

CAYUCOS SANITARY DISTRICT

BASIC FINANCIAL STATEMENTS

June 30, 2015

CAYUCOS SANITARY DISTRICT
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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Cayucos Sanitary District
Cayucos, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Cayucos Sanitary District (District) as of and for the fiscal year ended June 30, 2015, and the related notes to the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

We were unable to obtain fiscal year 2014/2015 audited financial statements supporting the activities of the wastewater treatment plant. Those financial activities include operating costs representing 34% of the District's operating expenses.

Qualified Opinion

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the financial statements of the wastewater treatment plant, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Cayucos Sanitary District, as of June 30, 2015, and the respective changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Changes in Accounting Principles

As discussed in note 2 to the basic financial statements effective July 1, 2014, the Cayucos Sanitary District of San Luis Obispo County adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

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 3 through 8, Schedule of Proportionate Share of Net Pension Liability on page 31, and the Schedule of Contributions on page 32, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

We have previously audited the Cayucos Sanitary District's 2014 financial statements, and our report dated October 28, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2015 on our consideration of the Cayucos Sanitary District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Levy & Spitzheim LLP

Santa Maria, California

October 27, 2015

Cayucos Sanitary District Management's Discussion and Analysis

This section of the financial statements is a highlight of the financial condition and activities for the 2014-2015 fiscal year (FY). The discussion and analysis of the Cayucos Sanitary District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should review the discussion and analysis in conjunction with the basic financial statements as well as the notes to the basic financial statements to enhance their understanding of the District's financial performance.

The District accounting system is an Enterprise Fund. This is similar to the private sector accounting system. The revenue is primarily generated by service charges with the exception of property tax revenue, investment revenue and other income. Expenses are stated as operating expenses, and capital expenses are capitalized and depreciated over the lives of the fixed assets.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year (FY) 2014-2015 are as follows:

Gross wages, payroll taxes and fringe benefits decreased by \$3,461 or 1% in FY 2014-2015 because of the following:

- Mid-year payout of accrued vacation, sick leave, and fringe benefits due to the retirement of the Administrative Services Accounting Manager.
- Contract extension of the Special Projects Coordinator.
- District's elimination of the CafPlan and adoption of additional CalPers Health Coverage (employee plus one dependent).

Increase in Director expenses resulted from an increase in the amount of monthly meetings attended by the Board for WWTP and CSWP related matters.

Increase in business expenses were directly affected by payment of 7 prior fiscal year tax lien reimbursements.

SOURCES OF REVENUES

The District's total revenue for the fiscal year was \$2,575,370 inclusive of the following:

Sewer Service (User) Charge

The major source of revenue for the District is the sewer service charge assessed to all customers who are users of the District's sewerage facilities. Sewer service charges generated \$1,661,662 in annual revenue to the District, equal to 65% of total revenues.

Sewer Standby (Service Availability) Fee

The District charges its customers who are owners of vacant lots \$7.50 monthly per each vacant, buildable parcel (lot) for the expense of maintaining a sewer system available to vacant properties. Sewer standby (service availability) fees generated \$21,347 in annual revenue to the District, less than 1% of total revenues.

Property Tax

The District receives a pro rata share of property tax (ad valorem) revenues collected by the County of San Luis Obispo for properties located within the District's service boundaries. This portion of revenue includes secured, unsecured, unitary and supplemental property taxes. The secured property tax increases 2% per year. The District's property tax revenue this year was \$692,278 representing 27% of total revenues.

Sewer Connection and Permit Fees

The District currently charges a sewer connection fee of \$7,960 for connecting to the District's sewerage facilities. Of the \$7,960, \$100 represents the charge for the sewer connection inspection fee. In FY 2014-2015, the District generated \$31,440 in combined sewer connection fee and sewer permit fees representing approximately 1% of total revenues.

Other permit fees of \$3,325 include charges for processing and issuance of Sewer Will-Serves. District staff reviews all plans for new construction and remodel projects and inspects all sewer tie-ins occurring within the District's boundaries.

Interest Income

The District invests surplus monies not required for immediate necessity of the District in accordance with the provisions of California Government Code Sections 5921 and 53601 et. seq. For this purpose, the District maintains an investment account with Shanley Associates, Inc., working through Girard Securities, Inc. The District's investments are primarily in U.S. Treasury Securities, Certificates of Deposit, and Mortgage-Backed Securities such as GNMA's and FNMA's. In addition, the District maintains an account with the Local Agency Investment Fund (LAIF).

The District manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Interest from investment holdings generated \$60,910 in interest or 2% of total revenues.

Rental Income

The District derives rental income from long term leases it jointly holds with the City of Morro Bay on parcels of real property adjacent to the Morro Bay-Cayucos Wastewater Treatment Plant that are not needed for current operations. The rental income generated was \$33,343 in annual revenue to the District or 1% of total revenues.

