

SAN SIMEON COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

June 30, 2014

SAN SIMEON COMMUNITY SERVICES DISTRICT
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INTRODUCTORY SECTION

Board of Directors

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Ralph McAdams	Chairperson	2014
Alan Fields	Vice-Chairperson	2016
Daniel Williams	Director	2016
Leroy Price	Director	2016
Ken Patel	Director	2014

FINANCIAL SECTION



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
San Simeon Community Services District
San Simeon, CA

Report on the Financial Statements

We have audited the accompanying basic financial statements of San Simeon Community Services District (District) as of and for the fiscal year ended June 30, 2014, and the related notes to the 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.

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the San Simeon Community Services District, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principles

As discussed in note 1 to the basic financial statements effective July 1, 2012, the San Simeon Community Services District adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Statement No. 66, *Technical Correction-2012*, Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section and the schedules of revenues, expenses, and changes in net position by function on pages 15 and 16 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of revenues, expenses, and changes in net position by function is the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of revenues, expenses, and changes in net position by function are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2015, on our consideration of the San Simeon Community Services 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.

Report on Summarized Comparative Information

We have previously audited the District's basic financial statements as of and for the fiscal year ended June 30, 2013, and our report dated February 27, 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Moss, Reny & Haugheim LLP

Santa Maria, California
February 1, 2015

SAN SIMEON COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION-PROPRIETARY FUND
June 30, 2014
with Comparative Totals for June 30, 2013

	2014	2013
ASSETS		
Current Assets:		
Petty cash	\$ 150	\$ 150
Cash and investments	785,526	615,545
Restricted cash and investments	20,266	730
Cash in escrow	72,264	
Accounts receivable	85,822	85,441
Prepaid expenses	7,123	6,507
Total current assets	<u>971,151</u>	<u>708,373</u>
Capital Assets:		
Non-depreciable:		
Construction in progress	11,511	26,555
Depreciable:		
Sewer plant	2,030,781	2,030,781
Water plant	1,118,700	695,458
Building	395,874	395,874
Equipment	316,748	316,748
Less: Accumulated depreciation	<u>(1,956,839)</u>	<u>(1,869,980)</u>
Net capital assets	<u>1,916,775</u>	<u>1,595,436</u>
Total assets	<u>2,887,926</u>	<u>2,303,809</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	17,350	3,970
Customer deposits	53,828	53,928
Contingency		25,000
Long-Term Liabilities		
Current portion of long term payable	<u>7,085</u>	
Total current liabilities	<u>78,263</u>	<u>82,898</u>
Long-Term Liabilities		
Loan payable	<u>483,934</u>	
Total long-term liabilities	<u>483,934</u>	
Total Liabilities	<u>562,197</u>	<u>82,898</u>
NET POSITION		
Net investment in capital assets	1,498,020	1,595,436
Restricted for:		
Capital projects	20,266	730
Debt service	2,069	
Depreciation reserve	5,000	
Unrestricted	<u>800,374</u>	<u>624,745</u>
Total net position	<u>\$ 2,325,729</u>	<u>\$ 2,220,911</u>

See accompanying notes to basic financial statements.

SAN SIMEON COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2014
With Comparative Totals for the Fiscal Year Ended June 30, 2013

	2014	2013
Operating Revenues:		
Utility sales	\$ 633,309	\$ 574,519
Service charges	64,519	57,554
State of CA-Dept of Parks and Recreation	97,529	77,265
	<u>795,357</u>	<u>709,338</u>
Operating Expenses:		
Contract labor	503,866	460,746
Depreciation	86,859	79,980
Legal and professional	90,818	52,117
Repairs and maintenance	10,604	21,100
Utilities and telephone	2,409	
Bookkeeping	16,434	15,500
Licenses and permits	20,877	9,334
Insurance	6,350	6,194
Directors' fees	5,800	5,500
Health insurance	9,763	11,962
Website	3,025	3,575
Dues and subscriptions	1,968	1,980
Office expenses	306	371
Election expense		696
Bank fees	349	
Interest expense	1,364	
Other expense	56	10
	<u>760,848</u>	<u>669,065</u>
Net operating gain (loss)	<u>34,509</u>	<u>40,273</u>
Non-Operating Revenues (Expenses):		
Property taxes	69,764	73,755
Interest income	1,633	1,708
Tax administration fee	(1,606)	(1,618)
LAFCO budget allocation		(3,849)
Miscellaneous income	518	645
	<u>70,309</u>	<u>70,641</u>
Changes in net position	104,818	110,914
Net position - beginning of fiscal year	<u>2,220,911</u>	<u>2,109,997</u>
Net position - end of fiscal year	<u>\$ 2,325,729</u>	<u>\$ 2,220,911</u>

See accompanying notes to basic financial statements.

