the wastewater service operations of the District.

**Refuse** – This fund accounts for the solid waste collection and disposal operations of the District.

**C. Financial Reporting**

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District has adopted the following GASB pronouncements in the current year:

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*, effective for financial statements for periods beginning after June 15, 2015. The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value.

In June 2015, the GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, effective for fiscal years beginning after June 15, 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**C. Financial Reporting, continued**

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for financial statements for periods beginning after June 15, 2015. This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment is not specified within the source of authoritative GAAP.

In December 2015, the GASB issued Statement No. 79 – *Certain External Investment Pools and Pool Participants*, effective for financial statements for periods beginning after June 15, 2015. This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

**D. Financial Statement Elements**

**1. Cash and Cash Equivalents**

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

**2. Accounts Receivable**

The District extends credit to customers in the normal course of operations. Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been recorded.

**3. Investment and Investment Policy**

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

- California Local Agency Investment Fund (LAIF)
- Checking and savings accounts at local financial institutions

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

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Financial Statement Elements, continued**

**4. Fair Value Measurement and Application**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

**5. Property Taxes and Assessments**

The San Luis Obispo County Assessor's Office assesses all real and personal property within the County each year. The San Luis Obispo County Tax Collector's Office bills and collects the District's share of property taxes and/or tax assessments. The San Luis Obispo Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes and assessments receivable at year-end are related to property taxes and special assessments collected by the San Luis Obispo County, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

**6. Prepaid Expenses**

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

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Financial Statement Elements, continued**

**7. Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. The District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation and/or historical cost. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

***Governmental Activities***

- Buildings and improvements – 20 to 30 years
- Furniture and equipment – 5 years

***Business-Type Activities***

- Sewage disposal system – 75 years
- Treatment and collection system – 10 to 50 years
- Transmission and distribution system – 20 to 50 years
- Equipment – 10 years

**8. Deferred Outflows of Resources**

Deferred outflows of resources represent the consumption of resources applicable to future periods.

**9. Unearned Revenue**

Unearned revenue consists of customer deposits held at year-end.

**10. Compensated Absences**

It is the District's policy to allow employees to accumulate earned but unused vacation time. The vesting method is used to calculate the liability and 100% of earned vacation time is payable upon separation. All vacation pay is accrued when incurred in the government-wide and enterprise fund financial statements. The entire balance of compensated absences is expected to be used within one year and is classified as a current liability. The General Fund is used to liquidate the compensated absence liabilities.

**11. Deferred Inflows of Resources**

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Financial Statement Elements, continued**

**12. Net Position/Fund Balances**

The government-wide financial statements utilize a net position presentation. Net position categories are as follows:

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

**13. Fund Equity**

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

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

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Financial Statement Elements, continued**

**13. Fund Equity, continued**

The Board of Directors establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

***Fund Balance Policy***

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

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

**14. 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) plans (Plans) and addition to/deduction from the Plans' 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.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2014
- Measurement Date: June 30, 2015
- Measurement Period: July 1, 2014 to June 30, 2015

**15. Use of Estimates**

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

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(2) Cash and Cash Equivalents**

Cash and cash equivalents as of June 30, 2016, are classified as follows:

		<b>2016</b>
Governmental activity fund:		
General fund	\$ 1,179,284	
Total governmental activity fund	<u>1,179,284</u>	
Business-type activity funds:		
Water fund	1,471,178	
Refuse fund	<u>21,201</u>	
Total business-type activity funds	<u>1,492,379</u>	
Total cash and investments	\$ <u>2,671,663</u>	

Cash and cash equivalents as of June 30, 2016, consisted of the following:

		<b>2016</b>
Cash on hand	\$ 901	
Deposits with financial institutions	451,129	
Deposits held with the California Local Agency		
Investment Fund (LAIF)	<u>2,219,633</u>	
Total cash and investments	\$ <u>2,671,663</u>	

As of June 30, 2016, the District's authorized deposits had the following maturities:

		<b>2016</b>
Deposits held with the California Local Agency		
Investment Fund (LAIF)	167 days	

***Authorized Deposits and Investments***

Under provisions of the District's investment policy, and in accordance with Section 53601 of the California Government Code, the District may invest in certain types of investments as listed in Note 1(D)(3) to the financial statements.