Solid Waste Franchise Fee

The District derives a 10% franchise fee based on gross solid waste and recycling receipts of the franchisee, Mission Country Disposal (a subsidiary of Waste Connections, Inc.) which brought in revenues of \$50,474. In addition, the District received \$5,343 representing annual revenue from Mission Country Disposal for a recycling development program. The combined revenue generated \$55,817 or approximately 2% of total revenues.

Miscellaneous Income

In FY 2014-2015 the District received \$15,248 in miscellaneous income, equal to less than 1% of total revenues. The majority of these monies were derived from State reimbursements of District expenses related to Brown Act and Open Meeting requirements from preceding fiscal years.

CAYUCOS SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

SOURCES OF EXPENSES

The total expenses of the District in FY 2014-2015 were \$1,862,844. There was an overall increase of \$46,303 equal to just over 2.5% increase from prior FY 2013-2014 as shown below.

	FY 2015	FY 2014	\$ CHANGE	% CHANGE
Gross Wages	\$318,871	\$315,832	\$3,039	0.96%
Payroll taxes and Benefits	\$58,600	\$65,100	(\$6,500)	-9.98%
Directors' Fees	\$12,200	\$5,750	\$6,450	112.17%
Office Expense	\$22,715	\$22,707	\$8	0.04%
Dues and Subscriptions	\$5,711	\$ 5,283	\$428	8.10%
Business Expense	\$9,534	\$227	\$9,307	410.00%
Permits and Licenses	\$5,706	\$5,408	\$298	5.51%
Professional Services	\$133,565	\$111,430	\$22,135	19.86%
Insurance	\$85,940	\$79,125	\$6,815	8.61%
Taxes & Assessments	\$9,155	\$7,595	\$1,560	20.54%
Utilities	\$38,422	\$37,585	\$837	2.23%
Telephone	\$11,489	\$7,733	\$3,756	48.57%
Rent (Meeting rooms)	\$270	\$210	\$60	28.57%
Professional Development	\$0	\$0	\$0	\$0
Vehicle Expense	\$7,826	\$6,949	\$877	12.62%
Maintenance and Operations	\$52,434	\$68,764	(\$16,330)	-23.75%
Wastewater Treatment Plant O&M (Includes MMRP Funding)	\$628,292	\$618,346	\$9,946	1.61%
Depreciation	\$437,245	\$428,823	\$8,422	1.96%
Total Operating Expenses	\$1,837,975	\$1,786,867	\$51,108	2.86%
Interest Expense	\$24,869	\$29,674	(\$4,805)	-16.19%
Total Non-Operating Expenses	\$24,869	\$29,674	(\$4,805)	-16.19%
Total Expenses	\$1,862,844	\$1,816,541	\$46,303	2.55%

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2014-2015, the District held \$5,947,792 in capital assets primarily for sewer related infrastructure. This amount represents a net decrease (including additions, deletions and accumulated depreciation) of \$101,872.

	FY 2015	FY 2014	CHANGE
Land	\$157,132	\$157,132	\$0
Construction in Progress	\$0	\$4,588	(\$4,588)
Construction in Progress-WWTP	\$46,883	\$36,037	\$10,846
CWSP	\$46,005	\$0	\$46,005
Total Non-Depreciable	\$250,020	\$197,757	\$52,263
Facility - Office	\$1,243,019	\$1,243,019	\$0
Conveyance System	\$4,900,734	\$4,673,640	\$227,094
Subsurface Lines	\$2,098,642	\$2,098,642	\$0
Sewage Collection Facilities	\$1,842,871	\$1,836,108	\$6,763
Sewage Treatment Facilities	\$5,542,407	\$5,542,407	\$0
Trucks	\$109,212	\$104,896	\$4,316
Office Equipment	\$106,930	\$106,930	\$0
Collection Equipment	\$489,804	\$473,668	\$16,136
Total Depreciable	\$16,333,619	\$16,079,310	\$254,309
TOTAL CAPITAL ASSETS	\$16,583,639	\$16,277,067	\$306,572
Less: Accumulated Depreciation	(\$10,635,847)	(\$10,227,403)	(\$408,444)
NET CAPITAL ASSETS	\$5,947,792	\$6,049,664	(\$101,872)

This fiscal year major capital projects, equipment purchases and asset acquisitions included are explained below:

CONSTRUCTION IN PROGRESS (CIP):

CIP additions representing \$238,173:

- CIP additions of \$227,094 to the Subsurface Lines category of FY 2014/15 Capital Assets.
 1. Slipline of 3200 feet of the 15" Main Street sewer.
 2. Removal of 210 feet of H Street sewer main.
- CIP additions of \$6,763 to the Sewage Collections Facility category of FY 2014/15 Capital Assets.
 1. Lift Station 5 wet well repairs.
- CIP additions of \$4,316 to the Trucks category of FY 2014/15 Capital Assets.
 1. Purchase of a new Ford F350 District vehicle and the depreciation and trade in offset.