SAN SIMEON COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2014
With Comparative Totals for the Fiscal Year Ended June 30, 2013

	2014	2013
Cash Flows From Operating Activities:		
Receipts from customers and users	\$ 794,876	\$ 691,001
Payments to suppliers	(670,662)	(656,514)
Payments to employees	(15,563)	(17,462)
Net cash provided (used) by operating activities	<u>108,651</u>	<u>17,025</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of capital assets	(408,198)	(37,778)
Proceeds from borrowing	500,000	
Repayment of loan	(8,981)	
Net cash provided (used) by capital and related financing activities	<u>82,821</u>	<u>(37,778)</u>
Cash Flows from Noncapital Financing Activities:		
Property taxes	69,764	73,755
Miscellaneous revenues	518	645
Tax administration fee	(1,606)	(1,618)
LAFCO budget allocation		(3,849)
	<u>68,676</u>	<u>68,933</u>
Cash Flows from Investing Activities:		
Investment income	1,633	1,708
Net cash provided (used) by investing activities	<u>1,633</u>	<u>1,708</u>
Net increase (decrease) in cash and cash activities	261,781	49,888
Cash and cash equivalents, beginning of fiscal year	616,425	566,537
Cash and cash equivalents, end of fiscal year	<u>\$ 878,206</u>	<u>\$ 616,425</u>
Reconciliation to Statement of Net Position		
Petty cash	\$ 150	\$ 150
Cash and investments	785,526	615,545
Restricted cash and investments	20,266	730
Cash in escrow	72,264	
	<u>\$ 878,206</u>	<u>\$ 616,425</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating gain	\$ 34,509	\$ 40,273
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	86,859	79,980
Change in Operating Assets and Liabilities:		
(Increase) decrease in accounts receivable	(381)	(18,387)
(Increase) decrease in prepaid expenses	(616)	(313)
Increase (decrease) in accounts payable	13,380	(46,114)
Increase (decrease) in customer deposits	(100)	50
Increase (decrease) in contingency	(25,000)	(38,464)
Net cash provided (used) by operating activities	<u>\$ 108,651</u>	<u>\$ 17,025</u>

See accompanying notes to basic financial statements.

SAN SIMEON COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – NATURE OF DISTRICT

San Simeon Community Services District (the "District") is a political subdivision of the State of California and operates under a council form of government. The District administers the following community services as provided by its charter: Water, sanitation, streets, lighting and general and administrative services.

The District is a Community Services District as defined under State Code Section: 61000. A Community Services 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 the 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 with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).
- B. Basis of Accounting - 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. Budget - Although a budget is adopted annually, it is used primarily as a guideline for the Board in regulating expenditures. There is no legal requirement to stay within the adopted budget in the payment or classification of expenditures.
- D. Cash and Cash Equivalents – Cash and cash equivalents consist of cash on hand and in banks and short-term, highly liquid investments with a maturity of three months or less, which include money market funds, cash management pools in County Treasury and the state Local Agency Investment Fund (LAIF). Cash held in the county and state pooled funds is carried at cost, which approximates fair value. Interest earned is deposited quarterly into the participant's fund. Any investment losses are proportionately shared by all funds in the pool. The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the County are either secured by federal depository insurance or are collateralized.
- 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 purchased by the District are depreciated over their estimated useful lives (ranging from 5-50 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. 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.
- I. Customer Deposits - Customer deposits are recorded as a liability of the District. The District requires an advance deposit of \$50 for new customers.
- J. 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.

SAN SIMEON COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Position (Continued)

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 net position that has external constraints placed on them 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.

K. 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 reporting period. Actual results could differ from those estimates.

L. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 65

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to establish 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. Implementation of the GASB Statement No. 65 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 66

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 66, "Technical Correction - 2012." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement No. 54 and Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement No. 62 and Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. Implementation of the GASB Statement No. 66 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

SAN SIMEON COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 67

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 67, "Financial Reporting for Pension Plans." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and No. 50 "Pension Disclosures" as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. Implementation of the GASB Statement No. 67 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 70

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are non-exchange transactions.. Implementation of the GASB Statement No. 70 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

M. Comparative Data/Total Only

Comparative total data for the prior fiscal year has been presented in certain accompanying financial statements in order to provide an understanding of the changes in the District's financial position, operations, and cash flows. Also, certain prior fiscal amounts have been reclassified to conform to the current fiscal year financial statements presentation.

NOTE 3 - CASH AND INVESTMENTS

Investments are carried at fair value. On June 30, 2014, the District had the following cash and temporary investments on hand:

Petty cash	\$ 150
Cash in bank	805,274
Investments	518
Cash held in escrow	<u>72,264</u>
Total cash and investments	<u>\$ 878,206</u>

Restricted cash

Restricted cash consists of funds that are set aside for well refurbishment as well as appurtenant equipment and structure.

Cash held in escrow

The District has a \$500,000 loan with the United States Department of Agriculture (USDA). As of June 30, 2014, the District had only drawn down \$427,736, and the remaining \$72,264 remains with USDA.

SAN SIMEON COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2014

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments Authorized by the District's Investment Policy

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
Banker's Acceptances	180 days	40%	None
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	20%	None
Mutual Funds	N/A	20%	None
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	5 years	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	N/A	None	None
Notes and Bonds for 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.

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:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
LAIF	\$ 518	\$ 518	\$ -	\$ -	\$ -
Total	\$ 518	\$ 518	\$ -	\$ -	\$ -

SAN SIMEON COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2014

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 on the next page, is the minimum rating required by (where applicable) the California Government Code and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
LAIF	\$ 518	N/A	\$ -	\$ -	\$ -	\$ 518
Total	\$ 518		\$ -	\$ -	\$ -	\$ 518

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. There are no investments in any one issuer that represent 5% or more of total District's investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The 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.

None of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

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 exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying basic financial statements at the 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.

SAN SIMEON COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2014

NOTE 4 - SCHEDULE OF CAPITAL ASSETS

A schedule of changes in capital assets and depreciation for the fiscal years ended June 30, 2014, and June 30, 2013, are shown below:

	Balance July 1, 2013	Additions	Deletions	Transfers	Balance June 30, 2014
Non-depreciable capital assets:					
Construction in progress	\$ 26,555	\$ 408,198	\$ -	\$ (423,242)	\$ 11,511
Total non-depreciable capital assets	\$ 26,555	\$ 408,198	\$ -	\$ (423,242)	\$ 11,511
Depreciable capital assets:					
Sewer plant	\$ 2,030,781	\$ -	\$ -	\$ -	\$ 2,030,781
Water plant	695,458			423,242	1,118,700
Building	395,874				395,874
Equipment	316,748				316,748
	3,438,861			423,242	3,862,103
Accumulated depreciation	1,869,980	86,859			1,956,839
Total depreciable capital assets	\$ 1,568,881	\$ (86,859)	\$ -	\$ 423,242	\$ 1,905,264
Net capital assets	\$ 1,595,436	\$ 321,339	\$ -	\$ -	\$ 1,916,775
	Balance July 1, 2012	Additions	Deletions	Transfers	Balance June 30, 2013
Non-depreciable capital assets:					
Construction in progress	\$ 676,070	\$ 37,778	\$ -	\$ (687,293)	\$ 26,555
Total non-depreciable capital assets	\$ 676,070	\$ 37,778	\$ -	\$ (687,293)	\$ 26,555
Depreciable capital assets:					
Sewer plant	\$ 1,488,555	\$ -	\$ -	\$ 542,226	\$ 2,030,781
Water plant	550,391			145,067	695,458
Building	395,874				395,874
Equipment	316,748				316,748
	2,751,568			687,293	3,438,861
Accumulated depreciation	1,790,000	79,980			1,869,980
Total depreciable capital assets	\$ 961,568	\$ (79,980)	\$ -	\$ 687,293	\$ 1,568,881
Net capital assets	\$ 1,637,638	\$ (42,202)	\$ -	\$ -	\$ 1,595,436

Depreciation expense for the fiscal years ended June 30, 2014 and 2013 was \$86,859 and \$79,980, respectively. Additions to construction in progress for the year ended June 30, 2014 consisted mainly of expenses related to the wellhead project.

