

**Capistrano Bay Community Services District**

**Annual Financial Report**

**For the fiscal year ended June 30, 2014**

**Capistrano Bay Community Services District  
Annual Financial Report  
For the fiscal year ended June 30, 2014**

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## **Financial Section**



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## INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors  
Capistrano Bay Community Services District  
Capistrano Beach, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Capistrano Beach Community Services District, California (the 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 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.

### MEMBERS

American Institute of  
Certified Public Accountants

*PCPS The AICPA Alliance  
for CPA Firms*

*Governmental Audit  
Quality Center*

California Society of  
Certified Public Accountants

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 major fund of the District as of June 30, 2014, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

#### *Implementation of new pronouncement*

As discussed in Note 1 of the financial statements, in 2014 the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 and the budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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.



San Bernardino, CA  
January 28, 2015

**Capistrano Bay Community Services District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Capistrano Bay Community Services District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The District's net position increased 4.24% or \$120,681 to \$2,968,790 in 2014 as a result of this year's operations.
- During the year, the District's property tax revenues increased by 5.72% or \$40,492 in 2014.
- Total revenues from all sources increased by 8.68% or \$84,461 to \$1,057,045 in 2014 primarily due to an increase in development impact fees and property taxes.
- Total expenses decreased by 0.94% or \$8,883 to \$936,364 in 2014 primarily due to maintenance and repairs.

**Using This Financial Report**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

**Government-wide Financial Statements**

**Statement of Net Position and Statement of Activities**

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. Think of the District's net position - the difference between assets and liabilities - as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the District's property tax base to assess the *overall health* of the District.

**Capistrano Bay Community Services District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

**Governmental Funds Financial Statements**

**Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance**

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$2,968,790 as of June 30, 2014.

	2014	2013	% change	\$ change
Assets:				
Current and other	\$ 1,050,616	\$ 863,295	21.70%	\$ 187,321
Capital, net	<u>2,014,437</u>	<u>2,113,655</u>	-4.69%	(99,218)
Total assets	<u>3,065,053</u>	<u>2,976,950</u>		
Liabilities:				
Current	95,041	120,052	-20.83%	(25,011)
Due in more than one year	<u>1,222</u>	<u>8,789</u>	-86.10%	(7,567)
Total liabilities	<u>96,263</u>	<u>128,841</u>		
Net position:				
Net investment in capital assets	2,014,437	2,113,655	-4.69%	(99,218)
Unrestricted	<u>954,353</u>	<u>734,454</u>	29.94%	219,899
Total net position	<u>\$ 2,968,790</u>	<u>\$ 2,848,109</u>	4.24%	120,681

**Capistrano Bay Community Services District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

A portion of the District's net position 67.85% or \$2,014,437 as of June 30, 2014, reflects its investment in capital assets (net of accumulated depreciation), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to operate the District; consequently, these assets are *not* available for future spending. At the end of fiscal year 2014, the District showed a positive balance in its unrestricted net position of \$954,353 that may be utilized in future years.

	<u>2014</u>	<u>2013</u>	<u>% change</u>	<u>\$ change</u>
Expenses	<u>\$ 936,364</u>	<u>\$ 945,247</u>		
Total expenses	<u>936,364</u>	<u>945,247</u>	-0.94%	(8,883)
Program revenues				
Charges for services	<u>308,158</u>	<u>264,206</u>	16.64%	43,952
Net program expense	<u>628,206</u>	<u>681,041</u>	-7.76%	(52,835)
General revenues:				
Property taxes	748,766	708,274	5.72%	40,492
Other	<u>121</u>	<u>104</u>	16.35%	17
Total general revenues	<u>748,887</u>	<u>708,378</u>	5.72%	40,509
Change in net position	120,681	27,337	341.46%	93,344
Net position, beginning of year	<u>2,848,109</u>	<u>2,820,772</u>		
Net position, end of year	<u><u>\$ 2,968,790</u></u>	<u><u>\$ 2,848,109</u></u>		

The statement of activities shows how the government's net position changed during the fiscal year. In the case of the District, net position increased by \$120,681 for the fiscal year ended June 30, 2014.

**Governmental Funds Financial Analysis**

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, the *unreserved fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of June 30, 2014, the District's Public Safety Fund reported a fund balance of \$955,980. This amount constitutes the District's *nonspendable* portion of \$12,405, *assigned* portion of \$744,434 and *unassigned* portion of \$199,141.