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(2) Cash and Cash Equivalents, continued**

***Investment in State Investment Pool***

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

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of a \$1,000 dollars.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

***Custodial Credit Risk***

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balance, up to \$250,000 is federally insured. The remaining balance is to be collateralized by the bank.

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

***Interest Rate Risk***

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

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(2) Cash and Cash Equivalents, continued**

***Credit Risk***

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

***Concentration of Credit Risk***

The District's investment policy does not contain various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio in LAIF is 83% as of June 30, 2016, of the District's total depository and investment portfolio.

**(3) Accounts Receivable – Utilities**

The accounts receivable – utilities has been determined to be 100% collectible and an allowance for doubtful accounts is deemed unnecessary.

**(4) Internal Transfers**

***Interfund Operational Transfers***

Interfund transfers are used to move financial resources from the General fund to the Street Light fund and the Sanitary fund to absorb the operating deficit and to support the operations of each respective fund. Interfund transfers consist of the following for the year ended June 30, 2016:

<b>Transfer from</b>	<b>Transfer to</b>	<b>Amount</b>
General	Street Light	\$ 209,799
General	Sanitary	<u>823,310</u>
	<b>Total</b>	<b>\$ <u>1,033,109</u></b>

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(5) Capital Assets**

***Governmental Activities***

Changes in capital assets for 2016, were as follows:

	<b>Balance 2015</b>	<b>Additions/ Transfers</b>	<b>Deletions/ Transfers</b>	<b>Balance 2016</b>
Non-depreciable assets:				
Land and land rights	\$ 20	-	-	20
Total non-depreciable assets	<u>20</u>	<u>-</u>	<u>-</u>	<u>20</u>
Depreciable assets:				
Furniture and equipment	12,760	-	-	12,760
Building and improvements	<u>29,810</u>	<u>-</u>	<u>-</u>	<u>29,810</u>
Total depreciable assets	<u>42,570</u>	<u>-</u>	<u>-</u>	<u>42,570</u>
Accumulated depreciation:				
Furniture and equipment	(9,741)	(1,646)	-	(11,387)
Building and improvements	<u>(29,810)</u>	<u>-</u>	<u>-</u>	<u>(29,810)</u>
Total accumulated depreciation	<u>(39,551)</u>	<u>(1,646)</u>	<u>-</u>	<u>(41,197)</u>
Total depreciable assets, net	<u>3,019</u>	<u>(1,646)</u>	<u>-</u>	<u>1,373</u>
Total capital assets, net	<u>\$ 3,039</u>	<u>(1,646)</u>	<u>-</u>	<u>1,393</u>

There were no major capital asset additions in the governmental activities area fund for the year ended June 30, 2016.

***Business-Type Activities***

Changes in capital assets for 2016, were as follows:

	<b>Balance 2015</b>	<b>Additions/ Transfers</b>	<b>Deletions/ Transfers</b>	<b>Balance 2016</b>
Non-depreciable assets:				
Land	\$ 60,294	-	-	60,294
Construction in progress	<u>-</u>	<u>17,813</u>	<u>-</u>	<u>17,813</u>
Total non-depreciable assets	<u>60,294</u>	<u>17,813</u>	<u>-</u>	<u>78,107</u>
Depreciable assets:				
Water transmission and distribution	1,131,969	-	(1,988)	1,129,981
Wastewater collection	<u>4,636,814</u>	<u>426,299</u>	<u>(302)</u>	<u>5,062,811</u>
Total depreciable assets	<u>5,768,783</u>	<u>426,299</u>	<u>(2,290)</u>	<u>6,192,792</u>
Accumulated depreciation:				
Water transmission and distribution	(557,889)	(26,877)	1,988	(582,778)
Wastewater collection	<u>(1,892,717)</u>	<u>(135,694)</u>	<u>302</u>	<u>(2,028,109)</u>
Total accumulated depreciation	<u>(2,450,606)</u>	<u>(162,571)</u>	<u>2,290</u>	<u>(2,610,887)</u>
Total depreciable assets, net	<u>3,318,177</u>	<u>263,728</u>	<u>-</u>	<u>3,581,905</u>
Total capital assets, net	<u>\$ 3,378,471</u>	<u>281,541</u>	<u>-</u>	<u>3,660,012</u>

Major capital asset additions in the business-type activities funds include additions for wastewater collection for the year ended June 30, 2016.

