

**AVILA BEACH
COMMUNITY SERVICES DISTRICT**

Independent Auditor's Report
and
Financial Statements

For the Year Ended
June 30, 2013

AVILA BEACH COMMUNITY SERVICES DISTRICT
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

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AVILA BEACH COMMUNITY SERVICES DISTRICT

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Management's Discussion and Analysis Fiscal Year Ending June 30, 2013

The following is a discussion of the consolidated financial condition and results of operations of the Avila Beach Community Services District (ABCSD) for the year ending June 30, 2013, and should be read together with the financial statements. This discussion contains information that is qualified by reference to, and should be read together with, the notes contained in the Independent Auditor's Report prepared by Crosby Company CPA. The Avila Beach Community Services Financial Audit has been prepared in accordance with U.S. generally accepted auditing standards.

Overall Performance

Overall the ABCSD realized an increase in assets over the previous year. This is primarily a result of connection fees collected for projects that are currently in process. It is anticipated that tax revenues will now stabilize as the community has reached substantial build-out following reconstruction of the downtown section of the town, however, the taxes will likely increase by 2% each year as that is the standard tax factor resulting from previous State Legislature. As may be recalled a substantial decrease in assessments and connection fees had been realized during past Fiscal Years (2009/10, 2010/11 & 2011/12). Fewer lots remain to be developed within the District, so these types of funds will not be as great as during the time of reconstruction. Although, the District collected additional assessments and connection fees this fiscal year, it must be noted that with the exception of the Chevron property (former Unocal Tank Farm) the majority of construction has now been completed and as a result, fewer fees will be collected in the future.

Comparative Combined Funds Financial Results Fiscal Years 2011/12 & 2012/13

	<u>2011/12</u>	<u>2012/13</u>
Total Net Position	\$ <u>5,908,094</u>	\$ <u>5,957,800</u>

Net increase of \$49,706 for 2012/13

AVILA BEACH COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis
Fiscal Year Ending June 30, 2013

Governmental Functions

Governmental functions of the District include Street lighting, Fire Protection and General Administration. These services are primarily funded through tax revenue with administration being funded proportionally from the other activities provided by the District. The District received slightly more funding in property tax receipts during the last fiscal year than previously.

Comparative Governmental Funds Financial Results Fiscal Years 2011/12 & 2012/13

	<u>2011/12</u>	<u>2012/13</u>
Governmental Tax Revenues	\$ 262,408	\$ 269,344

Net increase of \$6,936 for 2012/13

Business Type Activities

Business type activities of the District include enterprise funds including Sanitary Wastewater activities, Water Services and Solid Waste/Refuse Disposal Administration. Each of these funds should be self supporting. The District is currently in the process of completing a rate study to determine if current rates meet the needs of the District. The preliminary conclusion is that rates will need to be adjusted.

Sanitary Wastewater Activities

The Sanitary Fund receives some property tax revenue in addition to collection of user fees. Additionally, connection and assessment charges will help to fund expansion and improvements to the collection system as necessary. An increase in the connection /assessments was realized this fiscal year, as several projects that had been in the planning stage commenced construction. It is anticipated that connection and assessments will continue to decline, to the point of minimal revenues being realized from this source. The District is currently in the process of completing a rate study to determine if current rates meet the needs of the District. The preliminary conclusion is that rates will need to be adjusted.

The District also provides wastewater treatment services to Port San Luis Harbor District, which provides reimbursement for its proportionate costs of the treatment and disposal services. The reimbursement of these costs is included in the "User Fees" revenue line.

AVILA BEACH COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis
Fiscal Year Ending June 30, 2013

Comparative Sanitary Fund Financial Results Fiscal Years 2011/12 & 2012/13

	<u>2011/12</u>	<u>2012/13</u>
User Fees	\$ 294,748	\$ 337,518
Connection/Assessments	1,131	56,732
Tax Revenues	<u>182,152</u>	<u>187,936</u>
Total	<u>\$ 478,031</u>	<u>\$ 582,186</u>

Net increase of \$104,155 for 2012/13

Water Service

The Water Fund is dependent upon service rates and connection fees as its sources of revenue, however we do allocate some property taxes to the fund. Future improvements to the system will be funded by connection and assessment charges. The majority of new construction has been completed within the District and the revenue associated with these charges has been identified and reserved for future improvements.

Comparative Water Funds Financial Results Fiscal Years 2011/12 & 2012/13

	<u>2011/12</u>	<u>2012/13</u>
User Fees	\$ 374,449	\$ 387,016
Connection/Assessments	<u>4,981</u>	<u>30,319</u>
Total	<u>\$ 379,430</u>	<u>\$ 417,335</u>

Net increase of \$37,905 for 2012/13

AVILA BEACH COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis
Fiscal Year Ending June 30, 2013

Solid Waste / Refuse Disposal Administration

Since 2006, the District administers the solid waste / refuse disposal through a contract with South County Sanitary Disposal Service. This is supported through a franchise agreement. It is anticipated that franchise fees will continue to support the administration of this service.