**Capistrano Bay Community Services District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

**Capital Asset Administration**

Changes in capital assets for fiscal year 2014 were as follows:

	<u>2014</u>	<u>2013</u>	<u>% change</u>	<u>\$ change</u>
Depreciable assts	\$ 2,785,168	\$ 2,782,800	0.09%	\$ 2,368
Accumulated depreciation	<u>(770,731)</u>	<u>(669,145)</u>	15.18%	(101,586)
Total capital assets, net	<u>\$ 2,014,437</u>	<u>\$ 2,113,655</u>	-4.69%	(99,218)

At the end of fiscal year 2014, the District's investment in capital assets amounted to \$2,014,437 (net of accumulated depreciation). This investment in capital assets is primarily comprised of construction-in-progress and basic infrastructure assets. The District's investment in capital assets is more fully analyzed in Note 3 to the basic financial statements.

**Long-term Liabilities Administration**

Changes in long-term liabilities for fiscal year 2014 were as follows:

	<u>2014</u>	<u>2013</u>	<u>% change</u>	<u>\$ change</u>
Compensated absences	\$ 1,627	\$ 11,719	-86.12%	\$ (10,092)
Less current portion	<u>(405)</u>	<u>(2,930)</u>	-86.18%	2,525
Total long-term liabilities	<u>\$ 1,222</u>	<u>\$ 8,789</u>	-86.10%	(7,567)

At the end of fiscal year 2014, the District's had \$1,627 in compensated absences of which \$1,222 is designated as long-term. The District's investment in capital assets is more fully analyzed in Note 3 to the basic financial statements.

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net position or operating results in terms of past, present and future.

**Requests for Information**

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 35000 Beach Road, Capistrano Beach, CA 92624.

## **Basic Financial Statements**

**Capistrano Bay Community Services District**  
**Statement of Net Position**  
**June 30, 2014**

	Governmental Activities
<b>Assets</b>	
Cash and investments	\$ 1,018,473
Intergovernmental receivables	19,738
Prepaid expenses	12,405
Capital assets being depreciated, net	2,014,437
Total assets	3,065,053
<b>Liabilities</b>	
Accounts payable and accrued liabilities	94,636
Noncurrent liabilities:	
Due within one year	405
Due in more than one year	1,222
Total liabilities	96,263
<b>Net position</b>	
Net investment in capital assets	2,014,437
Unrestricted	954,353
Total net position	\$ 2,968,790

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

**Capistrano Bay Community Services District  
Statement of Activities  
For the year ended June 30, 2014**

Governmental activities	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Governmental Activities
Public safety	\$ 814,911	\$ 308,158	\$ -	\$ -	\$ (506,753)
Roads	112,456	-	-	-	(112,456)
Street lighting	8,997	-	-	-	(8,997)
<b>Total governmental activities</b>	<b>\$ 936,364</b>	<b>\$ 308,158</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(628,206)</b>
General revenues:					
Property taxes					748,766
Other					121
Total general revenues					748,887
Change in net position					120,681
Net position, beginning of year					2,848,109
Net position, end of year					<b>\$ 2,968,790</b>

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

**Capistrano Bay Community Services District  
Balance Sheet – Governmental Funds  
June 30, 2014**

	Public Safety Fund	Roads Fund	Street Lighting Fund	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 1,018,473	\$ -	\$ -	\$ 1,018,473
Accounts receivable, net				
Property taxes	19,738	-	-	19,738
Prepaid expenses	12,405	-	-	12,405
<b>Total assets</b>	<b>\$ 1,050,616</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,050,616</b>
<b>Liabilities and fund balances</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 94,636	\$ -	\$ -	\$ 94,636
<b>Total liabilities</b>	<b>94,636</b>	<b>-</b>	<b>-</b>	<b>94,636</b>
Fund balance:				
Nonspendable	12,405	-	-	12,405
Assigned	744,434	-	-	744,434
Unassigned	199,141	-	-	199,141
<b>Total fund balance</b>	<b>955,980</b>	<b>-</b>	<b>-</b>	<b>955,980</b>
<b>Total liabilities and fund balance</b>	<b>\$ 1,050,616</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,050,616</b>

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

**Capistrano Bay Community Services District  
Reconciliation of the Balance Sheet of Governmental  
Funds to the Statement of Net Position  
June 30, 2014**

<b>Fund balance of governmental fund</b>	\$ 955,980
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,014,437
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds.	
Compensated absences payable	<u>(1,627)</u>
<b>Net position of governmental activities</b>	<u><u>\$ 2,968,790</u></u>