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(6) Compensated Absences**

Changes in compensated absence as of June 30, 2016, were as follows:

<b>Balance</b>			<b>Balance</b>
<b>2015</b>	<b>Earned</b>	<b>Taken</b>	<b>2016</b>
\$ 2,394	2,115	(1,078)	3,431

**(7) Defined Benefit Pension Plans**

***Plan Description***

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous risk pool and a safety risk pool, which are comprised of individual employer miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

***Benefits Provided***

CalPERS provides service retirement and disability benefits, annual cost of living adjustments 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 cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants, not previously employed by an agency under CalPERS, effective December 31, 2012. All employees hired after January 1, 2013 are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(7) Defined Benefit Pension Plans, continued**

*Benefits Provided, continued*

The District participates in the Plan's miscellaneous risk pool. The provisions and benefits for the Plan's miscellaneous pool in effect as June 30, 2016, are summarized as follows:

	<u>New Classic</u>
Hire date	Prior to December 31, <u>2012</u>
Benefit formula	2.0% @ 60
Benefit vesting schedule	5 years of service
Benefit payments	monthly for life
Retirement age	50 - 55
Monthly benefits, as a % of eligible compensation	1.1% to 2.4%
Required employee contribution rates	7.00%
Required employer contribution rates	6.71%

As of June 30, 2015, an actuarial report was not prepared by CalPERS for the District's Safety and Miscellaneous PEPRA tiers. CalPERS made this determination as a result of the District not having PEPRA eligible employees between the period January 1, 2013 and June 30, 2013, the valuation date of the actuarial report provided.

*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 July 1, following notice of a change in rate. Funding contribution for the Plan is 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.

*Net Pension Liability*

As of the fiscal year ended June 30, 2016, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	<u>2016</u>
Proportionate share of net pension liability	\$ <u>117,077</u>

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(7) Defined Benefit Pension Plans, continued**

*Net Pension Liability, continued*

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of June 30, 2016, the net pension liability of the Plan is measured as of June 30, 2015 (the measurement date). The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 (the valuation date), rolled forward to June 30, 2015, 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 changes in proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement dates June 30, 2015, was as follows:

	<b>Proportionate Share</b>
Proportion – June 30, 2014	0.00207 %
Proportion – June 30, 2015	<u>0.00171</u>
Decrease in proportionate share	<u><u>0.00036</u> %</u>

*Deferred Pension Outflows (Inflows) of Resources*

For the year ended June 30, 2016, the District recognized pension expense of \$14,876. As of the fiscal year ended June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Description</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between actual and expected experience	\$ 801	-
Changes in assumptions	- -	(7,582)
Net differences between projected and actual earnings on plan investments	- -	(3,801)
Adjustment due to changes in proportions	- -	(3,732)
Adjustment due to difference between actual and proportionate share of contributions	<u>7,049</u>	-
Total	<u><u>\$ 7,850</u></u>	<u><u>(15,115)</u></u>

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(7) Defined Benefit Pension Plans, continued**

For the year ended June 30, 2016, the District did not report deferred outflows of resources related to contributions subsequent to the measurement date; and other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Fiscal Year Ending <u>December 31,</u></b>	<b>Deferred Net Inflows of Resources</b>
2017	\$ (3,294)
2018	(3,249)
2019	(2,857)
2020	2,135

***Actuarial Assumptions***

The total pension liability in the June 30, 2014, actuarial valuation report was determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
<b>Actuarial assumptions:</b>	
Discount rate	7.50%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014, valuation were based upon the most recent CalPERS Experience Study (covering the period June 30, 1997 through June 30, 2011) that was completed and adopted in April 2014. Further details of the Experience Study can be found on the CalPERS website.

