

**CAMBRIA
COMMUNITY SERVICES DISTRICT**

Independent Auditor's Report
and
Financial Statements

For the Year Ended
June 30, 2013

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

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**CAMBRIA COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013**

Our discussion and analysis of the Cambria Community Services District's (CCSD) financial performance provides an overview of the CCSD's financial activities for the fiscal year ended June 30, 2013. The Management's Discussion & Analysis is to be read in conjunction with the CCSD's financial statements, which follow this section.

The Cambria Community Services District is a multi-purpose special district formed on December 9, 1976. Formation took place under the Community Services District Law, Section 61000, et. seq. of the California Government Code. At the time of formation it absorbed and combined the responsibilities of five existing special districts. These independently operated districts were as follows:

- The Cambria Community Services District - Moonstone Beach Drive area
- The Cambria County Water District
- The Cambria Fire Protection District
- The Cambria Garbage Disposal District
- San Luis Obispo County Service Area No. 6 - Street Lighting Service

The CCSD is a political subdivision of the State of California and operates under a Board of Directors-Manager form of government. A five-member Board of Directors governs it with each member serving a four-year term. The CCSD has a population of 6,400 residents within its boundaries. Tourism in the summer months and on holiday weekends creates seasonal increases in the population. The CCSD provides the following services:

- Water
- Wastewater
- Fire Protection
- Facilities and Resources
- Parks and Recreation
- Resource Conservation
- Administration

Fund Financial Statements

The accounting system of the CCSD is organized and operated on a fund basis. A fund is considered a separate self-balancing entity with assets, liabilities, fund equity, revenues, and expenditures/expenses.

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The basis of accounting depends on the fund. Basis of accounting refers to “when” revenues and expenses are recognized in the accounts and reported in the financial statements.

Governmental funds use the modified-accrual basis of accounting. Revenues are recognized when measurable and available as net current assets. Measurable means the amounts can be estimated or determined. Available means the amounts were collected during the reporting period or soon enough to finance the expenditures accrued for the reporting period.

Enterprise or business-like funds use the accrual basis of accounting. Revenues, expenses, assets and liabilities are recognized when the event happens.

Financial Statements

There are two government-wide financial statements that include all of the CCSD’s funds. These are:

- STATEMENT OF NET POSITION
- STATEMENT OF ACTIVITIES

The Statement of Net Position was previously the Statement of Net Assets and includes all of the CCSD’s assets and liabilities, with the difference between the two reported as net assets. (The governmental Accounting Standards Board (GASB) sets the standards for government entities’ financial statement reporting. As stated in NOTE 6: STATEMENT OF NET POSITION, the CCSD adopted GASB 63 and GASB 65 as of June 30, 2013. One effect of adopting the new standards was to change the Statement of Net Assets to the Statement of Net Position.

The Net Position may be displayed in the following categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

The Statement of Net Position provides the basis for computing rate of return, evaluating the capital structure of the CCSD and assessing the liquidity and financial flexibility of the CCSD.

The Statement of Activities includes all of the CCSD’s individual functions presented using the accrual basis of accounting. One objective of the Statement of Activities is to report the relative financial burden of each of the CCSD’s functions.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The remainder of the CCSD's financial statements is grouped into 2 categories:

- Governmental Activities
- Business-Type Activities

Governmental Activities

Governmental activities include the following fund:

- General Fund

The General Fund includes the following Departments:

- Fire Department
- Administration
- Facilities and Resources
- Parks and Recreation

The CCSD's financial statements for governmental activities include six components:

- BALANCE SHEET
- RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
- STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
- RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
- NOTES TO THE FINANCIAL STATEMENTS
- STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-Budget and Actual-Governmental Funds (Shown as Other Required Supplemental Information)

The Balance Sheet-Governmental Funds first presents the CCSD's assets (resources it controls that enable it to provide services), liabilities (financial obligations) and fund balance (in essence, what would be left over if the assets were used to satisfy the liabilities). The assets and liabilities are current in nature. Notably absent are capital assets. This is due to the statement being presented using the modified accrual basis of accounting. Fund balance is the difference between assets and liabilities. Fund balance is reported in up to five classifications, which are as follows:

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- Nonspendable-amounts that are not in a spendable form, such as Prepaid Expenses or Deposits.
- Restricted-amounts constrained to specific purposes by their providers through constitutional provisions or legislation.
- Committed-amounts constrained to specific purposes by the government itself using its highest level of decision-making authority.
- Assigned-amounts a government intends to use for a specific purpose.
- Unassigned-amounts that are available for any purpose. These amounts are only found in the general fund.

In prior years, Fund Balance was reported in up to three components; Reserved, Designated and Unreserved. GASB 54 was issued to clarify Fund Balance reported as well as to provide additional information.

The Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position is the final component of the Balance Sheet. The reconciling items explain the differences in the accounting bases (the presence of capital assets and long-term liabilities in the government-wide financial statements, but their absence in the governmental funds).

The Statement of Revenues, Expenditures, and Changes in Fund Balances is the governmental funds' income statement, tracking the flow of resources in as Revenues and out as Expenditures. Revenues and Expenditures are not the only resources that flow in and out. Other financing sources (uses) identify transfers in and out of the governmental funds. Besides the fact that transfers are neither revenues nor expenditures, they are shown separately to assist the statement reader in assessing the balance between ongoing revenues and expenditures related to the basic operations of the CCSD. For this same reason, special items such as prior period adjustments (corrections of material errors related to a prior period or periods) are shown separately.

The Reconciliation of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities describes the differences between change in fund balance and change in governmental activities net assets in the government-wide statement of activities. Items are individually described.

The Notes to the Financial Statements are disclosures presented to assist the reader in understanding the information found in the financial statements.

The Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual-Governmental Funds compares the budgeted amounts to the actual amounts.

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Business-Type Activities

Business-type activities include the following funds:

- Water Fund
- Wastewater (Sewer) Fund

The Water Fund includes the following Departments:

- Water
- Resource Conservation

The CCSD's financial statements for business-type activities include four components:

- STATEMENT OF NET POSITION-Proprietary Funds
- STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION-Proprietary Funds
- STATEMENT OF CASH FLOWS-Proprietary Funds
- NOTES TO THE FINANCIAL STATEMENTS

The Statement of Net Position includes all of the proprietary funds' assets and liabilities, with the difference between the two reported as net assets. Net position may be displayed in the following categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

The Statement of Net Position provides the basis for computing rate of return, evaluating the capital structure of the Water and Wastewater Funds and assessing their liquidity and financial flexibility.