Comparative Solid Waste / Refuse Funds Financial Results Fiscal Years 2011/12 & 2012/13

	<u>2011/12</u>	<u>2012/13</u>
Franchise Fees	\$ <u>14,324</u>	\$ <u>14,018</u>
Net decrease of \$306 for 2012/13		

Summary

In conclusion, the District has undergone many transitions over the last several decades, from water moratoriums, to extensive remediation with reconstruction now substantially complete. Throughout this time the District has maintained excellent service to our customers, and continued to operate the facilities in a fiscally responsible manner. Recently, the District has completed the rehabilitation of the Wastewater Treatment Plant digester. Staff continues to identify long term improvements for the infrastructure necessary to meet the demands of the community into the future. Funds have been invested through the Local Agency Investment Fund (LAIF) to assist the District in meeting these future needs.

Summary of Total Revenue / Expenses Fiscal Years 2012/13

	<u>2012/13</u>
Total Revenue	\$ 1,325,356
Total Expenses	1,076,320
Depreciation	<u>199,330</u>
Total	\$ <u>49,706</u>

AVILA BEACH COMMUNITY SERVICES DISTRICT
BOARD OF DIRECTORS
June 30, 2013

BOARD OF DIRECTORS

<u>NAME</u>	<u>TERM EXPIRES</u>
Pete Kelley, President	December, 2014
Richard Rowe, Vice President	December, 2014
Shanna Richards, Director	December, 2014
Steve Waldron, Director	December, 2014
John Janowicz, Director	December, 2016

CROSBY COMPANY, CERTIFIED PUBLIC ACCOUNTANT

1457 MARSH STREET, SUITE 100 - SAN LUIS OBISPO, CA 93401

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Independent Auditor's Report

To the Management of
Avila Beach Community Services District
Avila Beach, California 93424

Report on the Financial Statements

I have audited the accompanying financial statements of the Avila Beach Community Services District (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT

(Continued)

Other Matters

Required Supplementary Information – Management Discussion and Analysis

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

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Avila Beach Community Services District basic financial statements. The combining financial statement schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



CROSBY COMPANY
Certified Public Accountant
San Luis Obispo, California

September 24, 2013

AVILA BEACH COMMUNITY SERVICES DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

ASSETS	Primary Government		<u>Totals</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Cash and cash equivalents	\$ 2,079,177	\$ 158,747	\$ 2,237,924
Taxes receivable	3,573	3,466	7,039
Accounts receivable		78,005	78,005
Interest receivable	1,215		1,215
Due from other funds		940,162	940,162
Capital assets:			
Land and construction in progress	20	60,294	60,314
Buildings and equipment	42,570	5,680,470	5,723,040
Less accumulated depreciation	(36,258)	(2,032,602)	(2,068,860)
Total capital assets, net of depreciation	6,332	3,708,162	3,714,494
 Total assets	\$ 2,090,297	\$ 4,888,542	\$ 6,978,839
 LIABILITIES			
Accounts payable	\$ 10,686	\$ 32,339	\$ 43,025
Accrued vacations payable	3,105		3,105
Due to other funds	200,939	739,223	940,162
Deposits	2,000	11,164	13,164
Deferred revenue		21,583	21,583
 Total liabilities	\$ 216,730	\$ 804,309	\$ 1,021,039
 NET POSITION			
Invested in capital assets-net of related debt	\$ 6,332	\$ 3,708,162	\$ 3,714,494
Unrestricted	1,867,235	376,071	2,243,306
 Total net position	\$ 1,873,567	\$ 4,084,233	\$ 5,957,800

The accompanying notes are an integral part of the financial statements

AVILA BEACH COMMUNITY SERVICES DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Position - Primary Government</u>	
Primary government activities:	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
General government - administration and lighting	\$ 1,250	-	\$ (24,469)		\$ (24,469)
Public safety - fire	35,212	-	(137,859)		(137,859)
Total governmental activities	36,462	-	(162,328)		(162,328)
Business-type activities:		50,293		(269,376)	(269,376)
Sanitary	337,518			(22,441)	(22,441)
Water	387,016			3,802	3,802
Refuse	14,018			(288,015)	(288,015)
Total business-type activities	738,552	50,293		(288,015)	(288,015)
Total primary government	\$ 775,014	\$ 50,293	(162,328)	(288,015)	(450,343)
General revenues:					
Taxes:					
Property taxes, levied for general purposes			269,344	187,936	457,280
Assessments and connection fees				36,758	36,758
Investment income			6,011		6,011
Total general revenues, investment and transfers			275,355	224,694	500,049
Change in net position			113,027	(63,321)	49,706
Net position - beginning			1,760,540	4,147,554	5,908,094
Net position - ending			\$ 1,873,567	\$ 4,084,233	\$ 5,957,800