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(7) Defined Benefit Pension Plans, continued**

***Discount Rate***

The discount rate used to measure the total pension liability was 7.50% 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 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% 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 Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the year ended June 30, 2016, the discount rate was changed from 7.50% (net of administrative expense) to 7.65% to correct for an adjustment to exclude administrative expenses.

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 tables below reflect 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. As of June 30, 2016, the target allocation and the long-term expected real rate of return by asset class were as follow:

Asset Class	Target Allocation	Real Return Years 1-10	Real Return Year 11+
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Asset	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	<u><u>100.0%</u></u>		

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(7) Defined Benefit Pension Plans, continued**

***Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate***

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, 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.

As of June 30, 2016, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Current Discount Rate - 1% <u>6.65%</u>	Current Discount Rate <u>7.65%</u>	Current Discount Rate + 1% <u>8.65%</u>
District's Net Pension Liability	\$ <u>196,346</u>	<u>117,077</u>	<u>51,631</u>

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 44-45 for the Required Supplementary Schedules.

**(8) Restatement of Net Position/Fund Balance**

***Net Pension Liability***

In fiscal year 2015, the District did not implement GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability. As a result, the District recorded a prior period adjustment to net position in the amount of \$130,005, to recognize prior year's proportionate share of net pension liability, unamortized elements of deferred inflows of resources, and deferred employer pension contributions to deferred outflows of resources.

***Accounts Payable***

In fiscal year 2015, the District did not record expenses incurred during the year and paid subsequent to year-end. As a result, the District recorded a prior period adjustment to net position in the amount of \$85,387.

The effect of the above prior period adjustments to net position is summarized as follows:

Net position at June 30, 2015, as previously stated	\$ <u>6,033,453</u>
Effect of adjustment to record accounts payable	(85,387)
Effect of adjustment to net pension liability, and deferred outflows and outflows of resources as a result of GASB 68 and 71	<u>(130,005)</u>
Total adjustment to net position	<u>(215,392)</u>
Net position at June 30, 2015, as restated	\$ <u>5,818,061</u>

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(8) Restatement of Net Position/Fund Balance**

The effect of the above prior period adjustments to fund balance as reported in the statement of revenues, expenditures and changes in fund balances – governmental funds on page 13, is summarized as follows:

Fund balance at June 30, 2015, as previously stated	\$ 2,154,949
Effect of adjustment to record accounts payable	<u>(15,576)</u>
Fund balance at June 30, 2015, as restated	<u>\$ 2,139,373</u>

**(9) Net Investment in Capital Assets**

The details of net investment in capital assets are as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2016</b>
Capital assets – not being depreciated	\$ 20	78,107	78,127
Capital assets – being depreciated, net	<u>1,373</u>	<u>3,581,905</u>	<u>3,583,278</u>
Net investment in capital assets	<u>\$ 1,393</u>	<u>3,660,012</u>	<u>3,661,405</u>

**(10) Fund Balance**

Fund balances are presented in the following categories: non-spendable, restricted, committed, assigned and unassigned (See Note 1(D)(13) for a description of these categories). A detailed schedule of fund balances and their funding composition at June 30, 2016, is as follows:

The balance at December 31, consists of the following:

<b>Description</b>	<b>2016</b>
Assigned	
Compensated absences	\$ 3,431
Unassigned	
Operations	<u>1,175,223</u>
<b>Total fund balance</b>	<b><u>\$ 1,178,654</u></b>

**(11) 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 Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

At June 30, 2016, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability coverage up to \$5 million per occurrence; and uninsured/underinsured motorist coverage up to \$750,000 per occurrence.

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(11) Risk Management, continued**

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

- Employee dishonesty coverage up to a \$400,000 limit.
- Property loss is paid at the replacement cost for property on file, if replaced within three years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1.0 billion per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million limit.
- Public officials error and omissions covered up to \$5,000,000 each occurrence, with an annual aggregate of \$5,000,000.
- Workers' compensation insurance per statutory requirements and Employer's Liability Coverage up to \$5 million.