The Statement of Revenues, Expenditures, and Changes in Net Position presents information which shows how the Water and Wastewater Fund's net assets changed during the year. All of the current year's revenues and expenditures are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The Statement of Revenues, Expenditures, and Changes in Fund Balance measures the success of the CCSD's operations over the past year and determines whether the CCSD has recovered its costs through user fees, property taxes and other changes.

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Fiscal Year Ended June 30, 2013**

The Statement of Cash Flows provides information regarding the Water and Wastewater Fund's cash receipts and cash disbursements during the fiscal year. The statement reports cash activity in three categories:

- Operating Activities
- Capital and Related Financing Activities
- Investing and Non-Operating Activities

Notes to the Financial Statements

The Notes to the Financial Statements are disclosures presented to assist the reader in understanding the information found in the financial statements.

NOTE 1 is required in all financial statements, even in cases where only the minimum notes are given. It provides a brief description of the CCSD; which financial statements are provided; how activity is recorded/reported; the accounting basis on which the financial statements are presented; certain financial policies of the CCSD, such as its capitalization policy and some definition of terms.

NOTE 2 provides information related to the CCSD's cash and investments such as how much cash is on-hand, how much is in the CCSD's bank accounts and how much is held in the Local Agency Investment Fund (LAIF). LAIF is a voluntary program offered to California's local governments to allow them to participate in a major portfolio. It is administered by the California State Treasurer. It has the same objectives in its investment policy as does the CCSD (Safety, Liquidity and Yield, in that order). LAIF does not invest in securities or derivatives and no agency has ever lost funds invested in LAIF. It is not subject to seizure by the State of California. On June 30, 2013, the fair market value of LAIF's investments was slightly in excess of the cost plus accrued interest of those assets. Slightly over 61% of LAIF's funds were invested in United States Treasury Bills/Notes.

NOTE 3 provides additional information on the CCSD's Property, Plant and Equipment (Fixed Assets). This is mainly in the form of showing the amounts added and deleted for a given fiscal year by type of asset.

NOTE 4 provides additional information on the CCSD's accrued liabilities.

NOTE 5 provides additional information on the CCSD's Long-Term Debt such as original balances, interest rates and annual amounts due through the end of the terms of the debt.

NOTE 6 discusses the changes resulting from the adoption of GASB 63 and GASB 65.

NOTE 7 provides information related to the CCSD's pension plan such as the actuarial assumptions.

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NOTE 8 is required by the Governmental Accounting Standards Board (GASB) Statements 43 & 45. While the note is titled Post-Employment Benefits, the purpose of the note is to report on Other Post-Employment Benefits (OPEB) with "Other" signifying other than pensions. For the purposes of the CCSD, this means retiree healthcare benefits. The amount shown is based on an actuarial prepared "in-house" as of June 30, 2012. It is required to do an actuarial every other year and the next one will be done for the fiscal year ending June 30, 2014. The actuarial is based on the number of employees, retirees and their spouses as well as their ages (and presumed life spans) and presumed retirement dates as of June 30, 2011. The estimated costs are projected forward through the year 2068. (It should be noted that while there were 30 eligible employees as of June 30, 2009, there were 24 eligible employees as of June 30, 2011 although there were unfilled vacancies).

The CCSD currently operates on a "pay as you go" basis for OPEB. Current retiree costs are fully paid, but nothing is specifically set-aside for future benefits. To account for these future benefits an additional expenditure of \$25,050 was recorded as a future obligation, with no outflow of cash. \$29,737 of this balance is related to the Governmental Funds, \$9,475 is related to the Water Fund and the Wastewater Fund had a credit of (\$14,162). The credit in the Wastewater Fund occurred because of multiple factors. As discussed in the next section, as of January 1, 2013, retirees began paying a greater percentage of their healthcare benefits. In addition, healthcare premiums for retirees on Medicare were reduced by over 22%. Finally, the timing of the valuation affects the computation. Because OPEB is computed for the future, these recent changes are factored in, but they had no effect on the costs as of June 30, 2012. It is important to note that this is not a credit in the sense that any excess funds were expended or will be applied to future costs. It only signifies that future costs would be expected to decrease based on the existing information.

NOTE 9 discusses the changes resulting from the adoption of GASB 65.

NOTE 10 provides information related to agreements with other government entities for mutual aid and the use of property.

Other Required Supplemental Information

This is a new section and contains The STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-Budget and Actual-Governmental Funds is found here as is the SCHEDULE OF FUNDING PROGRESS for Other Post Employment Benefits.

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Economic Factors and Budget

While property valuation and the employment rate remains below what they were before the United States and especially California's economy took a significant turn for the worse in recent years, there were positive developments in the 2012-2013 fiscal year. Ad valorem property tax revenue (net of the County's administrative fee) increased for the first time in four years. However, it is still \$141,000 (7.2%) below its peak in fiscal year 2009-2010. For fiscal year 2013-2014, it is projected to increase by approximately \$36,000. Ad valorem property tax revenue accounts for 72% of the Fire Departments; 93% of Facilities and Resources; 99% of Parks & Recreation and 13% of Administration's revenue in the CCSD's fiscal year 2013-2013 Budget.

Because the Fire Suppression Benefit Assessment is a parcel assessment, it is not impacted by property value fluctuations. If approved by the CCSD Board of Directors, it can increase by the annual increase in the consumer price index, up to a maximum of 5.4%. It increased by \$12,330 (3.1%) from fiscal year 2011-2012 to fiscal year 2012-2013 and it represents 26% of the Fire Department's revenue in the CCSD's fiscal year 2013-2013 Budget. The economic situation also may have been impacting utility sales, although this is not as readily discernable as with property tax revenue. Water and sewer sales decreased at the start of the economic downturn, staying depressed until the 2011-2012 fiscal year at which time they rebounded significantly, although they remained slightly below their highest level, which occurred in fiscal year 2006-2007. Water sales continued to increase in fiscal year 2012-2013 while sewer sales decreased very slightly and both are currently at approximately 98% of their highest point after accounting for any rate increases during the period. Because sales are thought to be partially driven by weather conditions, the exact cause for any increase or decrease is unknown and due to the rate structure, there is a far greater variation in water sales as compared to sewer sales.