CIP additions representing \$16,136:

The District purchased a new camera trailer in 2014. This cost was transferred to the Collection Equipment category of Capital Assets.

CIP WWTP-Alternatives Analysis arepresenting \$46,883:

CIP additions for the Wastewater Treatment Alternatives Development Study and associated legal review fees from Carmel & Naccasha.

CIP CSWP- Cayucos Sustainable Water Project additions representing \$46,005:

The District is pursuing an independent wastewater treatment facility and these are the costs pre-study and legal fees through June 2015.

Long Term Debt

The District did not use any outside funding sources for FY 2014-2015. Funding for the above capital improvement projects (CIP) and equipment acquisitions were from existing reserves.

CURRENT FINANCIAL ISSUES AND CONCERNS

The District is financially stable to meet any increasing operating costs and capital improvement projects.

Morro Bay-Cayucos Sanitary District Wastewater Treatment Plant (WWTP) Project:

Back in 2005, the Morro Bay City Council and Cayucos Sanitary District Board (MBCSD) adopted an eight (8) year full secondary compliance schedule for upgrading the treatment process at their jointly-owned wastewater treatment plant to comply with full secondary treatment standards by no later than March 31, 2014. Carollo Engineers completed the Facility Master Plan for the WWTP Upgrade in final draft form.

On May 28, 2008 a contract was let for environmental review to Environmental Science Associates (ESA) for a not to exceed amount of \$288,770. Their work was progressing at fiscal year-end. A flood analysis was performed by Wallace Group Engineers as a component of the environmental review. As a result of the flood analysis it was determined that the flood mitigation costs to complete the upgrade of the current WWTP were prohibitive and the Upgrade would need to take place adjacent to the existing plant. December 4, 2008, the City and District were granted a final 5 year 301(h) modified NPDES Permit from the State Water Resources Control Board for continued discharge from the WWTP to the ocean outfall. This permit was to cover the majority if not all of the WWTP Project when full secondary treatment standards were achieved.

On January 11, 2011 the Morro Bay City Council conditionally approved a Coastal Development Permit (CDP) for MBCSD's request to upgrade the existing WWTP and certified the Environmental Impact Report (EIR) for the proposed project. The City's approval of the CDP was appealed to the California Coastal Commission (CCC). As a result of the appeal, the CCC asserted jurisdiction over the project's CDP. Per CCC Staff direction, MBCSD conducted an additional WWTP Alternatives Analysis to evaluate whether there is a more appropriate site to locate the WWTP.

On January 10, 2013 at the CCC meeting, the CCC voted to deny the CDP for construction of an upgraded wastewater treatment plant at its existing location. The denial was based in part on inconsistency with the Local Coastal Plan - Zoning, the failure of a major Public Works Infrastructure Project to avoid coastal hazards, the lack of project design to include a reclaimed water component and that the project is located within an LCP-designated sensitive view area. As a result of the CCC denial, the project was abandoned and all expenditures to date written off the Capital Asset schedule.

In February, 2013 the District contracted with Water Systems Consultants (WSC) to prepare a Wastewater Treatment Alternatives Development Study to examine locations and treatment possibilities for the District. In June, 2013 WSC completed their study and the District accepted the final draft. The District then began discussions with the regulatory agencies for review of the concepts outlined in the WSC study.

In February 2015 the City of Morro Bay presented the District with a Memorandum of Understanding (MOU) detailing the payment and governance structure of a new Wastewater Treatment Facility at the City of Morro Bay chosen facility site Rancho Colina. At a JPA meeting, the Cayucos Sanitary District staff and Board presented a revised MOU to the City of Morro Bay based on the principals of the existing JPA's cooperative coownership and governance structure. The District was informed by the City of Morro Bay that the MOU terms were non-negotiable. Presented with a non-negotiable MOU, the District held a town hall open public meeting on April 23, 2015 to discuss options with the community. There was overwhelming support for the CSD to pursue options for the creation of a community treatment facility with the ability to produce reclaimed wastewater in order to help provide a sustainable water supply for the community's future.

CAYUCOS SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

On April 30, 2015 the CSD Board unanimously passed resolution 2015-1, "A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CAYUCOS SANITARY DISTRICT DECLARING ITS INTENTION TO INDEPENDENTLY PURSUE ALTERNATIVES FOR WASTEWATER TREATMENT AND WATER RECLAMATION" ceasing all participation with City of Morro Bay in respect to their new wastewater treatment facility. In June 2015, the CSD initiated contracts with WSC and Firma for beneficial use analysis, side constraints, and wastewater characterization studies. These studies are scheduled to be presented to the public at a town hall meeting in January 2016. The final comparative analysis is scheduled for presentation to the CSD Board in February 2016.