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 2016, 2015 and 2014. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2016, 2015 and 2014.

**(12) Governmental Accounting Standards Board Statements Issued, Not Yet Effective**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the report date that has effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 74***

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(12) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued**

***Governmental Accounting Standards Board Statement No. 75***

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 77***

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

***Governmental Accounting Standards Board Statement No. 78***

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

***Governmental Accounting Standards Board Statement No. 80***

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(12) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued**

***Governmental Accounting Standards Board Statement No. 81***

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

***Governmental Accounting Standards Board Statement No. 82***

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions 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 for the selection of assumptions 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. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

**(13) Commitments and Contingencies**

***Litigation***

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

***Grant Awards***

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

***Contracts and Agreements***

The District is one of the entities covered by an agreement entered in October 1992, between the Central Coast Water Authority (CCWA) and San Luis Obispo (SLO) County to treat water delivered through the State Water Project (SWP).

**Avila Beach Community Services District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2016**

**(14) Subsequent Events**

Events occurring after June 30, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of November 8, 2016, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

## **Required Supplementary Information**



**Avila Beach Community Services District**  
**Budgetary Comparison Schedule – General Fund**  
**For the Fiscal Year Ended June 30, 2016**

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Vairance Positive (Negative)
<b>Revenues:</b>					
Property taxes	\$ 209,000	-	209,000	228,932	19,932
Interest earnings	5,000	-	5,000	10,974	5,974
Rents and royalties	36,350	-	36,350	36,360	10
Charges for services	3,200	-	3,200	3,865	665
<b>Total revenues</b>	<b>253,550</b>	<b>-</b>	<b>253,550</b>	<b>280,131</b>	<b>26,581</b>
<b>Expenditures:</b>					
General government	436,386	-	436,386	425,056	(11,330)
<b>Total expenditures</b>	<b>436,386</b>	<b>-</b>	<b>436,386</b>	<b>425,056</b>	<b>(11,330)</b>
Excess (deficiency) of revenues over expenditures	(182,836)	-	(182,836)	(144,925)	37,911
<b>Other financing sources(uses):</b>					
Operating transfers in (out)	(243,203)	-	(243,203)	(1,033,109)	(789,906)
<b>Net change in fund balance</b>	<b>(426,039)</b>	<b>-</b>	<b>(426,039)</b>	<b>(1,178,034)</b>	<b>(751,995)</b>
<b>Fund balance, beginning of year - as restated</b>	<b>2,356,376</b>		<b>2,356,376</b>	<b>2,356,376</b>	
<b>Fund balance, end of year</b>	<b>\$ 1,930,337</b>		<b>1,930,337</b>	<b>1,178,342</b>	

### Notes to Required Supplementary Information

#### (1) Budgets and Budgetary Data

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year the District's Library Director prepares and submits an operating budget to the Board of Trustees for the General Fund no later than June of each year. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting. The adopted budget becomes operative on July 1. The Board of Trustees must approve all supplemental appropriations to the budget and transfers between major accounts.

The District presents a comparison of the annual budget to actual results for the General Fund at the functional expenditure-type major object level for financial reporting purposes. The budgeted expenditure amounts represent the adopted budget.

**Avila Beach Community Services District**  
**Budgetary Comparison Schedule – Streets Light Fund**  
**For the Fiscal Year Ended June 30, 2016**

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Vairance Positive (Negative)
<b>Revenues:</b>					
Property taxes	\$ 14,950	-	14,950	16,352	1,402
Charges for services	1,200	-	1,200	1,101	(99)
<b>Total revenues</b>	<b>16,150</b>	<b>-</b>	<b>16,150</b>	<b>17,453</b>	<b>1,303</b>
<b>Expenditures:</b>					
Street lighting	13,500	-	13,500	9,937	(3,563)
<b>Total expenditures</b>	<b>13,500</b>	<b>-</b>	<b>13,500</b>	<b>9,937</b>	<b>(3,563)</b>
Excess (deficiency) of revenues over expenditures	2,650	-	2,650	7,516	4,866
<b>Other financing sources(uses):</b>					
Operating transfers in (out)	13,511	-	13,511	209,799	196,288
<b>Net change in fund balance</b>	<b>16,161</b>	<b>-</b>	<b>16,161</b>	<b>217,315</b>	<b>201,154</b>
<b>Fund balance, beginning of year - as restated</b>	<b>(217,003)</b>		<b>2,356,376</b>	<b>(217,003)</b>	
<b>Fund balance, end of year</b>	<b>\$ (200,842)</b>		<b>2,372,537</b>	<b>312</b>	