Two significant factors other than the general economic situation, impact the financial strength of the CCSD. They are:

- Minimal capacity fee revenue; and
- Stagnate customer base

These conditions present significant fiscal challenges to the CCSD. Having only minimal capital revenue has resulted in most enterprise funds' capital outlays being financed by operating revenue or by transfers from the General Fund after fiscal year 2005-2006. A stagnate customer base results in little or no growth in revenue as well as in lost economies of scale. To meet these challenges, the CCSD increased water fees by 9.75% and sewer fees by 15% as of July 1, 2009 and reduced staffing and employee benefits costs as well as reducing other operating costs. While a hiring freeze was imposed by the Board of Directors has since been reversed, several positions remain vacant including the Assistant General Manager, Assistant Fire Chief, Assistant Finance Manager,

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Administrative Technician (Fire Department) and an Administrative Technicians (Finance). Reduced retirement formulas have been adopted for new employees and all newly hired employees contribute the full employee portion to their pensions. For existing employees, all employee groups are now paying a portion of their retirement benefit and management/confidential employees and SEIU employees will be paying the full employee portion to their pensions within three years. Greater cost-sharing for medical insurance is also being paid by management/confidential employees and SEIU employees. After increasing from \$2,563,201 in fiscal year 2007-2008 to \$2,566,283 in fiscal year 2008-2009, total salaries and wages decreased to \$2,386,305 in fiscal year 2009-2010, to \$2,299,794 (this figure does not include the severance pay paid to the previous General Manager) in fiscal year 2010-2011 and to \$2,228,801 in fiscal year 2011-2012. Total salaries and wages increased to \$2,281,216 in fiscal year 2012-2013, but there is still a net decrease of \$281,985 or 11% over the last five fiscal years. The preceding amounts include all salaries and wages, including any capitalized amounts.

Retirement is the most expensive employee benefit of the CCSD. The annual pension cost decreased from \$675,070 in fiscal year 2007-2008 to \$647,662 in fiscal year 2008-2009, to \$628,216 in fiscal year 2009-2010, and to \$553,184 in fiscal year 2010-2011. While it increased to \$568,541 in fiscal year 2011-2012 and increased to \$598,842 in fiscal year 2012-2013, there was still a decrease of \$76,228, or 11.3% over the five year period. There are various factors that will impact the retirement rates and cost in the future. While such factors as total salaries, inflation rates and returns on investments are always involved and the agreements with employees to institute a second tier of retirement rates for newly hired employees and for current employees to pay a greater portion of their retirement contributions will serve to lower rates, there are 2 other factors that will impact the retirement rates for employees hired under the first tier formula in the short term (one of which will impact the rates permanently). The first item is a recently CalPERS approved methodology for amortization and smoothing. These are outlined in CalPERS Circular Letter 200-019-13. This policy change calls for increasing retirement rates from fiscal year 2015-2016 through fiscal year 2019-2020 with the projected increases for Safety (Fire Department) employees being 2.38% in fiscal year 2015-2016 rising to 11.9% in fiscal year 2019-2020. For Miscellaneous employees (all other departments) being 1.28% in fiscal year 2015-2016 rising to 6.4% in fiscal year 2019-2020. After fiscal year 2019-2020, the increases will be deleted. The second item is the retirement of the CCSD's Side Funds. "Side Fund" is the term used by CalPERS "to account for the difference between the funded status of the (entity's) pool and the funded status of the (entity's) plan, in addition to your existing unfunded liability". It is the 'catch-up' required when a higher formula plan is adopted by an entity. For fiscal year 2013-2014, paying the Safety Side Fund adds 4.343% to the Net Employer Contribution rate of 30.492% and paying the Miscellaneous Side Fund adds 11.484% to the Net Employer Contribution rate of 27.208%. The final year for paying the Safety Side Fund

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is fiscal year 2014/2015 and the final year for paying the Miscellaneous Side Fund is fiscal year 2016/2017 at which time, contribution rates should decrease by the Side Fund rates.

Retiree health insurance had traditionally been the third most expensive employee benefit of the CCSD, but became the second most expensive in fiscal year 2011-2012. In fiscal year 2012-2013, it fell back to the third again. It increased from \$174,820 in fiscal year 2007-2008 to \$178,943 in fiscal year 2008-2009, it decreased to \$148,546 in fiscal year 2009-2010 (approximately \$35,700 of this decrease was due to a two-month premium "holiday" from paying monthly premiums due to excess profits of the provider), it increased to \$209,186 in fiscal year 2010-2011, increased to \$270,349 in fiscal year 2011-2012 and decreased to \$240,734 in fiscal year 2012-2013. This is an overall increase of \$65,914 or 37.7%. Agreements with management/confidential employees and SEIU employees provide for increased premium contributions to be made by retirees and newly hired employees will receive a reduced health insurance premium benefit equal to the Public Employees' Medical and Hospital Care Act (PEMHCA) minimum, which is currently \$115. These changes are expected to result in a great reduction of retiree health insurance costs in the future. In addition, the premium rate for retirees on Medicare was reduced by over 22% as of January 1, 2013.

Employee health insurance is the second most expensive employee benefit of the CCSD. The annual employee medical insurance cost decreased from \$349,459 in fiscal year 2007-2008 to \$341,026 in fiscal year 2008-2009, to \$242,246 in fiscal year 2009-2010 (approximately \$48,400 of this decrease was due to a two-month premium "holiday" from paying monthly premiums due to excess profits of the provider), increased to \$253,951 in fiscal year 2010-2011, decreased to \$244,632 in fiscal year 2011-2012 and increased to \$281,801 in fiscal year 2012-2013. This is an overall decrease of \$67,658 or 19.4%. The CCSD changed the insurance plan from a PPO to a HMO January 1, 2010, which reduced its contribution (employees staying in the PPO paid all of the excess cost). Agreements with management/confidential employees and SEIU employees provide for increased premium contributions to be made by employees.

After decreasing for several years, the CCSD's total Cash and Investments was \$4,265,148 as of June 30, 2009. It increased to \$4,499,040 as of June 30, 2010, decreased to \$4,386,277 as of June 30, 2011 (however, while the balance decreased \$112,763, it would have increased by \$293,084 if the capital lease for the fire pumper had not been paid off early and the severance package for the prior general manager had not occurred), increased to \$4,654,815 as of June 30, 2012 and increased to \$4,890,266 as of June 30, 2013.

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Personnel costs represent 46.5% of the CCSD's operating expenditures for fiscal year 2012-2013. Several steps, the most significant being discussed above, have been taken to control these costs. While some costs will continue to increase, at least in the short-term future, the overall cost structure has been greatly improved and personnel costs appear to be sustainable.