District's Investment Portfolio and Financial Management Strategy:

The District Board was advised by Financial Advisor, Karen Shanley, for conservative capital preservation to transfer most of its money market holdings to an all US Treasury Money Market for safety and liquidity in an effort to protect the District's cash holdings from the economic downturn plagued by bank and financial institution-related problems, the credit crunch, housing slump, steep sell offs in capital markets, and deep slides with both S&P 500 Index and Dow Jones.

Contacting the District's Financial Management:

This report is a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information please contact Rick Koon, District Manager at (805) 995-3290 or address: P.O. Box 333, 200 Ash Avenue, Cayucos, CA, 93430.

CAYUCOS SANITARY DISTRICT
STATEMENT OF NET POSITION - ENTERPRISE FUND
June 30, 2015
With Comparative Totals for June 30, 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets:		
Cash and investments - cash equivalents (Note 3)	\$ 3,793,864	\$ 3,289,601
Restricted cash and investments - cash equivalents (Note 3)	88,623	65,163
	<u>3,882,487</u>	<u>3,354,764</u>
Total cash and cash equivalents		
Cash and investments - non cash equivalents (Note 3)	4,374,057	4,442,251
Accounts receivable	11,920	12,920
Interest receivable	3,967	4,387
Taxes receivable	13,681	18,914
Other receivables	23,027	32,023
Prepaid expenses	100	100
	<u>8,309,239</u>	<u>7,865,359</u>
Total current assets		
Capital Assets (Note 4):		
Non depreciable		
Land	157,132	157,132
Construction in progress		4,588
Construction in progress - CSWP alternatives analysis	46,005	
Construction in progress - WWTP alternatives analysis	46,883	36,037
Depreciable		
Subsurface lines	2,098,642	2,098,642
Sewage collection facilities	1,842,871	1,836,108
Conveyance system	4,900,734	4,673,640
Sewage treatment facilities	5,542,407	5,542,407
Trucks	109,212	104,896
Office equipment	106,930	106,930
Collection equipment	489,804	473,668
Office building	1,243,019	1,243,019
	<u>16,583,639</u>	<u>16,277,067</u>
Accumulated depreciation	<u>(10,635,847)</u>	<u>(10,227,403)</u>
Net capital assets	<u>5,947,792</u>	<u>6,049,664</u>
Total assets	<u>14,257,031</u>	<u>13,915,023</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	<u>42,840</u>	<u> </u>
Total deferred outflows of resources	<u>42,840</u>	<u> </u>

The notes to basic financial statements are an integral part of this statement.

CAYUCOS SANITARY DISTRICT
STATEMENT OF NET POSITION - ENTERPRISE FUND
June 30, 2015
With Comparative Totals for June 30, 2014

	<u>2015</u>	<u>2014</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 488	\$ 206,264
Payable to the City of Morro Bay - operations and maintenance	171,953	194,448
Accrued payroll	3,000	15,857
Accrued interest	3,726	4,561
Customer deposits	2,865	2,875
Security deposit - MCD	25,000	25,001
Compensated absences (Note 7)	16,857	21,399
Loan payable - LS#2, current portion (Notes 5-6)	<u>116,938</u>	<u>111,958</u>
Total current liabilities	340,827	582,363
Long-Term Liabilities:		
Net pension liability (Note 8)	291,955	
Loan payable - LS#2, less current portion (Notes 5-6)	<u>382,962</u>	<u>498,758</u>
Total liabilities	<u>1,015,744</u>	<u>1,081,121</u>
DEFERRED INFLOWS OF RESOURCES		
Pensions	<u>99,593</u>	
Total deferred inflows of resources	<u>99,593</u>	
NET POSITION		
Net investment in capital assets	5,447,892	5,438,948
Restricted for construction	88,623	65,163
Unrestricted	<u>7,648,019</u>	<u>7,329,791</u>
Total net position	<u>\$ 13,184,534</u>	<u>\$ 12,833,902</u>

The notes to basic financial statements are an integral part of this statement.