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

AVILA BEACH COMMUNITY SERVICES DISTRICT

BALANCE SHEET Governmental Funds June 30, 2013

	General Fund
ASSETS	
Cash and cash equivalents	\$ 2,079,177
Taxes receivable	3,573
Interest receivable	1,215
Total assets	\$ 2,083,965
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 10,686
Accrued vacations payable	3,105
Due to other funds	200,939
Deposits	2,000
Total liabilities	216,730
Fund balances:	
Assigned	1,867,235
Total fund balances	1,867,235
Total liabilities and fund balances	\$ 2,083,965

The accompanying notes are an integral part of the financial statements

AVILA BEACH COMMUNITY SERVICES DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 June 30, 2013

Total fund balances - government funds	\$ 1,867,235
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Land	20
Property, plant & equipment	42,570
Less: accumulated depreciation	(36,258)
Total capital assets, net of depreciation	6,332
Net position of governmental activities	\$ 1,873,567

AVILA BEACH COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

Governmental Funds

For the Year Ended June 30, 2013

	General Fund
Revenues:	
Property taxes	\$ 269,344
Intergovernmental	1,250
Investment income	6,011
Rental income	31,398
Contract services	3,648
Miscellaneous income	166
 Total revenues	 311,817
Expenditures:	
Administration	23,894
Street lighting	22,258
Fire department	150,764
 Total expenditures	 196,916
 Excess of revenue over expenditures	 114,901
 Fund balance at beginning of year	 1,752,334
 Fund balance at end of year	 \$ 1,867,235

The accompanying notes are an integral part of the financial statements

AVILA BEACH COMMUNITY SERVICES DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2013

Net Change in Governmental Fund Balances

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and expensed as depreciation expense.

Change in Net Position of Governmental Activities

	\$ 114,901
	\$ (1,874)
	\$ 113,027

AVILA BEACH COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENSES AND EXPENDITURES AND CHANGES IN FUND BALANCE

Budget and Actual - Governmental Funds

For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 219,358	\$ 219,358	\$ 269,344	\$ 49,986
Intergovernmental	1,200	1,200	1,250	50
Investment income	6,000	6,000	6,011	11
Rental income	30,150	30,150	31,398	1,248
Contract services	2,500	2,500	3,648	1,148
Miscellaneous income	500	500	166	(334)
Total revenues	259,708	259,708	311,817	52,109
Expenditures:				
Administration	21,955	21,955	23,894	(1,939)
Street lighting	24,477	24,477	22,258	2,219
Fire department	152,595	152,595	150,764	1,831
Total expenditures	199,027	199,027	196,916	2,111
Excess of revenues over expenditures	\$ 60,681	\$ 60,681	114,901	\$ 54,220
Fund balance at beginning of year			1,752,334	
Fund balance at end of year			\$ 1,867,235	

The accompanying notes are an integral part of the financial statements

AVILA BEACH COMMUNITY SERVICES DISTRICT

STATEMENT OF NET ASSETS

Proprietary Funds

June 30, 2013

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 158,747
Taxes receivable	3,466
Accounts receivable	78,005
Due from other funds	940,162
Total current assets	1,180,380
Noncurrent assets:	
Capital assets:	
Land and construction in progress	60,294
Building and equipment,	5,680,470
Less: accumulated depreciation	(2,032,602)
Total noncurrent assets	3,708,162
Total assets	\$ 4,888,542
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 32,339
Due to other funds	739,223
Deposits	11,164
Deferred revenue	21,583
Total liabilities	804,309
NET POSITION	
Invested in capital assets - net of related debt	\$ 3,708,162
Unrestricted	376,071
Total net position	\$ 4,084,233

The accompanying notes are an integral part of the financial statements

AVILA BEACH COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Proprietary Funds
For the Year Ended June 30, 2013

	Enterprise Funds
Operating revenues:	
Utility sales	\$ 649,919
Harbor charges	41,224
Other income and fees	47,409
Total revenues	738,552
Operating expenses:	
Insurance	9,782
Lab tests	43,164
Maintenance and repairs	31,367
Office supplies and expense	2,398
Professional services	254,329
Operating supplies	131,143
Permits and fees	11,358
Communications	2,504
Utilities	24,268
Water purchases - Lopez Lake	95,194
Water purchases - State Water Project	100,221
General and administrative overhead	173,676
Depreciation	197,456
Total expenses	1,076,860
Net operating loss	(338,308)
Non-operating revenue:	
Property taxes	187,936
Harbor captial contribution	50,293
Assessments and connection fees	36,758
Total non-operating revenues	274,987
Change in net position	(63,321)
Net position at beginning of year	4,147,554
Net position at end of year	\$ 4,084,233