While personnel costs are the largest category of expenditures, another cost area warrants discussion as the costs are rising rapidly plus the underlying exposure has the potential to greatly impact the CCSD's economic viability. These are the maintenance and repair costs. While these costs range from copier repairs to vehicle repairs to pump repairs, the vast majority are related to maintenance and repair costs of the water and sewer infrastructure. The total maintenance and repair costs were \$296,877 in fiscal year 2008-2009, they increased to \$380,638 in fiscal year 2009-2010, increased to \$419,797 in fiscal year 2010-2011, increased to \$530,902 in 2011-2012 and increased to \$798,283 in fiscal year 2012-2013. This is an 170% increase in four years.

Related to the increase in maintenance and repair costs is the increase in capital outlay costs. Capital outlay involves either the purchase of new fixed assets or the betterment of existing fixed assets. As with maintenance and repair costs, these costs can range from the purchase of a copier to a fire engine to a new water or sewer infrastructure and, as with maintenance and repair costs, the vast majority are related to the water and sewer departments. These costs do not include capital improvement projects, which are multi-year projects that usually have very high costs, such as a new water tank. The total capital outlay costs were \$14,224 in fiscal year 2008-2009, they increased to \$82,298 in fiscal year 2009-2010, decreased to \$28,243 in fiscal year 2010-2011, increased to \$182,859 in 2011-2012 and increased to \$200,766 in fiscal year 2012-2013. This is an 1311% increase in four years.

Even with the large increases noted above, a large number of projects necessary to maintain water and sewer services have been identified and these costs have the possibility of creating serious economic consequences for the CCSD. To address this, the CCSD is in the process of conducting a rate study specifically related to these costs.

The Board of Directors approved the operating budget for fiscal year 2013-2014 on June 27, 2013. Projected activity for all funds is as follows: Water-a deficit of \$98,225 (the \$98,225 is expected to be transferred from reserves); Wastewater (Sewer)-a deficit of \$233,178 (the \$233,178 is expected to be transferred from reserves); Governmental (General)-\$7,941 surplus. The Board of Directors also approved the capital budget for fiscal year 2013-2014 on June 27, 2013. Projected activity for all funds is as follows: Water-a deficit of \$192,837 (the \$192,837 is expected to be transferred from reserves).

CAMBRIA COMMUNITY SERVICES DISTRICT
BOARD OF DIRECTORS AND ADMINISTRATION
June 30, 2013

BOARD OF DIRECTORS

<u>NAME</u>	<u>TERM EXPIRES</u>
Michael Thompson, President	December 2014
Jim Bahringer, Vice President	December 2014
Muril Clift, Director	December 2016
Amanda Rice, Director	December 2016
Gail Robinette, Director	December 2016

ADMINISTRATION

Jerry Gruber	General Manager
Tim Carmel	District Counsel
Kathy Choate	District Clerk

CROSBY COMPANY, CERTIFIED PUBLIC ACCOUNTANT

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

PHONE: (805)543-6100 FAX: (805)858-9505

Independent Auditor's Report

To the Management of
Cambria Community Services District
Cambria, California 93428

Report on the Financial Statements

I have audited the accompanying financial statements of the Cambria Community Services District (CCSD), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the CCSD'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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *xi*, the budgetary comparison information on page 28, and the schedule of funding progress listed on page 29, 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.

Robert Gray CPA

CROSBY COMPANY
Certified Public Accountant
San Luis Obispo, California

November 20, 2013

CAMBRIA COMMUNITY SERVICES DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 3,939,239	\$ 951,027	\$ 4,890,266
Receivables:			
Interest receivable	2,330		2,330
Taxes	33,551		33,551
Other	42,340	681,445	723,785
Prepaid costs	191,038	12,044	203,082
Note receivable	4,548		4,548
Due from other funds	157,726		157,726
Intangible-water master plan		1,611,290	1,611,290
Capital assets:			
Nondepreciable	15,221,570	6,828,046	22,049,616
Depreciable, net	1,357,023	13,125,238	14,482,261
Total capital assets, net of depreciation	16,578,593	19,953,284	36,531,877
Total assets	\$ 20,949,365	\$ 23,209,090	\$ 44,158,455
LIABILITIES			
Accounts payable	\$ 131,605	\$ 227,470	\$ 359,075
Accrued expenses	111,101	34,404	145,505
Accrued interest payable		18,354	18,354
Refundable deposits	7,314	41,070	48,384
Deferred revenue	5,547	38,453	44,000
Due to other funds		157,726	157,726
Long-term liabilities			
Due within one year	8,331	543,749	552,080
Due within more than one year	244,270	1,822,355	2,066,625
Total liabilities	508,168	2,883,581	3,391,749
NET POSITION			
Invested in capital assets-net of related debt	16,543,610	17,658,457	34,202,067
Unrestricted	3,897,587	2,667,052	6,564,639
Total net position	\$ 20,441,197	\$ 20,325,509	\$ 40,766,706

The accompanying notes are an integral part of these financial statements

CAMBRIA COMMUNITY SERVICES DISTRICT

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Net (Expense) Revenue and Change in Net Assets Primary Government

Functions/Programs

Program Revenues

	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Change in Net Assets</u> <u>Primary Government</u>		
	Expenses	Charges for Services	Operating Grants	Governmental Activities	Business-type Activities	Totals	
Primary government:							
Governmental activities:							
Administration	\$ 1,482,374	\$ 1,183,481	\$ -	\$ (298,893)		\$ (298,893)	
Fire	1,667,991	18,615	718	(1,648,658)		(1,648,658)	
Parks and recreation	27,592			(27,592)		(27,592)	
Facilities and resources	501,746			(501,746)		(501,746)	
Total governmental activities	3,679,703	1,202,096	718	(2,476,889)		(2,476,889)	
Business-type activities:							
Water	2,696,148	2,037,280			\$ (658,868)	(658,868)	
Wastewater	2,384,467	1,990,590			(393,877)	(393,877)	
Total business-type activities	5,080,615	4,027,870			(1,052,745)	(1,052,745)	
Total primary government	\$ 8,760,318	\$ 5,229,966	\$ 718	(2,476,889)	(1,052,745)	(3,529,634)	
General revenues:							
Taxes:							
Property taxes and assessments				2,228,421		2,228,421	
Availability charges					292,836	292,836	
Connection fees					95,589	95,589	
Franchise taxes							
Investment income					2,646	2,646	
Other income					8,444	110,467	
Special - loss on disposal of assets					(885,157)	(885,157)	
Total general revenues, investment and other income				2,414,083	(485,642)	1,928,441	
Change in net assets							
Net assets - beginning				(62,806)	(1,538,387)	(1,601,193)	
Net assets - ending				20,504,003	21,863,896	42,367,899	
Net assets - ending				\$ 20,441,197	\$ 20,325,509	\$ 40,766,706	