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

**Capistrano Bay Community Services District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the year ended June 30, 2014**

	Public Safety Fund	Roads Fund	Street Lighting Fund	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 748,766	\$ -	\$ -	\$ 748,766
Charges for services	229,737	-	-	229,737
Parking fees	37,706	-	-	37,706
Trash collection	7,690	-	-	7,690
Investment earnings	121	-	-	121
Other	33,025	-	-	33,025
Total revenues	<u>1,057,045</u>	<u>-</u>	<u>-</u>	<u>1,057,045</u>
<b>Expenditures</b>				
Salaries and wages	101,038	6,554	1,639	109,231
Employee benefits	26,656	1,729	432	28,817
Security	371,914	-	-	371,914
Facilities	224,706	7,029	6,926	238,661
Material and services	63,106	-	-	63,106
Parking expense to OCTA	35,509	-	-	35,509
Total expenditures	<u>822,929</u>	<u>15,312</u>	<u>8,997</u>	<u>847,238</u>
Excess of revenues over (under) expenditures	<u>234,116</u>	<u>(15,312)</u>	<u>(8,997)</u>	<u>209,807</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	15,312	8,997	24,309
Transfers out	<u>(24,309)</u>	<u>-</u>	<u>-</u>	<u>(24,309)</u>
Total other financing sources (uses)	<u>(24,309)</u>	<u>15,312</u>	<u>8,997</u>	<u>-</u>
Net change in fund balances	209,807	-	-	209,807
Fund balances, beginning of year	<u>746,173</u>	<u>-</u>	<u>-</u>	<u>746,173</u>
Fund balances, end of year	<u>\$ 955,980</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 955,980</u>

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

**Capistrano Bay Community Services District  
Reconciliation of the Statement of Revenues,  
Expenditures and Changes in Fund Balances of Governmental  
Funds to the Statement of Activities  
For the year ended June 30, 2014**

**Net change in fund balance - total governmental fund** \$ 209,807

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense, or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized, less net book value of disposals	2,368
Depreciation expense	(101,586)

Compensated absences expenses reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	10,092
	10,092

**Change in net position of governmental activities** \$ 120,681

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



**Capistrano Bay Community Services District  
Notes to the Basic Financial Statements  
June 30, 2014**

**(1) Reporting entity and summary of significant accounting policies**

**A. Organization and operations of the reporting entity**

Capistrano Bay Community Services District (District) is located in Capistrano Beach, California and was formed December 8, 1959, under the provisions of the Community Services District Law, Section 61000-61934 of the Government Code for the purpose of furnishing street lighting, road maintenance, solid waste disposal and security services for residents of the District. The District is governed by a Board of Directors consisting of five members elected at large. The Board employs and is assisted by a General Manager, Secretary/Clerk of the Board, and such other personnel as are required to operate the District.

General administration and management of the District is under the direction of a duly elected Board of Directors consisting of five members. The members of the Board of Directors as of June 30, 2014 were as follows:

Ambrose Masto - President  
Mike Haack - Vice President  
Kurtis Breeding - Director  
Stephen Muller - Director  
James Zerboni – Director

**B. Basis of accounting and measurement focus**

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Financial reporting is based upon all GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principals Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

**Government-wide Financial Statements**

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the District are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and, 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Capistrano Bay Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(1) Reporting entity and summary of significant accounting policies, continued**

***B. Basis of accounting and measurement focus, continued***

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-wide Financial Statements. The District has presented its General Fund, as its major fund, in this statement to meet the qualifications of GASB Statement No. 34.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net equity. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due. The District reports the following major governmental fund:

**Public Safety** - This fund is used to account for the revenues received from property taxes and other general revenues as well as the expenditures for the public safety needs of the District.

The District also reports the following governmental funds:

**Road** - This fund is used to account for road maintenance and operations expenditures.

**Street Lighting** - This fund is used to account for street lighting maintenance and operations expenditures.

***C. Assets, liabilities and equity***

***1. Use of estimates***

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

***2. Cash and investments***

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months to be cash equivalents.

**Capistrano Bay Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(1) Reporting entity and summary of significant accounting policies, continued**

**C. Assets, liabilities and equity, continued**

**3. Investments and investment policy**

The District has adopted an informal investment policy (not adopted at the highest level of governance) to deposit funds in financial institutions. Investments are to be made in the following areas:

- Local Agency Investment Fund (LAIF)
- Passbook savings accounts

Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

*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 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.