CAYUCOS SANITARY DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
ENTERPRISE FUND**

For the Fiscal Year Ended June 30, 2015

With Comparative Totals for the Fiscal Year Ended June 30, 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Sewer services fees	\$ 1,661,662	\$ 1,664,645
Permit fees	3,325	3,125
	<u>1,664,987</u>	<u>1,667,770</u>
Operating Expenses:		
Gross wages	318,871	315,832
Payroll taxes and benefits	58,600	65,100
Directors' fees	12,200	5,750
Office expense	22,715	22,707
Dues and subscriptions	5,711	5,283
Business expense	9,534	227
Permits and licenses	5,706	5,408
Professional services	133,565	111,430
Insurance	85,940	79,125
Taxes and assessments	9,155	7,595
Utilities	38,422	37,585
Telephone	11,489	7,733
Rent	270	210
Vehicle expense	7,826	6,949
Maintenance and operations	52,434	68,764
Treatment plant	628,292	618,346
Depreciation	437,245	428,823
	<u>1,837,975</u>	<u>1,786,867</u>
Total operating expenses		
Net operating loss	<u>(172,988)</u>	<u>(119,097)</u>
Non-Operating Revenues (Expenses):		
Rent income	33,343	38,267
Taxes and assessments	692,278	651,711
Investment income	60,910	45,143
Franchise fees	50,474	50,465
Interest expense	(24,869)	(29,674)
Other revenue	20,591	5,280
Stand by fees	21,347	21,631
	<u>854,074</u>	<u>782,823</u>
Total non-operating revenues (expenses)		
Capital Contributions:		
Connection fees	<u>31,440</u>	<u>31,440</u>
Change in net position	<u>712,526</u>	<u>695,166</u>
Net position:		
Net position, beginning of fiscal year	12,833,902	12,235,473
Prior period adjustment (Note 10)	<u>(361,894)</u>	<u>(96,737)</u>
Net position, beginning of fiscal year, restated	<u>12,472,008</u>	<u>12,138,736</u>
Net position, end of fiscal year	<u>\$ 13,184,534</u>	<u>\$ 12,833,902</u>

The notes to basic financial statements are an integral part of this statement.

CAYUCOS SANITARY DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2015
With Comparative Totals for the Fiscal Year Ended June 30, 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,674,972	\$ 1,682,732
Payments to vendors	(1,239,330)	(748,639)
Payments to employees	(420,256)	(381,078)
	<u>15,386</u>	<u>553,015</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	697,511	648,820
Franchise fees	50,474	50,465
Stand by fees	21,347	21,631
Other revenue	20,591	5,280
	<u>789,923</u>	<u>726,196</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(335,373)	(373,646)
Principal paid on long-term debt	(110,816)	(107,190)
Interest paid on long-term debt	(25,704)	(30,472)
Connection fees	31,440	31,440
	<u>(440,453)</u>	<u>(479,868)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	61,330	44,880
Rent	33,343	38,267
Sale/purchase of investments	68,194	(891,450)
	<u>162,867</u>	<u>(808,303)</u>
Net increase (decrease) in cash and cash equivalents	527,723	(8,960)
Cash and cash equivalents, July 1	<u>3,354,764</u>	<u>3,363,724</u>
Cash and cash equivalents, June 30	<u>\$ 3,882,487</u>	<u>\$ 3,354,764</u>
Reconciliation to Statement of Net Position:		
Cash and investments - cash equivalents	\$ 3,793,864	\$ 3,289,601
Restricted cash and investments - cash equivalents	<u>88,623</u>	<u>65,163</u>
	<u>\$ 3,882,487</u>	<u>\$ 3,354,764</u>

The notes to basic financial statements are an integral part of this statement.

CAYUCOS SANITARY DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2015
With Comparative Totals for the Fiscal Year Ended June 30, 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss to net cash provided		
by operating activities:		
Operating loss	\$ (172,988)	\$ (119,097)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	437,245	428,823
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivable	1,000	20,900
Prepays		5,972
Other receivables	8,996	(6,089)
Deferred outflows	(5,818)	
Payable to the City of Morro Bay	(22,495)	60,421
Accounts payables	(205,776)	156,330
Accrued payroll	(12,857)	543
Compensated absences	(4,542)	5,061
Customer deposits	(10)	150
Security deposit	(1)	1
Net pension liability	(106,961)	
Deferred inflows	99,593	
	<u>\$ 15,386</u>	<u>\$ 553,015</u>
Net cash provided by operating activities		

The notes to basic financial statements are an integral part of this statement.

NOTE 1 - REPORTING ENTITY

The reporting entity is the Cayucos Sanitary District, which began operations in 1942, under the authorization of Section 6400 et. seq. of the Health and Safety Code of the State of California. The District operates under the direction of a board of directors who are elected by the residents of Cayucos. The District provides wastewater disposal services.

The District is a Sanitary District as defined under State Code Section: 61000. A Sanitary District is a public agency (State Code Section: 12463.1) which is a State instrumentality (State Code Section: 23706). State instrumentalities are exempt from federal and state income taxes.

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 Statements No. 39 and No. 61.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Accounting Policies - The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in the 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. The District has elected not to follow subsequent private-sector guidance.

- B. Accounting Method - The District is organized as an Enterprise Fund and follows the accrual method of accounting, whereby revenues are recorded as earned, and expenses are recorded when incurred.