CAMBRIA COMMUNITY SERVICES DISTRICT

BALANCE SHEET
Governmental Funds
June 30, 2013

	General Fund
ASSETS	
Cash and investments	\$ 3,939,239
Receivables:	
Interest	2,330
Taxes	33,551
Grants	
Other	42,340
Prepaid items	191,038
Note receivable	4,548
Amount due from other funds	157,726
 Total assets	 \$ 4,370,772
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 131,605
Accrued expenses	111,101
Refundable deposits	7,314
Deferred revenue	5,547
 Total liabilities	 255,567
Fund balances:	
Nonspendable	195,586
Assigned	3,919,619
 Total fund balances	 4,115,205
 Total liabilities and fund balances	 \$ 4,370,772

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

Total fund balances - government funds

\$ 4,115,205

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

16,578,593

Long-term liabilities and compensated absences have not been included in the governmental funds activity:

Compensated absences

(217,617)

Loans payable

(34,984)

Net position of governmental activities

\$ 20,441,197

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
 Governmental Funds
 For the Year Ended June 30, 2013

	<u>General Fund</u>
Revenues:	
Property taxes and assessments	\$ 2,228,421
Grant income	718
Weed abatement	18,615
Franchise fees	72,324
Use of money and property	37,298
Charges for administrative services	1,181,831
Other	77,690
Total revenues	3,616,897
Expenditures:	
Administration	1,475,692
Fire	1,563,216
Parks and Recreation	21,666
Facilities and Resources	478,823
Capital outlay	114,359
Total expenditures	3,653,756
Excess of revenues over expenditures	(36,859)
Other financing sources:	
Loan payable	34,983
Total other financing sources	34,983
Net change in fund balance	(1,876)
Fund balance at beginning of year	4,117,081
Fund balance at end of year	\$ 4,115,205

The accompanying notes are an integral part of these financial statements

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

Net change in governmental fund balances

Loan proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, proceeds were received from a loan payable.

In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amount paid).

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. In the current period, these amounts are:

Capital outlay
Depreciation expense

Excess of depreciation expense over capital outlay

Change in Net Assets of Governmental Activities

	\$ (1,876)
	(34,983)
	(20,529)
	\$ 114,359
	(119,777)
	(5,418)
	\$ (62,806)

CAMBRIA COMMUNITY SERVICES DISTRICT

STATEMENT OF NET POSITION

Proprietary Funds

June 30, 2013

ASSETS	Business-type Activities Enterprise Funds		
	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Totals</u>
Current assets:			
Cash and investments	\$ 394,327	\$ 556,700	\$ 951,027
Accounts receivable, net of allowance	312,793	368,652	681,445
Prepaid expense		12,044	12,044
Total current assets	707,120	937,396	1,644,516
Noncurrent assets:			
Capital assets:			
Construction in progress	4,537,255	16,412	4,553,667
Land	898,949	1,375,430	2,274,379
Plant and facilities	17,823,149	23,575,210	41,398,359
Machinery and equipment	522,802	963,341	1,486,143
Less: accumulated depreciation	(11,446,782)	(18,312,482)	(29,759,264)
Total noncurrent assets	12,335,373	7,617,911	19,953,284
Other assets:			
Intangible-water master plan	1,611,290		1,611,290
Total other assets	1,611,290		1,611,290
Total assets	\$ 14,653,783	\$ 8,555,307	\$ 23,209,090
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 185,334	\$ 42,136	\$ 227,470
Accrued expenses	10,572	23,832	34,404
Accrued interest payable	1,621	16,733	18,354
Deferred revenue	22,770	15,683	38,453
Refundable deposits	41,070		41,070
Due to other funds	157,726		157,726
Current portion of noncurrent liabilities	182,530	361,219	543,749
Total current liabilities	601,623	459,603	1,061,226
Noncurrent liabilities:			
Compensated absences	47,805	23,472	71,277
Loan payable, less current portion	67,274	47,884	115,158
Note payable, less current portion		1,635,920	1,635,920
Total noncurrent liabilities	115,079	1,707,276	1,822,355
Total liabilities	\$ 716,702	\$ 2,166,879	\$ 2,883,581
NET POSITION			
Invested in capital assets - net of related debt	\$ 12,085,569	\$ 5,572,888	\$ 17,658,457
Unrestricted	1,851,512	815,540	2,667,052
Total net position	\$ 13,937,081	\$ 6,388,428	\$ 20,325,509

The accompanying notes are an integral part of these financial statements

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

	Business-type Activities Enterprise Funds		Totals
	Water Fund	Wastewater Fund	
Operating revenues:			
Utility sales	\$ 1,903,236	\$ 1,989,766	\$ 3,893,002
Service charges and fees	134,044	824	134,868
Total operating revenues	2,037,280	1,990,590	4,027,870
Operating expenses:			
Salaries and wages	416,370	309,526	725,896
Payroll taxes and benefits	260,416	248,189	508,605
Maintenance and repairs	383,370	275,738	659,108
Office supplies, publications, and dues	19,962	16,040	36,002
Licenses and fees	19,145	61,157	80,302
Rent	34,592		34,592
Professional services	156,699	62,948	219,647
Operating supplies	49,210	33,795	83,005
Employee travel and training	2,681	880	3,561
Retrofit and rebate program	67,059		67,059
Utilities	136,822	177,641	314,463
General and administrative overhead	509,647	366,677	876,324
Amortized bond costs	48,741	46,983	95,724
Depreciation	575,444	692,269	1,267,713
Total expenses	2,680,158	2,291,843	4,972,001
Net operating loss	(642,878)	(301,253)	(944,131)
Non-operating revenues (expenses):			
Availability charges	176,367	116,469	292,836
Connection fees	48,825	46,764	95,589
Investment income	1,356	1,290	2,646
Other income	8,444		8,444
Loss on disposal of assets	(566,613)	(318,544)	(885,157)
Interest expense	(15,990)	(92,624)	(108,614)
Total non-operating revenues (expenses)	(347,611)	(246,645)	(594,256)
Change in net assets	(990,489)	(547,898)	(1,538,387)
Net position at beginning of year	14,927,570	6,936,326	21,863,896
Net position at end of year	\$ 13,937,081	\$ 6,388,428	\$ 20,325,509