NOTE 5 – CUSTOMER DEPOSITS

The liability for customer deposits consists of the following as of June 30, 2014 and 2013:

	2014	2013
Hook-Up deposits	\$ 43,520	\$ 43,470
Customer meter deposits	10,308	10,458
	\$ 53,828	\$ 53,928

SAN SIMEON COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2014

NOTE 5 – CUSTOMER DEPOSITS (Continued)

The hook-up deposits are from customers on a waiting list to connect into the system. Each deposit represents total hook-up fees owed by the customer based on the fee schedule in place at the time of the payment. Additional fees may be required from the customer, based on the current fee schedule, when the utility connection is completed.

Customer meter deposits consist of a \$50 refundable deposit required, for each metered customer before any service can be provided by the District.

NOTE 6 – LOANS PAYABLE

On July 11, 2011, the District applied for a \$500,000 loan from the United States Department of Agriculture. The loan was approved, and the District began to draw on the loan during the 13/14 fiscal year. In total, \$427,736 has been drawn as of June 30, 2014, and the District is required to make semi-yearly payments of \$10,345. Future minimum payments are as follows:

Fiscal year Ended June 30,	Principal	Interest	Total
2015	\$ 7,085	\$ 13,605	\$ 20,690
2016	7,281	13,409	20,690
2017	7,483	13,207	20,690
2018	7,690	13,000	20,690
2019	7,902	12,788	20,690
2020-2024	42,919	60,531	103,450
2025-2029	49,201	54,249	103,450
2030-2034	56,398	47,052	103,450
2035-2039	64,651	38,799	103,450
2040-2044	74,112	29,338	103,450
2045-2049	84,956	18,494	103,450
2050-2053	81,341	11,576	92,917
Total	<u>\$ 491,019</u>	<u>\$ 326,048</u>	<u>\$ 817,067</u>

NOTE 7 – LONG TERM DEBT – SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the fiscal year ended June 30, 2014, is shown below:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due within one year
Loans payable	\$ -	\$ 500,000	\$ 8,981	\$ 491,019	\$ 7,085
Totals	<u>-</u>	<u>500,000</u>	<u>8,981</u>	<u>491,019</u>	<u>7,085</u>

NOTE 8 – JOINT POWERS AUTHORITY

The District is a member of the Special District Risk Management Authority (S.D.R.M.A.), an intergovernmental risk sharing joint powers authority, created pursuant to California Government Code Sections 6500 et. Seq. In becoming a member of the S.D.R.M.A., the District elected to participate in the risk financing program(s) listed below for the program period July 1, 2013 through June 30, 2014.

SAN SIMEON COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 8 – JOINT POWERS AUTHORITY (Continued)

General and Auto Liability, Public Officials' and Employees' Errors, and Employment Practices Liability and Employee Benefits Liability: Special District Risk Management Authority, coverage number LCA SDRMA 201112. This covers \$2,500,000 per occurrence, subject to policy deductibles.

Employee Dishonesty Coverage: Special District Risk Management Authority, coverage number EDC SDRMA 201112. This policy includes a \$400,000 Public Employee Dishonesty Blanket Coverage.

Property Loss: Special District Risk Management Authority, coverage number PPC SDRMA 201112. This policy covers the replacement cost for property on file, \$1,000,000,000 per occurrence, subject to policy deductibles.

Boiler and Machinery: Special District Risk Management Authority, coverage number BMC SDRMA 201112. This covers \$100,000,000 per occurrence, subject to policy deductibles.

The District also participated in the elective comprehension/collision coverage on selected vehicles, subject to policy deductibles.

Personal Liability Coverage for Board Members: This policy covers \$500,000 per occurrence, coverage number LCA SDRMA 201112, annual segregate per each selected/appointed official, subject to policy deductibles.

Members are subject to dividends and/or assessments, in accordance with Second Amended Joint Powers Agreement and amendments thereto, on file with the District. No such dividends have been declared, nor have any assessments been levied.