#### Notes to Required Supplementary Information

##### (1) Budgets and Budgetary Data

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year the District's Library Director prepares and submits an operating budget to the Board of Trustees for the General Fund no later than June of each year. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting. The adopted budget becomes operative on July 1. The Board of Trustees must approve all supplemental appropriations to the budget and transfers between major accounts.

The District presents a comparison of the annual budget to actual results for the Street Lighting Fund at the functional expenditure-type major object level for financial reporting purposes. The budgeted expenditure amounts represent the adopted budget.

**Avila Beach Community Services District**  
**Schedules of the District's Proportionate Share of the Net Pension Liability**  
**For the Year Ended June 30, 2016**  
**Last Ten Years\***

**Defined Benefit Pension Plan**

<b>Description</b>	<b>Measurement Dates</b>	
	<b>6/30/2015</b>	<b>6/30/2014</b>
District's Proportion of the Net Pension Liability	0.17057%	0.20673%
District's Proportionate Share of the Net Pension Liability	\$ 117,077	125,453
District's covered-employee payroll	\$ 60,486	58,718
District's proportionate share of the net pension liability(asset) as a Percentage of its Covered-Employee Payroll	193.56%	213.65%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	78.40%	79.82%

**Notes to the Schedule of the District's Proportionate Share of Net Pension Liability**

***Changes in Benefit Terms*** – The figures above do not include any liability impact that may have resulted from Plan changes which occurred after the June 30, 2014, valuation date.

***Changes of Assumptions*** – For the June 30, 2015, measurement date, the discount rate was changed from 7.50% (net of administrative expense) to 7.65% percent to correct for an adjustment to exclude administrative expense.

\* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

**Avila Beach Community Services District**  
**Schedules of Pension Plan Contributions**  
**As of June 30, 2016**  
**Last Ten Years\***

**Defined Benefit Pension Plan**

<b>Description</b>	<b>Measurement Dates</b>	
	<b>6/30/2015</b>	<b>6/30/2014</b>
Actuarially Determined Contribution	\$ 9,566	9,894
Contributions in Relation to the Actuarially Determined Contribution	-	(9,894)
Contribution Deficiency (Excess)	\$ 9,566	-
District's Covered Payroll	\$ 60,486	58,718
Contribution's as a percentage of Covered-Employee Payroll	15.82%	16.85%

**Notes to the Schedule of Pension Plan Contributions**

The actuarial methods and assumptions used to set the actuarially determined contributions from July 30, 2014 through June 30, 2015 (the measurement period), were derived from the June 30, 2014, funding valuation report.

There were no changes in methods or assumptions used to determine the legally required contributions, which are actuarially determined, from the June 30, 2011 to the June 30, 2012, funding valuation report.

\* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

# **Report on Compliance and Internal Controls**





# Fedak & Brown LLP

Certified Public Accountants

Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA, CGMA  
Jonathan P. Abadesco, CPA

## **Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Avila Beach Community Services District  
Avila Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Avila Beach Community Services District (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated November 8, 2016.

### **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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

### **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*.

Cypress Office:  
6081 Orange Avenue  
Cypress, California 90630  
(657) 214-2307  
FAX (714) 527-9154

Riverside Office:  
4204 Riverwalk Pkwy. Ste. 390  
Riverside, California 92505  
(951) 977-9888

**Independent Auditor's Report on Internal Controls Over Financial Reporting  
And on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*, (continued)**

**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.

*Fedak & Brown LLP*

**Fedak & Brown LLP**

Cypress, California

November 8, 2016