- C. Fund Financial Statements - The fund financial statements provide information about the District's proprietary fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

GASB Statement No. 34, defines major funds and requires that the District's major business-type fund be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenses equal to ten percent of their fund-type total and five percent of the grand total. The District maintains one proprietary fund.

Proprietary Fund Type

Enterprise Fund

Enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District reported its enterprise fund as a major fund in the accompanying basic financial statements.

Sewer Utility Fund is to account for the provision of sewer services to residents of Cayucos.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- D. Cash and Cash Equivalents - For purposes of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.
- E. Property, Plant, and Equipment - Capital assets purchased by the District are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired.
- F. Depreciation - Capital assets owned by the District are depreciated over their estimated useful lives (ranging from 5-40 years) under the straight-line method of depreciation.
- G. Receivables - The District did not experience any significant bad debt losses; accordingly, no provision has been made for doubtful accounts, and accounts receivable is shown at full value.
- H. Unearned Revenue - The District bills customers in advance, thus amounts received prior to services being rendered by the District are recorded as unearned revenue.
- I. Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the District.
- J. Compensated Absences - Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District. The amounts are included in current liabilities.

K. Property Taxes

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations - are established by the Assessor of the County of San Luis Obispo for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From the base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Collections - are the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments.

Tax Levy Apportionments - Due to the nature of the District-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county auditor-controller based primarily on the ratio that each agency represented of the total District-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees - The State of California FY 90-91 Budget Act, authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

Tax Levies - are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates - are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- L. Restricted Net Position – Restricted net position are financial resources segregated for a special purpose such as construction of improvements and financing of debt obligations. These financial resources are for the benefit of a distinct group and as such are legally or contractually restricted.
- M. Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
- N. Net Position
GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.
- O. Pensions
For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Cayucos Sanitary District's California Public Employee's Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- P. Deferred Outflows and Inflows of Resources
Pursuant to 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*," the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 8 for a detailed listing of the deferred outflows of resources the District has reported.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 8 for a detailed listing of the deferred outflows and inflows of resources the District has reported.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 68

For the fiscal year ended June 30, 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions." This Statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers" as well as the requirements of GASB Statement No. 50, "Pension Disclosures." This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pensions. Implementation of the GASB Statement No. 68 and the impact on the District's financial statements are explained in Note 8 - Pension Plans and Note 10 - Prior Period Adjustment.

Governmental Accounting Standards Board Statement No. 71

For the fiscal year ended June 30, 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." This Statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to address an issue regarding application of the transition of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement will eliminate the source of potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. Implementation of the GASB Statement No. 71 and the impact on the District's financial statements are explained in Note 8 - Pension Plans and Note 10 - Prior Period Adjustment.

NOTE 3 - CASH AND INVESTMENTS

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2015 and June 30, 2014, the District had the following cash and investments on hand:

	<u>2015</u>	<u>2014</u>
Cash on hand	\$ 175	\$ 175
Cash in banks	375,245	250,334
Investments	7,881,124	7,546,506
Total	<u>\$ 8,256,544</u>	<u>\$ 7,797,015</u>

Cash and investments listed above are presented on the accompanying basic financial statements, as follows:

Cash and investments-cash equivalents	\$ 3,793,864	\$ 3,289,601
Restricted cash and investments-cash equivalents	88,623	65,163
Cash and investments-non cash equivalents	<u>4,374,057</u>	<u>4,442,251</u>
Total	<u>\$ 8,256,544</u>	<u>\$ 7,797,015</u>

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	N/A	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase and Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	5 years	15%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
State Registered Warrants, Notes, or Bonds	5 years	None	None
Notes and Bonds of other Local California Agencies	5 years	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

CAYUCOS SANITARY DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 3 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Carrying Amount	2015			
		Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Mortgage pass-through securities	\$ 172,446	\$ -	\$ 1,339	\$ -	\$ 171,107
Federal agency securities	3,269,067	290,067		2,979,000	
Negotiable certificates of deposit	1,021,167	772,923	248,244		
State investment pool (LAIF)	7,844	7,844			
Money market funds	3,410,600	3,410,600			
	<u>\$ 7,881,124</u>	<u>\$ 4,481,434</u>	<u>\$ 249,583</u>	<u>\$ 2,979,000</u>	<u>\$ 171,107</u>
Investment Type	Carrying Amount	2014			
		Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Mortgage pass-through securities	\$ 271,454	\$ -	\$ -	\$ -	\$ 271,454
Federal agency securities	3,221,293	266,603		2,003,780	950,910
Negotiable certificates of deposit	1,014,667	273,895	740,772		
State investment pool (LAIF)	7,824	7,824			
Money market funds	3,031,268	3,031,268			
	<u>\$ 7,546,506</u>	<u>\$ 3,579,590</u>	<u>\$ 740,772</u>	<u>\$ 2,003,780</u>	<u>\$ 1,222,364</u>