The accompanying notes are an integral part of the financial statements

AVILA BEACH COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS
Proprietary Funds
For the Year Ended June 30, 2013

	Enterprise Funds
Cash flows from operating activities:	
Cash received from operating revenue	\$ 803,468
Other payments	(872,971)
Net cash used by operating activities	(69,503)
Cash flows from non-capital financing activities:	
Property taxes	187,936
Harbor capital contribution	50,293
Assessments and connection fees	36,758
Net cash provided by non-capital financing activities	274,987
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(205,484)
Net cash used by investing activities	(205,484)
Net change in cash	-
Cash and cash equivalents-beginning	158,747
Cash and cash equivalents-end	\$ 158,747
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (338,308)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	197,456
Net changes in assets and liabilities:	
Taxes receivable	1,632
Accounts receivable	63,284
Due from other funds	(54,869)
Accounts payable	(27,065)
Due to other funds	101,239
Deposits	(34,455)
Deferred revenue	21,583
Net cash used by operating activities	\$ (69,503)

The accompanying notes are an integral part of the financial statements

AVILA BEACH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: ORGANIZATION

The Avila Beach Community Services District (District) is a multi-purpose special district established on February 11, 1997, formerly the Avila Beach County Water District which was established December 4, 1972. The District is a political subdivision of the State of California and operates under a Board of Directors form of government and provides fire protection, sanitary and water services, refuse/solid waste, street lighting, and general administrative services.

The District complies with U.S. Generally Accepted Accounting Principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. These technical pronouncements establish criteria for determining the District's activities and functions that are included in the financial statements of a governmental unit. The proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information is presented for comparative purposes only. Additional detailed information is presented in the prior year financial statements from which the summarized information was derived.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government.

Funds Accounting

The accounts of the District are organized into funds and account groups, each of which is considered to be a separate accounting entity. The major fund categories are:

Governmental Fund Types

Governmental funds use the current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period.

Proprietary Fund Types

Proprietary funds use the economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on the balance sheet.

AVILA BEACH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Interest income and various intergovernmental revenues comprise the significant revenues susceptible to accrual.

The accrual basis of accounting is utilized by the proprietary fund financial statements, where revenues are recognized when earned and expenses recognized when incurred.

Restricted Assets

These assets consist of cash and cash equivalents for water customer deposits and for administration, capital projects funds and parks and recreation deposits related to future services and capital projects.

Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. Interfund transactions are generally classified as operating transfers and are reported as "Other Financing Sources and Uses" in governmental funds, as "Operating Transfers In" by the recipient fund, and "Operating Transfers Out" by the disbursing fund.

On the governmental funds balance sheet, receivables and payables resulting from short-term interfund loans are classified as "interfund loan receivables/payables." These amounts are eliminated on the statement of net assets.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Encumbrances

Encumbrance accounting is used for the General Fund. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances are no longer reported as a separate fund balance category on the balance sheet. Encumbrances do not lapse at the close of the fiscal year but are carried forward until liquidated.

AVILA BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments including money market accounts to be cash and cash equivalents.

Accounts Receivable

District water and sewer charges are billed monthly. Management has determined that an allowance for doubtful accounts is zero because of the District's credit policies and prior collection experience.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid expenses.

Property, Plant and Equipment

General capital assets generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are valued at historical cost or estimated historical cost, if actual costs are not available. Donated fixed assets are stated at their fair market value on the date donated. The District currently maintains a capitalization threshold of \$5,000. Improvements are capitalized and the cost of normal maintenance and repairs that do not add to the value of the net asset or materially extend the asset's life are not. Depreciation recorded over the useful life of the asset using the straight-line method. The estimated useful lives are as follows:

Sewage disposal system	75 years
Sewage treatment / collection system	10 - 50 years
Water supply / distribution system	20 - 50 years
General plant and equipment	5 - 10 years

Compensated Absences

The accrual for vacation time earned but not taken by staff employees was calculated based on actual vacation days and applied to the individual employees' hourly rate.

Property Taxes

The County of San Luis Obispo bills and collects property taxes for the District. The County charges the District for these services. Tax revenues are recognized by the District in the year levied.