The accompanying notes are an integral part of these financial statements

CAMBRIA COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS

Proprietary Funds

For the Year Ended June 30, 2013

	Business-type Activities Enterprise Funds		<u>Totals</u>
	<u>Water Fund</u>	<u>Wastewater Fund</u>	
Cash flows from operating activities:			
Cash received from operating revenue	\$ 2,031,911	\$ 1,984,067	\$ 4,015,978
Payments to suppliers	(1,540,453)	(1,306,358)	(2,846,811)
Payments to employees	(392,242)	(292,853)	(685,095)
Net cash provided by operating activities	99,216	384,856	484,072
Cash flows from capital and related financing activities:			
Proceeds from capital debt	33,614	33,403	67,017
Principal paid on capital debt	(166,985)	(338,566)	(505,551)
Interest paid on capital debt	(15,990)	(92,624)	(108,614)
Purchase of capital assets	(179,273)	(45,783)	(225,056)
Standby availability	176,367	116,469	292,836
Connection fees	48,825	46,764	95,589
Net cash used by capital and related financing activities	(103,442)	(280,337)	(450,796)
Cash flows from investing and non-operating activities:			
Investment income	1,356	1,290	2,646
Other income	8,444		8,444
Net cash provided by investing and non-operating activities	9,800	1,290	11,090
Net change in cash	5,574	105,809	44,366
Cash and cash equivalents-beginning	388,753	450,891	839,644
Cash and cash equivalents-end	\$ 394,327	\$ 556,700	\$ 884,010
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (642,878)	\$ (301,253)	\$ (944,131)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation	575,444	692,269	1,267,713
Amortization	48,740	46,983	95,723
Net changes in assets and liabilities:			
Decrease in accounts receivable	(5,369)	(6,523)	(11,892)
Increase in prepaid expense	6,787	13,097	19,884
Increase (decrease) in accounts payable	151,144	(63,761)	87,383
Increase (decrease) in accrued expenses	(24,911)	7,159	(17,752)
Decrease in accrued interest payable	(1,253)	(2,041)	(3,294)
Decrease in deferred revenue	15,270		15,270
Increase in deposits	2,170		2,170
Increase (decrease) in compensated absences	(25,928)	(1,074)	(27,002)
Net cash provided by operating activities	\$ 99,216	\$ 384,856	\$ 484,072

The accompanying notes are an integral part of these financial statements

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

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Cambria Community Services District (CCSD) is a multi-purpose special district established on December 9, 1976. CCSD is a political subdivision of the State of California and operates under a Board of Directors-Manager form of government. CCSD provides water, wastewater, fire protection, parks and recreation, open space, street lighting, conservation and general administrative services.

There are no component units included in this report which meet the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity as amended by GASB Statement No. 39.

Basis of Accounting, Measurement Focus, and Financial Statements Presentation

The basic financial statements of CCSD are composed of the following:

- Government-Wide and Fund Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements

Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These Statements include separate columns for the governmental activities and business-type activities of the primary government (including its blended component units), as well as its discreetly presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of CCSD.

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statement. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains losses, assets, and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement number 33.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

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

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Basis of Accounting, Measurement Focus, and Financial Statements Presentation (continued)

Fund Financial Statements

The underlying accounting system of CCSD is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental and enterprise funds.

Governmental Funds

In the fund financial statements, governmental funds are presented using the modified – accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

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

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Basis of Accounting, Measurement Focus, and Financial Statements Presentation (continued)

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts. Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the fiscal year that resources were expended, rather than as capital assets. The proceeds of long-term debt are recorded as an other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenditures/expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

CCSD reports the following major governmental fund:

General Fund: is the primary operating fund of CCSD. It is used to account for all financial resources except those required to be accounted for in another fund.

CCSD reports the following major proprietary funds:

Water Fund: accounts for the activities of CCSD's water operations.

Wastewater Fund: accounts for activities of CCSD's sewer operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with proprietary funds' principal ongoing operations. The principal operating revenues of the Water and Wastewater Funds are charges to customers. Operating expenses for the Water and Wastewater Funds include non-capital expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, CCSD considers all highly liquid investments with a maturity of three months or less to be cash and cash equivalents.

Investments

Investments are stated at fair value.

Accounts Receivable

CCSD water and wastewater charges are billed bimonthly for all residential and commercial customers. Customer accounts receivable are placed on the tax roll when the receivable is deemed uncollectible by CCSD. Management has determined that an allowance for doubtful accounts is zero and not considered necessary since it would not be material.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid expenses.

Property Taxes

The County of San Luis Obispo bills and collects property taxes for CCSD. The County charges CCSD for these services. Tax revenues are recognized as soon as the County indicates that they are due to the CCSD.

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

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities fund type statement of net assets. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

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. CCSD currently maintains a capitalization threshold of \$5,000 and an estimated useful life exceeding two years. 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.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the applicable governmental or business-type activity column in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. The estimated useful lives are as follows:

Equipment	3 to 10 years
Improvements	5 to 20 years

Compensated Absences

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

Concentrations

CCSD will provide water/wastewater 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.

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

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenses/expenditures in the reimbursing fund and as reductions of expenses/expenditures in the fund that is reimbursed.

With the exception of the loan between the general fund and the water fund, all other interfund transactions except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

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.

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 presents the difference between assets and liabilities in the statement of net position. Net position invested in capital assets is 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.

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

NOTE 2: CASH AND INVESTMENTS

CCSD pools idle cash from all funds for the purpose of increasing income through investment. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balances of each fund.

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

Petty cash	\$	600
Demand deposits		198,783
Cash and investments with:		
Local Agency Investment Fund (LAIF)		<u>4,690,883</u>
Total cash and investments	\$	<u>4,890,266</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. CCSD 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.