CAYUCOS SANITARY DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 3 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	2015			
			Rating as of Fiscal Year End			Not Rated
			AAA	AA+	AA-	
Mortgage pass-through securities	\$ 172,446	N/A	\$ 172,446	\$ -	\$ -	\$ -
Federal agency securities	3,269,067	N/A	1,328,482	1,000,180	456,665	483,740
Negotiable certificates of deposit	1,021,167	N/A				1,021,167
State investment pool (LAIF)	7,844	N/A				7,844
Money market funds	3,410,600	N/A				3,410,600
	<u>\$ 7,881,124</u>		<u>\$ 1,500,928</u>	<u>\$ 1,000,180</u>	<u>\$ 456,665</u>	<u>\$ 4,923,351</u>

Investment Type	Carrying Amount	Minimum Legal Rating	2014			
			Rating as of Fiscal Year End			Not Rated
			AAA	A+	Baa	
Mortgage pass-through securities	\$ 271,454	N/A	\$ 271,454	\$ -	\$ -	\$ -
Federal agency securities	3,221,293	N/A	1,702,105	1,014,640	439,385	65,163
Negotiable certificates of deposit	1,014,667	N/A				1,014,667
State investment pool (LAIF)	7,824	N/A				7,824
Money market funds	3,031,268	N/A				3,031,268
	<u>\$ 7,546,506</u>		<u>\$ 1,973,559</u>	<u>\$ 1,014,640</u>	<u>\$ 439,385</u>	<u>\$ 4,118,922</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments is as follows:

Investment Type	Reported Amount	
	2015	2014
Federal agency securities	\$ 1,456,845	\$ 1,454,025

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the

NOTE 3 - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk (Continued)

Exposure to custodial risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2015, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2015, the District's investments in the following types were held by the same broker-dealer (counterparty) that was used by the District to buy securities:

<u>Investment Type</u>	<u>Reported Amount</u>	
	<u>2015</u>	<u>2014</u>
Federal agency securities	\$ 3,269,067	\$ 3,221,293
Mortgage pass-through securities	\$ 172,446	\$ 271,454
Money market funds	\$ 3,410,600	\$ 3,031,268

Investment in State Pool (LAIF)

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

CAYUCOS SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 4 - SCHEDULE OF CAPITAL ASSETS

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2015, is shown below:

	Balance July 1, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
Non depreciable					
Land	\$ 157,132	\$ -	\$ -	\$ -	\$ 157,132
Construction in progress	4,588	243,558		(248,146)	
Construction in progress-CSWP alternatives analysis		46,005			46,005
Construction in progress-WWTP alternatives analysis	36,037	12,693		(1,847)	46,883
Total non depreciable	\$ 197,757	\$ 302,256	\$ -	\$ (249,993)	\$ 250,020
Depreciable					
Building	\$ 1,243,019	\$ -	\$ -	\$ -	\$ 1,243,019
Subsurface lines	2,098,642				2,098,642
Sewage collection facilities	1,836,108			6,763	1,842,871
Conveyance system	4,673,640			227,094	4,900,734
Sewage treatment facilities	5,542,407				5,542,407
Collection equipment	473,668			16,136	489,804
Office equipment	106,930				106,930
Trucks	104,896	33,117	28,801		109,212
	16,079,310	33,117	28,801	249,993	16,333,619
Less accumulated depreciation	10,227,403	437,245	28,801		10,635,847
Total depreciable	\$ 5,851,907	\$ (404,128)	\$ -	\$ 249,993	\$ 5,697,772
Net capital assets	\$ 6,049,664	\$ (101,872)	\$ -	\$ -	\$ 5,947,792

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2014, is shown below:

	Balance July 1, 2013	Additions	Deletions	Transfers	Balance June 30, 2014
Non depreciable					
Land	\$ 157,132	\$ -	\$ -	\$ -	\$ 157,132
Construction in progress	176,385	294,980		(466,777)	4,588
Construction in progress-WWTP alternatives analysis	19,579	16,458			36,037
Total non depreciable	\$ 353,096	\$ 311,438	\$ -	\$ (466,777)	\$ 197,757
Depreciable					
Building	\$ 1,243,019	\$ -	\$ -	\$ -	\$ 1,243,019
Subsurface lines	1,956,780			141,862	2,098,642
Sewage collection facilities	1,836,108				1,836,108
Conveyance system	4,355,180			318,460	4,673,640
Sewage treatment facilities	5,542,407				5,542,407
Collection equipment	405,005	62,208		6,455	473,668
Office equipment	106,930				106,930
Trucks	104,896				104,896
	15,550,325	62,208		466,777	16,079,310
Less accumulated depreciation	9,798,580	428,823			10,227,403
Total depreciable	\$ 5,751,745	\$ (366,615)	\$ -	\$ 466,777	\$ 5,851,907
Net capital assets	\$ 6,104,841	\$ (55,177)	\$ -	\$ -	\$ 6,049,664