AVILA BEACH COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations

The District will provide water services to customers located in the County of San Luis Obispo. Consequently, its ability to collect amounts due from customers may be affected by economic fluctuations, within this region and within the State of California as a whole.

Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

Operating and Non-Operating Revenue

Revenue is considered operating revenue if it is related to providing services that are for sanitary, water or refuse. All other income is non-operating revenue.

Fund Balances

Fund balance can now be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-spendable fund balance – amounts that are not in a spendable form are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned fund balance – amounts that have no specific restrictions, commitments or assignments.

If restricted and unrestricted assets are available for the same purpose, the restricted assets will be used before unrestricted assets.

Net Position

Net position represents the difference between assets and liabilities in the statement of net position. Net position invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by external restrictions by creditors, grantors, laws or regulations of other governments.

AVILA BEACH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 3: FUND BUDGETS

The District requires that all funds be budgeted. The annual budget is prepared by the District Manager and submitted to the District Board for adoption. A budget has been prepared for both governmental funds and proprietary funds.

A budget analysis for governmental funds is included as supplementary information in the financial statements (page 9). All unencumbered appropriations in the budget lapse at the end of the fiscal year. The following has been prepared to report operations and ending fund balance:

				<u>Enterprise Funds</u>		
				Budgeted Amounts		
	<u>Original</u>		<u>Final</u>		<u>Actual</u>	Variance With Final Budget Positive (Negative)
Operating revenues	\$ 668,367	\$	668,367	\$	738,552	\$ 70,185
Operating expenses	(856,785)		(856,785)		(879,404)	(22,619)
Depreciation expense	(130,154)		(130,154)		(197,456)	(67,302)
Operating income	<u>(318,572)</u>		<u>(318,572)</u>		<u>(338,308)</u>	<u>(19,736)</u>
Non-operating revenues	<u>246,702</u>		<u>246,702</u>		<u>274,987</u>	<u>28,285</u>
Net income	\$ <u>(71,870)</u>	\$	\$ <u>(71,870)</u>		<u>(63,321)</u>	\$ <u>8,549</u>
Net assets at the beginning of year					<u>4,147,554</u>	
Net assets at end of year				\$	<u>4,084,233</u>	

AVILA BEACH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 4: CASH AND INVESTMENTS

The values of cash and investments at June 30, 2013 are summarized as follows:

Petty cash	\$	80
Demand deposits		230,518
Cash and investments with:		
Local Agency Investment Fund		<u>2,001,226</u>
Subtotal		2,231,824
 Restricted cash:		
Demand deposits		<u>6,100</u>
 Total cash and investments	\$	<u><u>2,237,924</u></u>

The California Government Code requires California banks and savings and loan associations to secure a district's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a district's deposits. California law also allows financial institutions to secure district deposits by pledging first trust deed mortgage notes having a value of 150% of a district's total deposits. The District may waive collateral requirements for deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

Credit Risk, Carrying Amount, and Market Value

Cash is classified in three categories of credit risk as follows:

- Category 1 - insured or collateralized with securities held by the entity or by its agent in the entity's name;
- Category 2 - collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name; and
- Category 3 - uncollateralized.

Investments in pools managed by other governments (LAIF) or in mutual funds are not required to be categorized.

At June 30, 2013, the carrying amount of the District's cash deposits was \$236,618. The bank balances were \$266,492. This difference is due to the normal deposits in transit and outstanding checks. District cash deposits by category as of June 30, 2013, are as follows:

	<u>1</u>	<u>Category</u> <u>2</u>	<u>3</u>	<u>Bank</u> <u>Balance</u>	<u>Carrying</u> <u>Amount</u>
Bank accounts	\$ <u>266,492</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>266,492</u>	\$ <u>236,618</u>

Effective October 3, 2008, the Federal Deposit Insurance Corp. (FDIC) insured limit was increased to \$250,000.

AVILA BEACH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

A summary of governmental fixed assets by major classifications at June 30, 2013, is as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Land	\$ 20	\$ -	\$ -	\$ 20
General plant and equipment	42,570			42,570
Subtotals	42,590			42,590
Less: Accumulated depreciation	(34,384)	(1,874)	-	(36,258)
Governmental capital asset totals	\$ 8,206	\$ (1,874)	\$ -	\$ 1,152

A summary of proprietary fund type property, plant and equipment at June 30, 2013, is as follows:

	Balance July 1, 2012	Additions	Deletions/ Capitalize	Balance June 30, 2013
Land	\$ 60,294	\$ -	\$ -	\$ 60,294
Construction in progress	-			-
Subtotals	60,294			60,294
General plant and equipment:				
Sewer	4,343,018	205,484		4,548,502
Water	1,131,968			1,131,968
Subtotals	5,474,986	205,484		5,680,470
Less: Accumulated depreciation	(1,835,146)	(197,456)		(2,032,602)
Proprietary capital asset totals	\$ 3,700,134	\$ 8,028	\$ -	\$ 3,708,162
Total capital assets	\$ 3,708,340	\$ 6,154	\$ -	\$ 3,714,494

AVILA BEACH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 6: JOINT VENTURE

On March 1, 1992 the District approved participation in the State Water Project (SWP) and joined in the formation of the Central Coast Water Authority (CCWA). The Purpose of the CCWA is to provide for the financing, construction, operation, and maintenance of certain local (non-state owned) facilities required to deliver water from the SWP to certain water purveyors and users in San Luis Obispo and Santa Barbara Counties.