**4. Prepaid expenses**

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

**5. Capital assets**

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$500. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Structures	40 years
Infrastructure (roads and drainage systems)	30 years
Entryway	25 years
Security equipment	5 to 12 years
Maintenance equipment	3 to 15 years
Administrative (office equipment)	3 to 10 years

**Capistrano Bay Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(1) Reporting entity and summary of significant accounting policies, continued**

**C. Assets, liabilities and equity, continued**

**6. Compensated absences**

The District's personnel policies provide for paid vacation and sick leave (employee benefits) to its full-time employees and is granted each year on January 1st. Liabilities for vacation leave are recorded when granted. Full cash payment is paid each year for unused vacation at the employee's anniversary date or upon termination. Accrued sick leave is not available upon retirement or termination.

**7. Property taxes and special assessments**

Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations. Secured property taxes are levied on July 1 and become delinquent on December 10 and April 10, for the first and second installments, respectively. Unsecured personal property taxes are collected in one installment and become delinquent August 31.

Property taxes and special assessments are allocated on the County of Orange's annual tax bills to property owners who receive service by the District. The County of Orange's Tax Collector's Office collects the property taxes and special assessment payments from the property owners and transfers the collections to the District's bank account.

**8. Budgetary policies**

Prior to June 30th each fiscal year, the District adopts an annual appropriated budget for planning, control, and evaluation purposes. The budget includes proposed expenditures and the means of financing them. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. The Board approves total budgeted appropriations and any amendments to the appropriations throughout the year. Actual expenses may not exceed budgeted appropriations, except by 2/3 vote of the Board. Formal budgetary integration is employed as a management control device during the year. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

**9. Net position**

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted net position** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that do not meet the definition of *restricted* or *net investment in capital assets*.

**Capistrano Bay Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(1) Reporting entity and summary of significant accounting policies, continued**

**C. Assets, liabilities and equity, continued**

**10. Fund equity**

The financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance** - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- **Committed fund balance** - amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** - amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the District's special revenue funds.
- **Unassigned fund balance** - the residual classification for the District's general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Board of Directors established, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

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

*Fund balance policy*

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

**Capistrano Bay Community Services District  
Notes to the Basic Financial Statements  
June 30, 2014**

**(1) Reporting entity and summary of significant accounting policies, continued**

**C. Assets, liabilities and equity, continued**

**11. Implementation of new pronouncement**

Effective July 1, 2013, the District adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The District's financial statements do not contain any elements that meet the definition of deferred outflows of resources or deferred inflow of resources.

**(2) Cash and investments**

Cash and investments are presented in the financial statements as of June 30 as follows:

Statement of net position	
Cash	\$ 1,018,473
	<hr/>
Total cash and investments	\$ 1,018,473
	<hr/> <hr/>

Cash and investments as of June 30, consisted of the following:

Bank deposits with financial institutions	\$ 804,926
Local Agency Investment Fund	213,547
	<hr/>
Total cash and investments	\$ 1,018,473
	<hr/> <hr/>

*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 market 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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District has deposits with various banks with various bank balances as of June 30, 2014, respectively. Of the bank balances, up to \$250,000 per bank for specific accounts are federally insured and the any remaining balances are collateralized in accordance with the Code.

*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 a rating by a nationally recognized statistical rating organization. The Local Agency investment fund is not rated by such an organization.

**Capistrano Bay Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(2) Cash and investments, continued**

*Custodial credit risk, continued*

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 Code and the District's investment policy contain legal and 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).

*Interest rate risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. Currently, LAIF has a maturity of 12 months or less.

**(3) Capital assets**

Changes in capital assets for the year were as follows:

	Beginning balance	Additions	Deletions	Ending balance
Depreciable assets				
Structures	\$ 136,775	\$ -	\$ -	\$ 136,775
Security	24,707	2,368	-	27,075
Maintenance	37,502	-	-	37,502
Administrative	8,217	-	-	8,217
Road system	1,017,475	-	-	1,017,475
Storm drains	156,529	-	-	156,529
Entryway	1,401,595	-	-	1,401,595
Total depreciable assets	<u>2,782,800</u>	<u>2,368</u>	<u>-</u>	<u>2,785,168</u>
Accumulated depreciation				
Structures	(75,516)	(3,753)	-	(79,269)
Security	(24,308)	(453)	-	(24,761)
Maintenance	(21,973)	(1,947)	-	(23,920)
Administrative	(7,510)	(236)	-	(7,746)
Road system	(337,224)	(33,915)	-	(371,139)
Storm drains	(34,420)	(5,218)	-	(39,638)
Entryway	(168,194)	(56,064)	-	(224,258)
Total accumulated depreciation	<u>(669,145)</u>	<u>(101,586)</u>	<u>-</u>	<u>(770,731)</u>
Total capital assets, net	<u>\$ 2,113,655</u>	<u>\$ (99,218)</u>	<u>\$ -</u>	<u>\$ 2,014,437</u>

