

**THREE ARCH BAY
COMMUNITY SERVICES DISTRICT**

Annual Financial Report

June 30, 2014

(With Independent Auditor's Report Thereon)

AUDITOR-CONTROLLER

APR 02 2015

THREE ARCH BAY COMMUNITY SERVICES DISTRICT

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Independent Auditor's Report

The Board of Directors
Three Arch Bay Community Services District
Laguna Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Three Arch Bay Community Services District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the District, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

THREE ARCH BAY COMMUNITY SERVICES DISTRICT

Statement of Net Position
For the Year Ended June 30, 2014

Assets:

Cash and investments	\$ 2,555,670
Receivables	77,265
Capital assets, net of accumulated depreciation	<u>3,559,464</u>
Total assets	<u>6,192,399</u>

Liabilities:

Accounts payable	86,643
Unearned user fees	<u>87,851</u>
Total liabilities	<u>174,494</u>

Net position:

Net investment in capital assets	3,559,464
Unrestricted	<u>2,458,441</u>
Total net position	<u>\$ 6,017,905</u>

See accompanying notes to the basic financial statements.

THREE ARCH BAY COMMUNITY SERVICES DISTRICT

Balance Sheet

General Fund

For the Year Ended June 30, 2014

Assets:

Cash and investments	\$ 2,555,670
Taxes receivable	23,358
User fees receivable	<u>53,907</u>
 Total assets	 <u><u>\$ 2,632,935</u></u>

Liabilities:

Accounts payable	\$ 86,643
Unearned user fees	<u>87,851</u>
 Total liabilities	 <u>174,494</u>

Deferred Inflows of Resources:

Unavailable user fee assessment revenue	<u>48,960</u>
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Fund balance:

Unassigned	<u>2,409,481</u>
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Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 2,632,935</u></u>
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Fund balance for general fund	\$ 2,409,481
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	3,559,464
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Unavailable revenues are not available to pay current-period expenditures and, therefore, are not recognized in the governmental funds.	<u>48,960</u>
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Net position of governmental activities	<u><u>\$ 6,017,905</u></u>
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See accompanying notes to the basic financial statements.

THREE ARCH BAY COMMUNITY SERVICES DISTRICT
Notes to the Basic Financial Statements
June 30, 2014

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Three Arch Bay Community Services District (District) was formed on June 17, 1957, under the provisions of the Community Services District Law, Section G, 6100-G 1934 of the Government Code. The District maintains the storm drain system and furnishes security services to the residents of the District, located in Laguna Beach, California.

The governing body is an elected board of five Directors.

(b) Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the District.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported, instead, as general revenues.

Separate financial statements are provided for the General Fund.

(c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of timing of the related cash flows. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Property taxes are recognized as revenue in the year for which they are levied.

General Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the General Fund to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, which are recorded only when payment is due and payable. Capital asset acquisitions are reported as expenditures in the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

THREE ARCH BAY COMMUNITY SERVICES DISTRICT
Notes to the Basic Financial Statements (Continued)
June 30, 2014

3. Fund Balance

As prescribed by Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, under which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent, fund balance for the General Fund are classified as follows:

- Nonspendable – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted into cash, for example: inventories, prepaid amounts, and long-term notes receivable. There was no nonspendable fund balance at June 30, 2014.
- Restricted – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers. There was no restricted fund balance at June 30, 2014.
- Committed – includes amounts that can only be used for specific purposes as determined by a formal action of the District’s highest level of decision-making authority, the Board of Directors. Commitments may be changed or lifted only by the District taking the same formal action that originally imposed the constraint (for example: resolution or ordinance). There was no committed fund balance at June 30, 2014.
- Assigned – includes amounts intended to be used by the District for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the Board of Directors or (b) a body (for example: a budget or finance committee) or officials to which the Board has delegated the authority of assigning amounts to be used for specific purposes. There was no assigned fund balance at June 30, 2014.
- Unassigned – is the residual classification for the General Fund and includes all amounts not included in the other classifications. Unassigned amounts are available for any purpose.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

THREE ARCH BAY COMMUNITY SERVICES DISTRICT
Notes to the Basic Financial Statements (Continued)
June 30, 2014

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by the District to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68, which for the District would be FY 2014-2015.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68, which for the District would be FY 2014-2015.

(2) DETAILED NOTES ON GENERAL FUND

(a) Cash and Investments

Cash as of June 30, 2014, consists of cash, certificates of deposit, and money market funds and is classified in the accompanying financial statements as follows:

Cash	\$	434,633
Negotiable certificates of deposit		375,878
Money market funds		1,745,159
Cash and investments	\$	2,555,670

Authorized Investments

The District follows the provisions of the California Government Code (Code) and does not have a separate investment policy that addresses concentration risk, credit risk, and interest rate risk. The table below identifies the investment types that are authorized for the District by the Code. The table also identifies certain provisions of the Code that address interest rate risk and concentration of credit risk.

THREE ARCH BAY COMMUNITY SERVICES DISTRICT
Notes to the Basic Financial Statements (Continued)
June 30, 2014

Concentration Risk

At June 30, 2014, the District had 9.8% of its portfolio invested in negotiable certificates of deposit from Discover Bank Greenwood.

(b) Capital Assets

The table below presents summary information on the changes in capital assets for the year ended June 30, 2014.