Each participant, including the Avila Beach Community Services District, has entered into a water supply agreement in order to provide for the development, financing, construction, operation and maintenance of the CCWA project. The purpose of the water supply agreements is to assist in carrying out the purposes of CCWA with respect to the CCWA project by: (1) requiring CCWA to sell, and the Project participants to buy, a specified amount of water from CCWA; and (2) assigning the Project participant's entitlement rights in the SWP to CCWA. Although the District does have an ongoing financial obligation to the water supply agreement with CCWA, it has been determined that the District does not own an equity interest in the project.

Each project participant is required to pay to CCWA an amount equal to its share of the total cost of "fixed project costs" and certain other costs in the proportion established in the water supply agreement. This includes the project participant's share of payments to the State Department of Water Resources (DWR) under the State Water Supply Contract (including capital, operation, maintenance, power and replacement costs of the DWR facilities), debt service on CCWA bonds and all CCWA operating and administrative costs.

Each project participant is required to make payments under its water supply agreement solely from the revenues of its water system. Each participant has agreed in its water supply agreement to fix, prescribe, and collect rates and charges for its water system which will be at least sufficient to yield each fiscal year net revenues equal to 125% of the sum of (1) the payment required pursuant to the water supply agreement, and (2) debt service on any existing participant obligation for which revenues are also pledged.

CCWA is composed of eight members, all of which are public agencies. CCWA was organized and exists under a joint exercise of power agreement among the various participating public agencies. The Board of Directors is made up of one representative from each participating entity. Voters on the Board are apportioned between the entities based upon each entity's pro rata share of the water provided by the project. The District's share of the project, based upon number of acre feet of water, is 0.215%. Operating and capital expenses are allocated among the members based upon various formulas recognizing the benefits of the various project components to each member.

On October 1, 1992, CCWA sold \$177,120,000 in revenue bonds at a true interest cost of 6.64% to enable CCWA to finance a portion of the costs of constructing a water treatment plant to treat State water for use by various participating water purveyors and users within Santa Barbara and San Luis Obispo Counties, a transmission system to deliver such water to the participating water purveyors and users, and certain local improvements to the water systems of some of the participating purveyors.

In November 1996, CCWA sold \$198,015,000 of revenue bonds at a true interest cost of 5.55% to defease CCWA's \$177,120,000 1992 revenue bonds and to pay certain costs of issuing the bonds. The 1996 bonds were issued in two series: Series A of \$173,015,000 and Series B of \$25,000,000. The Series B bonds are subject to mandatory redemption from amounts transferred from the Construction Fund and the Reserve Fund upon completion of the construction of the CCWA facilities.

AVILA BEACH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 7: JOINT POWERS AUTHORITY

The District is a member of the Special District Risk Management Authority (S.D.R.M.A.), an intergovernmental risk sharing joint powers authority, created pursuant to California Government Code Sections 6500 et.seq. In becoming a member of the S.D.R.M.A., the District elected to participate in the risk financing program(s) listed below for the program period July 1, 2012 through June 30, 2013.

General Liability: S.R.R.M.A. Policy No. LCA-SDRMA-201213, \$5,000,000 per occurrence.

Auto Liability: S.D.R.M.A. Policy No. LCA-SDRMA-201213, \$5,000,000 per occurrence.

Auto Physical Damage: S.D.R.M.A. Policy No. LCA-SDRMA-201213. This coverage is on file with S.D.R.M.A.

Uninsured/Underinsured Motorists: S.D.R.M.A. Policy No. UMI-SDRMA-201213, \$750,000 each accident.

Boiler and Machinery: S.D.R.M.A. Policy No. BMC-SDRMA-201213 for scheduled locations only for repair/replacement cost with \$100,000,000 limit. The deductible is on file with S.D.R.M.A.

Personal Liability Coverage for Board Members/Directors: S.D.R.M.A. Policy No. LCA-SDRMA-201213, \$500,000 per member per year with \$500,000 general aggregate.