At June 30, 2013, the carrying amounts of the CCSD's cash demand deposits were \$179,783. The bank's balances were \$198,224. This difference is due to the normal deposits in transit and outstanding checks. CCSD cash deposits by category as of June 30, 2013, were as follows:

	<u>1</u>	Category <u>2</u>	<u>3</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Bank accounts	\$ <u>198,224</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>198,224</u>	\$ <u>179,783</u>

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

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

A summary of capital assets by major classifications is as follows:

<u>Governmental activities:</u>	Balance June 30, 2012	Additions	Obsolete Assets/ Reclassified	Balance June 30, 2013
Non-depreciable capital assets				
Land	\$ 14,990,732	\$ -	\$ -	\$ 14,990,732
Construction in progress	224,584	6,254		230,838
Total nondepreciable Capital assets	15,215,316	6,254		15,221,570
Depreciable capital assets				
Buildings and improvements	1,753,270			1,753,270
Equipment	1,678,509	108,105		1,786,614
Total depreciable capital assets	3,431,779	108,105		3,539,884
Less accumulated depreciation	(2,063,084)	(119,777)		(2,182,861)
Net depreciable capital assets	1,368,695	(11,672)	-	1,357,023
Net capital assets	\$ 16,584,011	\$ (5,418)	\$ -	\$ 16,578,593
 <u>Business-type activities:</u>				
Non-depreciable capital assets				
Land	\$ 2,274,379	\$ -	\$ -	\$ 2,274,379
Construction in progress	5,298,994	144,314	(889,641)	4,553,667
Total non-depreciable capital assets	7,573,373	144,314	(889,641)	6,828,046
Depreciable capital assets				
Buildings and facilities	41,398,359			41,398,359
Machinery and equipment	1,422,110	85,226	(21,193)	1,486,143
Total depreciable capital assets	42,820,469	85,226	(21,193)	42,884,502
Less accumulated depreciation	(28,512,744)	(1,267,713)	21,193	(29,759,264)
Net depreciable capital assets	14,307,725	(1,182,487)	-	13,125,238
Net capital assets	\$ 21,881,098	\$ (1,038,173)	\$ (889,641)	\$ 19,953,284

Depreciation expense for all funds was \$1,387,490 for the year ended June 30, 2013.

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

NOTE 4: ACCRUED EXPENSES

Accrued expenses as of June 30, 2013, are summarized as follows:

Salaries payable	\$	134,932
Other post employment benefits (OPEB) payable		<u>(10,573)</u>
 Total accrued liabilities	 \$	 <u>145,505</u>

NOTE 5: LONG-TERM DEBT

Loan Payable

On February 17, 2006, the CCSD entered into a loan agreement for \$1,897,500 with the Municipal Finance Corporation to advance refund its 1995 water and wastewater bonds. The interest rate on the loan is 4.5%. At June 30, 2013, the loan payable principal balance outstanding was \$332,600. The loan is allocated 65% to water operations and 35% to wastewater operations. The loan payable is due May 1, 2015.

On November 1, 2012, the CCSD entered into a loan agreement for \$102,000 with the Municipal Finance Corporation to purchase vehicles. The interest rate on the loan is 3.25%. At June 30, 2013, the loan payable principal balance outstanding was \$102,000. The loan is allocated 34.3% to the general fund, 32.95% to water operations, and 32.75% to wastewater operations. The loan payable is due April 1, 2017.

The loan payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 292,790	\$ 18,282	\$ 311,072
2015	89,179	5,410	94,589
2016	25,895	1,710	27,605
2017	<u>26,736</u>	<u>869</u>	<u>27,605</u>
 Totals	 <u>\$ 434,600</u>	 <u>\$ 26,271</u>	 <u>\$ 460,871</u>

Notes Payable:

A State Water Resource Control Board (SWRCB) note payable totaling \$2,512,330 was issued on September 13, 1994, with an interest rate at 3 percent. At June 30, 2013, the note payable principal balance outstanding was \$492,210. Note principal payments are due annually on May 28th through 2016.

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

NOTE 5: LONG-TERM DEBT (continued)

A City National Bank note payable totaling \$1,585,000 was issued on September 23, 2010 with an interest rate at 4.5 percent. At June 30, 2013, the note payable principal balance outstanding was \$1,403,000. Note principal payments are due annually on September 23rd through 2023.

The note payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 259,290	\$ 76,329	\$ 335,619
2015	273,069	66,795	339,864
2016	277,851	56,912	334,763
2017	114,000	46,774	160,774
2018	118,000	41,496	159,496
2019-2023	690,000	118,072	808,072
2024	163,000	3,708	166,708
Totals	\$ <u>1,895,210</u>	\$ <u>410,086</u>	\$ <u>2,305,296</u>

Total future debt service payments by activity are as follows:

Fiscal Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>		Total
	Principal	Interest	Principal	Interest	
2014	\$ 8,331	\$ 1,137	\$ 543,749	\$ 93,474	\$ 646,691
2015	8,601	866	353,647	71,339	434,453
2016	8,881	587	294,865	58,035	362,368
2017	9,170	298	131,566	47,345	188,379
2018			118,000	41,496	159,496
2019-2023			690,000	118,072	808,072
2024			163,000	3,708	166,708
Totals	\$ <u>34,983</u>	\$ <u>2,888</u>	\$ <u>2,294,827</u>	\$ <u>433,469</u>	\$ <u>2,766,167</u>

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

NOTE 5: LONG-TERM DEBT (continued)

Changes in long-term liabilities

The following is a summary of long-term liabilities activity for the fiscal year ended June 30, 2013:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Current</u>
Governmental activities:					
Loan payable	\$ -	\$ 34,983	\$ -	\$ 34,983	\$ 8,331
Compensated absences	197,089	20,529		217,618	-
Governmental activity Long-term liabilities	<u>\$ 197,089</u>	<u>\$ 55,512</u>	<u>\$ -</u>	<u>\$ 252,601</u>	<u>\$ 8,331</u>
Business-type activities:					
Loan payable	\$ 589,500	\$ 67,017	\$ (256,900)	\$ 399,617	\$ 284,459
Notes payable	2,143,861		(248,651)	1,895,210	259,290
Compensated absences	98,279		(27,002)	71,277	
Business-type activity Long-term liabilities	<u>\$ 2,831,640</u>	<u>\$ 67,017</u>	<u>\$ (532,553)</u>	<u>\$ 2,366,104</u>	<u>\$ 543,749</u>

NOTE 6: STATEMENT OF NET POSITION

The District adopted GASB Statement No.63, *Financial Reporting of Deferred outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of June 30, 2013, which changed the Statement of Net Assets to the Statement of Net Position and provides guidance for reporting deferred outflows and inflows of resources. The adoption of this did not have any financial impact on the financial statements.

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

NOTE 7: PENSION PLAN

The Cambria 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 adjustments, 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 CCSD resolutions. Copies of CalPERS' annual financial report may be obtained from their Executive Office (400 P Street, Sacramento, CA 95814).

The CCSD has two retirement plans with CalPERS. The first plan is known as the Safety Plan and covers all full-time and some part-time Fire Department employees. The second plan, known as the Miscellaneous Plan, covers all other CCSD employees. Both plans have required employer and employee contributions. The employer contribution rates are determined by various factors and changes annually. The employee contribution rates are 9% for the Safety Plan and 8% for the Miscellaneous Plan. Currently, Safety Plan employees hired before April 23, 2010 pay 2% of the employee contribution and the full 9% if hired after April 23, 2010. Miscellaneous Plan employees currently pay 4% of the employee contribution if hired before July 22, 2010 (increasing to 6% as of July 1, 2014 and 8% as of July 1, 2015) and the full 8% if hired after July 22, 2010.