NOTE 5 – LOAN PAYABLE

On April 21, 2004, the District received a loan from Municipal Finance Corporation in the amount of \$1,500,000. The purpose of the loan was to refinance the 1982 Sewer Bonds in the amount of \$174,000, and to finance the reconstruction of pump station #2. The District will make semi-annual payments under the loan agreement of \$68,831 through April 29, 2019. The interest rate for the loan is 4.4%. Future debt service payments are as follows:

Fiscal Year	Principal	Interest	Total
<u>Ending</u>			
2016	\$ 116,938	\$ 20,724	\$ 137,662
2017	122,140	15,521	137,661
2018	127,573	10,088	137,661
2019	133,249	4,410	137,659
	<u>\$ 499,900</u>	<u>\$ 50,743</u>	<u>\$ 550,643</u>

NOTE 6 – LONG-TERM DEBT

The changes in long-term debt at June 30, 2015, is as follows:

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	Prior Period <u>Adjustment</u>	<u>June 30, 2015</u>
Loan payable	\$ 610,716	\$ -	\$ 110,816	\$ -	\$ 499,900
Net pension liability		165,583	272,544	398,916	291,955
	<u>\$ 610,716</u>	<u>\$ 165,583</u>	<u>\$ 383,360</u>	<u>\$ 398,916</u>	<u>\$ 791,855</u>

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	Prior Period <u>Adjustment</u>	<u>June 30, 2014</u>
Loan payable	\$ 717,906	\$ -	\$ 107,190	\$ -	\$ 610,716
	<u>\$ 717,906</u>	<u>\$ -</u>	<u>\$ 107,190</u>	<u>\$ -</u>	<u>\$ 610,716</u>

NOTE 7 - COMPENSATED ABSENCES

As of June 30, 2015, it is estimated that the District's employees have \$16,857 of accumulated vested vacation time and sick leave. Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District. The accumulated benefits will be liquidated in future years as employees elect to use them.

NOTE 8 – DEFINED BENEFIT PENSION PLAN

A. General Information about the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

A. General Information about the Pension Plans (Continued)

Benefits Provided

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

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7.00%	7.00%
Required employer contribution rates	16.105%	6.900%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District was \$40,776 for the fiscal year ended June 30, 2015.

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

At June 30, 2015, the District reported a liability of \$291,955 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2014, the District's proportion was 0.00469%, which was the same proportion measured as of June 30, 2013.

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

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

For the year ended June 30, 2015, the District recognized pension expense of \$27,590. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 40,776	\$ -
Differences between expected and actual experience		
Changes in assumptions		
Net difference between projected and actual earnings on retirement plan investments		98,111
Adjustment due to differences in proportions	2,064	1,482
	<u>\$ 42,840</u>	<u>\$ 99,593</u>

\$40,776 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expenses as follows:

Fiscal Year Ended June 30	Amount
2016	\$ 24,319
2017	24,319
2018	24,361
2019	24,530

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

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

Actuarial Assumptions

The total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly high Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

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

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1- percentage point higher (8.5 percent) than the current rate:

	1% Decrease <u>6.50%</u>	Discount Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
District's proportionate share of the net pension plan liability	\$ 520,174	\$ 291,955	\$ 102,555

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

C. Payable to the Pension Plan

At June 30, 2015, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2015.

NOTE 9 - CONTINGENCIES

According to the District's attorney, no contingent liabilities are outstanding and no lawsuits are pending of any real financial consequence.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$(361,894) was to set up the beginning balance for net pension liability \$(398,916) and deferred outflows of resources related to the net pension liability \$37,022.

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REQUIRED SUPPLEMENTARY INFORMATION

CAYUCOS SANITARY DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 Last 10 Years*
 As of June 30, 2015

The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2015</u>
Proportion of the net pension liability	0.00469%
Proportionate share of the net pension liability	\$ 291,955
Covered- employee payroll	\$ 252,538
Proportionate share of the net pension liability as percentage of covered-employee payroll	115.61%
Plan's total pension liability	\$ 13,110,948,452
Plan's fiduciary net position	\$ 10,639,461,174
Plan fiduciary net position as a percentage of the total pension liability	81.15%

Notes to Schedule:

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

*- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

CAYUCOS SANITARY DISTRICT
SCHEDULE OF CONTRIBUTIONS
 Last 10 Years*
 As of June 30, 2015

The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 40,776
Contribution in relation to the actuarially determined contributions	<u>(40,776)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered- employee payroll	\$ 283,428
Contributions as a percentage of covered-employee payroll	14.39%

Notes to Schedule

Valuation Date:	6/30/2013
Methods and assumptions used to determine contribution rates:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

*- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.