NOTE 9 – RELATED PARTY TRANSACTION

The District had an agreement with Ultura Water, previously named APTwater, to oversee the daily operations of the District. San Simeon Community Services District paid \$503,866 during the 13/14 fiscal year to Ultura Water for these services.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date the financial statements were available for issuance which is February 1, 2015.

SUPPLEMENTARY INFORMATION

SAN SIMEON COMMUNITY SERVICES DISTRICT
SCHEDULE OF REVENUES AND EXPENSES BY FUNCTION
For the Fiscal Year Ended June 30, 2014

	<u>Sanitation Fund</u>	<u>Water Fund</u>	<u>General</u>	<u>Total</u>
Operating Revenues:				
Utility sales	\$ 341,180	\$ 292,129	\$	\$ 633,309
Service charges		53,716	10,803	64,519
State of CA-Dept of Parks and Recreation	97,529			97,529
	<u>438,709</u>	<u>345,845</u>	<u>10,803</u>	<u>795,357</u>
Total operating revenues				
Operating Expenses:				
Contract labor	307,832	171,653	24,381	503,866
Repairs and maintenance		10,604		10,604
Depreciation	41,693	26,926	18,240	86,859
Legal and professional	37,724	35,500	17,594	90,818
Utilities and telephone	2,409			2,409
Bookkeeping	6,769	5,194	4,471	16,434
Office expenses			306	306
Health insurance			9,763	9,763
Licenses and permits	16,116	4,761		20,877
Directors' fees	2,655	2,655	490	5,800
Insurance	3,810	751	1,789	6,350
Website			3,025	3,025
Bank fees			349	349
Other expense		5	51	56
Interest expense			1,364	1,364
Dues and subscriptions	303	302	1,363	1,968
	<u>419,311</u>	<u>258,351</u>	<u>83,186</u>	<u>760,848</u>
Total operating expenses				
Net operating gain (loss)	19,398	87,494	(72,383)	34,509
Non-Operating Revenues (Expenses):				
Property taxes			69,764	69,764
Interest income			1,633	1,633
Tax administration fee			(1,606)	(1,606)
Miscellaneous income			518	518
			<u>70,309</u>	<u>70,309</u>
Total non-operating revenues (expenses)				
Change in net position	<u>\$ 19,398</u>	<u>\$ 87,494</u>	<u>\$ (2,074)</u>	<u>\$ 104,818</u>

SAN SIMEON COMMUNITY SERVICES DISTRICT
SCHEDULE OF REVENUES AND EXPENSES BY FUNCTION
For the Fiscal Year Ended June 30, 2013

	<u>Sanitation Fund</u>	<u>Water Fund</u>	<u>General</u>	<u>Total</u>
Operating Revenues:				
Utility sales	\$ 299,808	\$ 274,711	\$ -	\$ 574,519
Service charges		57,554		57,554
State of CA-Dept of Parks and Recreation	77,265			77,265
Total operating revenues	<u>377,073</u>	<u>332,265</u>		<u>709,338</u>
Operating Expenses:				
Contract labor	276,385	161,303	23,058	460,746
Repairs and maintenance		10,000	11,100	21,100
Depreciation	38,390	24,794	16,796	79,980
Legal and professional	24,476	12,530	15,111	52,117
Utilities and telephone				
Bookkeeping	5,712	4,545	5,243	15,500
Office expenses			371	371
Health insurance			11,962	11,962
Licenses and permits	7,055	2,253	26	9,334
Directors' fees	2,475	2,475	550	5,500
Insurance	3,716	620	1,858	6,194
Website			3,575	3,575
Other expense			706	706
Dues and subscriptions	333	301	1,346	1,980
Total operating expenses	<u>358,542</u>	<u>218,821</u>	<u>91,702</u>	<u>669,065</u>
Net operating gain (loss)	<u>18,531</u>	<u>113,444</u>	<u>(91,702)</u>	<u>40,273</u>
Non-Operating Revenues (Expenses):				
Property taxes			73,755	73,755
Interest income			1,708	1,708
Tax administration fee			(1,618)	(1,618)
LAFCO budget allocation			(3,849)	(3,849)
Miscellaneous income			645	645
Total non-operating revenues (expenses)			<u>70,641</u>	<u>70,641</u>
Change in net position	<u>\$ 18,531</u>	<u>\$ 113,444</u>	<u>\$ (21,061)</u>	<u>\$ 110,914</u>