CCSD makes the contributions required of CCSD employees on their behalf and for their account. CCSD is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by State statute and the employer contribution rate are established and may be amended by CalPERS.

The annual PERS pension cost for the year ended June 30, 2013 was \$598,842 and was equal to CCSD's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) no cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75%. 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. CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The three year trend information was not made available to CCSD for both CCSD participants and safety participants

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

NOTE 8: POST-EMPLOYMENT BENEFITS

In addition to pension benefits, the District provides post-retirement health care benefits through the California Public Employees' Retirement System (CalPERS). Employees who retire on or after attaining age 50 and are vested, are eligible for District paid health insurance. On June 30, 2012, the District conducted an internal actuarial calculation to determine the required funding for this health care benefits program.

The actuarial liability for the District's retiree health benefits program on this measurement date was determined to be \$4,594,225. This value is based on a discount rate of 5.5%. The District's funding policy is to pay 100% of the current year costs direct. This is the "pay as you go method". As of June 30, 2013, 29 retired employees are receiving 90% paid health care benefits totaling \$18,256 per month. Due to agreements with employees, 50% of the future rate increases will be paid by the CCSD and 50% will be paid by the retirees.

In addition, employees hired after October 1, 2012 will receive retiree health contributions in the amount equal to the CalPERS minimum, which is currently \$115 per month. This is a significant decrease from the current benefit. Actuarial calculations are required to be computed bi-annually and a new calculation was not required for the year ending June 30, 2013. The benefit reduction noted above would be expected to significantly reduce the employer's actuarially required contribution as well as the Actuarial Accrued Liability (AAL).

Below are the required disclosures for this plan:

Number of active participants	26
Employer's actuarially required contributions	\$ 295,400
Employer's actual contributions	\$ 240,734
Actuarial Accrued Liability(AAL)	\$ 3,654,534
Actuarial Valuation of Assets(AVA)	\$ -
Unfunded Actuarial Accrued Liability(UAAL)=(AAL less AVL)	\$ 3,654,534
Funded Ratio(AVA/AAL)	0%
Estimated Payroll	\$ 2,382,141
UAAL as a Percentage of Covered Payroll	153%

NOTE 9: NEW ACCOUNTING STANDARDS

The District adopted GASB Statement No.65, *Items Previously Reported as Assets and Liabilities* as of June 30, 2013, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously recognized as revenues and expenses.

The adoption of this statement requires that debt issuance costs be recognized as an expense in the period incurred, rather than amortized over the life of the loan. The total debt issuance costs expensed in the current year ending June 30, 2013 were \$95,724.

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

NOTE 10: JOINT POWERS AGENCIES

The Cambria Community Services District participates in a joint venture under a Joint Power Agency (JPA), the Special District Risk Management Authority (SDRMA). The SDRMA was established to provide general liability, workers compensation, automobile, errors and omission, and property loss coverage to special districts. The SDRMA is administered by a Board of Directors, consisting of seven members elected by districts participating. The Board is responsible for establishing premium rates and making budgeting decisions.

Coverage under current policies includes property loss, general liability, auto liability and comprehensive/collision, and public officials' and employees' errors and omissions. Claims over the self-insured amounts are covered by the SDRMA within the limits of the policy. Each member district is assessed a premium in accordance with the JPA agreement creating the agency.

CCSD is also participating in two separate Joint Powers Agreements. The first is an agreement with the City of Morro Bay, the Cayucos Fire District, and the South Bay Fire Department to operate an air fill compressor station for the respective fire departments. CCSD pays their share of the member contributions due on an annual basis, not to exceed \$1,000 per year. There is no contingent liability for CCSD at June 30, 2013.

The second is an agreement with the Coast Unified School District (CUSD) to lease property for the operation of the Santa Rosa Creek Well #4, the CUSD water well, pump, and distribution facilities for the purpose of securing the conveying groundwater. CCSD pays CUSD an annual fee for the easement and access to the site operation and maintenance repairs. On November 15, 2012, a new agreement was subsequently negotiated including a new initial annual payment of \$34,592. The agreement also provides for an annual adjustment for inflation based on the Consumer Price Index (CPI), with a cap on such increases of 4%.

**OTHER REQUIRED
SUPPLEMENTAL INFORMATION**

CAMBRIA COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, 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 and assessments	\$ 2,229,157	\$ 2,229,157	\$ 2,228,421	\$ (736)
Grant income	-	3,933	718	(3,215)
Weed abatement	18,147	10,147	18,615	8,468
Franchise fees	71,538	71,726	72,324	598
Use of money and property	35,962	35,284	37,298	2,014
Charges for administrative services	1,120,721	1,166,623	1,181,831	15,208
Other	28,075	43,043	77,690	34,647
Total revenues	3,503,600	3,559,913	3,616,897	56,984
Expenditures:				
Administration	1,396,959	1,463,780	1,475,692	(11,912)
Fire	1,575,101	1,587,995	1,563,216	24,779
Parks and Recreation	22,352	25,084	21,666	3,418
Facilities and Resources	474,123	471,852	478,823	(6,971)
Capital outlay	6,000	45,704	114,359	(68,655)
Total expenditures	3,474,535	3,594,415	3,653,756	(59,341)
Excess of revenues over (under) expenditures	29,065	(34,502)	(36,859)	(2,357)
Other financing sources:				
Loan payable	-	34,983	34,983	-
Total other financing sources	-	34,983	34,983	-
Net change in fund balance	\$ 29,065	\$ 481	(1,876)	\$ (2,357)
Fund balance at beginning of year			4,117,081	
Fund balance at end of year			\$ 4,115,205	

The accompanying notes are an integral part of these financial statements

CAMBRIA COMMUNITY SERVICES DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

For the Year Ended June 30, 2013

OTHER POST EMPLOYMENT BENEFITS (OPEB) PLAN

The schedule of funding progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability (UAAL) to payroll for the District's OPEB plan.

FUNDED PROGRESS OF THE OPEB PLAN

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability 'Excess Assets' (UAAL)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Payroll</u>
7/1/2012	\$ 3,654,534	\$ -	\$ 3,654,534	0%	\$ 2,202,284	166%
1/1/2010	\$ 4,615,089	\$ -	\$ 4,615,089	0%	\$ 2,386,307	193%

The accompanying notes are an integral part of these financial statements