	<u>Balance July 1, 2013</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2014</u>
Nondepreciable:				
Construction in progress	\$ 33,333	\$ 61,228	\$ (6,254)	\$ 88,307
Depreciable:				
Storm drains system	568,508	-	-	568,508
32-36 N. La Senada Sump Pump	45,224	-	-	45,224
36 N. Catalina Relocation	95,932	-	-	95,932
N. Catalina Improvement	1,210,444	-	-	1,210,444
Debris Basin Upper Vista Del Sol	21,232	-	-	21,232
Low Flow South La Senada	237,630	-	(33,409)	204,221
VDS Debris Basin New Pipe	52,482	-	-	52,482
VDS Mitigation System	-	13,159	-	13,159
27 N. La Senada Overflow	44,050	-	-	44,050
Roadway Project	1,518,929	-	-	1,518,929
107-118 South La Senda	113,381	-	-	113,381
Entrance security	103,939	-	-	103,939
13 N. Callecita Junction Structure	32,950	-	-	32,950
Vehicles	8,060	-	-	8,060
Total depreciable	<u>4,052,761</u>	<u>13,159</u>	<u>(33,409)</u>	<u>4,032,511</u>
Less accumulated depreciation:				
Accumulated depreciation	<u>(422,032)</u>	<u>(141,549)</u>	<u>2,227</u>	<u>(561,354)</u>
Total capital assets, being depreciated, net	<u>3,630,729</u>	<u>(128,390)</u>	<u>(31,182)</u>	<u>3,471,157</u>
Governmental activities, capital assets	<u>\$ 3,664,062</u>	<u>\$ (67,162)</u>	<u>\$ (37,436)</u>	<u>\$ 3,559,464</u>

Depreciation expense of \$141,549 was charged to the general government function of the District.

THREE ARCH BAY COMMUNITY SERVICES DISTRICT
Notes to the Basic Financial Statements (Continued)
June 30, 2014

2. Office Lease

On April 10, 2000, the District entered into a lease agreement with the Association. This lease agreement replaced the previous agreement dated July 1, 1987. The lease grants to the District the use of, rights of way and other easements to the upper and lower traffic gates and entrances to the Three Arch Bay District, and all land and improvements appurtenant thereto, as well as nonexclusive use of portions of the clubhouse for office and meeting purposes.

The lease term expired on June 30, 2010, and in accordance with the lease agreement, the term is now year-to-year until terminated by the Association, in writing, 30 days prior to the date of termination. As of June 30, 2014, the monthly lease payment was \$3,591, with annual increases of 3% each July 1. Total lease expense for the year ended June 30, 2014, was \$43,090.

(c) Retirement Plan

Plan Description

The District participates in the Inactive Agency Risk Pool, a cost-sharing multiple-employer defined benefit plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the plan were established by State Statute and District resolution.

As of June 30, 2014, the plan has two retiree participants who receive monthly benefits for life based on the formula 2% at 60. CalPERS provides retirement benefits, disability, annual cost of living adjustments and death benefits to plan members based on the employee's years of service, age and final compensation. The District no longer has employees, so the plan is considered closed. Benefit provisions and other requirements are established by State Statute and by District resolution. CalPERS issues separate annual financial statements, which may be obtained from CalPERS Executive Offices at 400 Q Street, Sacramento, California 95814.

Funding Policy

Funding contributions are determined annually on an actuarial basis as of June 30 by CalPERS; the District must contribute the amount determined.

CalPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. Annual Pension Costs representing the payment of all contributions required by CalPERS, for the years ended June 30, 2014, 2013 and 2012, were \$0 for all years.

Required Supplementary Information

THREE ARCH BAY COMMUNITY SERVICES DISTRICT
 General Fund
 Budgetary Comparison Schedule
 For the Year Ended June 30, 2014
 (Unaudited)

	<u>Original/Final Budget</u>	<u>Actual</u>	<u>Budget Positive/ (Negative) Variance</u>
Revenues:			
Taxes	\$ 1,085,500	\$ 1,103,206	\$ 17,706
User fee assessments	430,000	398,494	(31,506)
Investment income	8,099	5,805	(2,294)
Property service fee-security	103,000	103,940	940
Miscellaneous	-	1,300	1,300
	<u>1,626,599</u>	<u>1,612,745</u>	<u>(13,854)</u>
Total revenues			
Expenditures:			
Current:			
General government	420,259	431,947	(11,688)
Security	640,000	629,953	10,047
Capital outlay	189,500	66,536	122,964
	<u>1,249,759</u>	<u>1,128,436</u>	<u>121,323</u>
Total expenditures			
Net change in fund balance	376,840	484,309	107,469
Fund balance - beginning of year	<u>1,925,172</u>	<u>1,925,172</u>	<u>-</u>
Fund balance - end of year	<u>\$ 2,302,012</u>	<u>\$ 2,409,481</u>	<u>\$ 107,469</u>

Note to Required Supplementary Information

A. Budgetary Information

The Board of Directors of the District adopts an annual budget on a basis consistent with accounting principles generally accepted in the U.S. The budget provides for the general operation of the District, which includes estimated revenues and proposed expenditures. Any budget amendments are approved by the Board of Directors. The level at which the expenditures may not legally exceed appropriations is at the fund level.