Employee Dishonesty Coverage: S.D.R.M.A. Policy No. EDC-SDRMA-201213, \$400,000 limit.

Employee Benefits Liability: S.D.R.M.A. Policy No. LCA-SDRMA-201213, \$5,000,000 per occurrence/annual aggregate.

Employment Practices Liability: S.D.R.M.A. Policy No. LCA-SDRMA-201213, \$5,000,000 per occurrence/annual aggregate.

Property Coverage: S.D.R.M.A. Policy No. PPC-SDRMA-201213, replacement cost for property on file, \$1,000,000,000 limit per occurrence. The deductible is on file with S.D.R.M.A.

Public Officials Errors and Omissions: S.D.R.M.A. No. LCA-SDRMA-201213, total risk financing limits of \$5,000,000 per occurrence/annual aggregate.

Workers Compensation: S.D.R.M.A. Policy No. WCP-SDRMA-201213, statutory workers' compensation and up to \$5,000,000 each occurrence for employers' liability coverage.

Total insurance expense for the year ended June 30, 2013 was \$14,674. Members are subject to dividends and/or assessments, in accordance with Second Amended Joint Powers Agreement and amendments thereto, on file with the District. No such dividends have been declared, nor have any assessments been levied.

AVILA BEACH COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

NOTE 8: PENSION PLAN

The Avila Beach Community Services District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustment, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District resolutions. Copies of CalPERS' annual financial report may be obtained from their Executive Office (400 P Street, Sacramento, CA 95814).

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The District is required to contribute at an actuarially determined rate of 22.594% for District participants of their annual covered salary, for the current fiscal year. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

The annual CalPERS employer pension cost, for the year ended June 30, 2013 was \$12,267, and was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service from 3.55% to 14.45%, and (c) 3.25% payroll growth. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

Actuarial information concerning this pension plan is now combined with several other local districts and individual district information and three year trend information is no longer made available to the Avila Beach Community Services District.

NOTE 9: COMMITMENTS

Port San Luis Harbor District

On March 5, 1968, the District entered into an agreement granting 70,000 gallons per day average flow capacity rights in the sewer treatment and disposal system to Port San Luis Harbor District in exchange for the Harbor District paying a portion of the cost of the treatment and disposal system. For any system expansion required, the Harbor District capacity rights will be recalculated based on the portion of total cost of expansion paid by the Harbor District.

California Department of Forestry (CDF)

On November 18, 1999, the District signed an agreement with the California Department of Forestry (CDF) consolidating fire and emergency services between the two agencies. On July 1, 2012, the District Board agreed to extend this agreement for one year, without changing the level of fire protection services that are provided in the original agreement. Payment for these services is based on standard fees outlined in the agreement service cost calculation.

SUPPLEMENTAL SCHEDULES

AVILA BEACH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
General Fund
For the Year Ended June 30, 2013

	<u>Administration</u>	<u>General/Fire Department</u>	<u>Street Lighting</u>	<u>Total General Fund</u>
Revenues:				
Property taxes	\$ -	\$ 269,344	\$ -	\$ 269,344
Intergovernmental			1,250	1,250
Investment income		6,011		6,011
Rental income		31,398		31,398
Contract services		3,648		3,648
Miscellaneous income		166		166
Total revenues		310,567	1,250	311,817
Expenditures:				
Salaries and wages	62,339			62,339
Payroll taxes and benefits	23,775	128		23,903
Insurance		4,892		4,892
Maintenance and repairs	4,065		693	4,758
Office supplies and expense	2,487			2,487
Professional services	98,675	145,744		244,419
Public notices	242			242
Permits and fees	5,678			5,678
Communications	1,280			1,280
Employee travel and training	90			90
Occupancy	8,165			8,165
Utilities	990		11,349	12,339
Administrative overhead		20,433	10,216	30,649
Less: Administrative overhead allocated to other funds	(204,325)			(204,325)
Total expenditures	3,461	171,197	22,258	196,916
Excess of revenues over (under) expenditures	(3,461)	139,370	(21,008)	114,901
Fund balance (deficit) at beginning of year	(7,096)	1,908,944	(149,514)	1,752,334
Fund balance (deficit) at end of year	\$ (10,557)	\$ 2,048,314	\$ (170,522)	\$ 1,867,235

AVILA BEACH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF NET POSITION
 Enterprise Funds
 June 30, 2013

ASSETS	<u>Sanitary Fund</u>	<u>Water Fund</u>	<u>Refuse Fund</u>	<u>Total Enterprise Fund</u>
Current assets:				
Cash and cash equivalents	\$ 127,889	\$ 27,610	\$ 3,248	\$ 158,747
Taxes receivable	3,466			3,466
Accounts receivable	38,544	39,461		78,005
Due from other funds		940,162		940,162
Total current assets	169,899	1,007,233	3,248	1,180,380
Noncurrent assets:				
Capital assets:				
Land and construction in progress	60,294			60,294
Building and equipment,	4,548,502	1,131,968		5,680,470
Less: accumulated depreciation	(1,530,270)	(502,332)		(2,032,602)
Total noncurrent assets	3,078,526	629,636		3,708,162
Total assets	\$ 3,248,425	\$ 1,636,869	\$ 3,248	\$ 4,888,542
LIABILITIES AND NET POSITION				
Current liabilities:				
Accounts payable	\$ 30,558	\$ 1,781	\$ -	\$ 32,339
Due to other funds	734,528		4,695	739,223
Deposits		11,164		11,164
Deferred revenue		21,583		21,583
Total liabilities	765,086	34,528	4,695	804,309
Net position:				
Invested in capital assets - net of related debt	3,078,526	629,636		3,708,162
Unrestricted	(595,187)	972,705	(1,447)	376,071
Total net position	2,483,339	1,602,341	(1,447)	4,084,233
Total liabilities and net position	\$ 3,248,425	\$ 1,636,869	\$ 3,248	\$ 4,888,542

AVILA BEACH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Enterprise Funds
For the Year Ended June 30, 2013

	Sanitary Fund	Water Fund	Refuse Fund	Total Enterprise Fund
Operating revenues:				
Utility sales	\$ 258,839	\$ 377,062	\$ 14,018	\$ 649,919
Harbor charges	41,224			41,224
Other income and fees	37,455	9,954		47,409
Total revenues	337,518	387,016	14,018	738,552
Operating expenses:				
Insurance	4,891	4,891		9,782
Lab tests	43,002	162		43,164
Maintenance and repairs	15,877	15,490		31,367
Office supplies and expense	1,252	1,146		2,398
Professional services	182,814	71,515		254,329
Operating supplies	117,825	13,318		131,143
Permits and fees	7,837	3,521		11,358
Communications	2,504			2,504
Utilities	20,066	4,202		24,268
Water - Lopez Lake		95,194		95,194
Water - State Water Project		100,221		100,221
General and administrative overhead	91,946	71,514	10,216	173,676
Depreciation	169,173	28,283		197,456
Total expenses	657,187	409,457	10,216	1,076,860
Operating income (loss)	(319,669)	(22,441)	3,802	(338,308)
Non-operating revenues:				
Property taxes	187,936			187,936
Harbor capital contribution	50,293			50,293
Assessments and connection fees	6,439	30,319		36,758
Total non-operating revenues	244,668	30,319		274,987
Net income (loss)	(75,001)	7,878	3,802	(63,321)
Net position at beginning of year	2,558,340	1,594,463	(5,249)	4,147,554
Net position at end of year	\$ 2,483,339	\$ 1,602,341	\$ (1,447)	\$ 4,084,233

AVILA BEACH COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF CASH FLOWS
 Enterprise Funds
 For the Year Ended June 30, 2013

	Sanitary Fund	Water Fund	Refuse Fund	Totals
Cash flows from operating activities:				
Cash received from operating revenue	\$ 401,430	\$ 388,020	\$ 14,018	\$ 803,468
Other payments	(440,613)	(418,339)	(14,019)	(872,971)
Net cash used by operating activities	(39,183)	(30,319)	(1)	(69,503)
Cash flows from non-capital financing activities:				
Property taxes	187,936			187,936
Harbor capital contribution	50,293			50,293
Assessments and connection fees	6,439	30,319		36,758
Net cash provided by non-capital financing activities	244,668	30,319	-	274,987
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(205,484)			(205,484)
Net cash used by investing activities	(205,484)	-	-	(205,484)
Net change in cash	1	-	(1)	-
Cash and cash equivalents-beginning	128,156	27,342	3,249	158,747
Cash and cash equivalents-end	\$ 128,157	\$ 27,342	\$ 3,248	\$ 158,747
Reconciliation of operating income (loss) to net cash used by operating activities:				
Net operating income (loss)	\$ (319,669)	\$ (22,441)	\$ 3,802	\$ (338,308)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:				
Depreciation	169,173	28,283		197,456
Net changes in assets and liabilities:				
Taxes receivable	1,632			1,632
Accounts receivable	62,280	1,004		63,284
Due from other funds		(54,869)		(54,869)
Accounts payable	(20,935)	(6,130)		(27,065)
Due to other funds	105,042		(3,803)	101,239
Deposits	(36,706)	2,251		(34,455)
Deferred revenue		21,583		21,583
Net cash used by operating activities	\$ (39,183)	\$ (30,319)	\$ (1)	\$ (69,503)