**Capistrano Bay Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(3) Capital assets, continued**

Depreciation expense was charged as follows:

Public safety	\$ 4,442
Roads	<u>97,144</u>
Total	<u><u>\$ 101,586</u></u>

**(4) Compensated absences**

Compensated absences comprise unpaid vacation leave which is accrued as earned. The District's liability for compensated absences is determined annually.

The changes to compensated absences balances at June 30, 2014 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Current portion</u>
Compensated absences	<u>\$ 11,719</u>	<u>\$ 7,232</u>	<u>\$ (17,324)</u>	<u>\$ 1,627</u>	<u>\$ 405</u>

**(5) Fund balances**

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (See Note 1.C.10 for a description of these categories). A detailed schedule of fund balances and their funding composition at June 30, 2014 is as follows:

<u>Description</u>	<u>Amount</u>
Nonspendable:	
Prepaid expenses	<u>\$ 12,405</u>
Assigned:	
Emergency reserve	250,000
Six month operating reserve	<u>494,434</u>
Total assigned	<u>744,434</u>
Unassigned	<u>199,141</u>
Total fund balance	<u><u>\$ 955,980</u></u>

**(6) Risk management**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To limit exposure, the District participates in a joint venture under a joint powers agreement (JPA) with the Special District Risk Management Authority (the Authority). The Authority is a risk-pooling, self-insurance authority created under the provisions of California Government Code Section 6500 et. sec.



**Capistrano Bay Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(6) Risk management, continued**

The Authority is governed by a board consisting of a representative from a member agency. The board controls the operations of the Authority including selection of CEO and approval of operating budgets. The relationship between the District and the Authority is such that the Authority is not a component unit of the District for financial reporting purposes.

The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Copies of the Authority's annual financial report may be obtained from their office at 1112 "I" Street, Suite 300, Sacramento, CA 95814. Copies are also available on the Member Plus Portal and mailed to members each year. At June 30, 2014, the District's participation in the self-insurance programs of the Authority was as follows:

- Commercial liability coverage with limits up to \$1,000,000 per occurrence with no deductibles. In addition, the District has purchased an umbrella liability policy with coverage up to \$50,000,000 per occurrence.
- Directors and officers coverage up to \$1,000,000 for personal injury and \$2,000,000 for general aggregate with no deductible.
- Automobile liability coverage with limits of \$1,000,000 with no deductible.
- Employee dishonesty coverage up to \$500,000 per loss includes public employee dishonesty, forgery or alteration and theft with a \$5,000 deductible.
- Property loss coverage of \$440,000 per occurrence with a \$1,000 deductible.
- Public officials personal liability up to \$10 million each occurrence, with an annual aggregate of \$10 million per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage, deductible of \$500 per claim.
- Workers' compensation coverage and employer's liability up to statutory limits per occurrence for workers' compensation and \$10 million for employer's liability coverage, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2014, 2013 and 2012. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2014, 2013 and 2012.

**(7) Governmental Accounting Standards Board Statements Issued, not yet effective**

*Governmental Accounting Standards Board Statement No. 68*

In June 2013, the GASB issued Statement No. 68 - *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

**Capistrano Bay Community Services District**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

**(7) Governmental Accounting Standards Board Statements Issued, not yet effective, continued**

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

**(8) Commitments and contingencies**

*Operating Lease*

The District leases space within the railroad right of way from the Orange County Transportation Authority for the purpose of providing parking space for District residents. Costs associated with the lease are born by District residents which pay a yearly fee for each parking space. The lease commenced on January 1, 1998, and continues on a month-to-month basis which may be terminated by either party upon one year's notice. Provisions of the lease call for annual rent payments of \$15,100 for the first year, increasing by \$2,000 per year for the next seven years. Thereafter, terms of the lease call for annual lease payment adjustments based on the Consumer Price Index. As of June 30, 2014, the rent expense was \$35,509.

The following is a schedule of future minimum lease payments due under the non-cancelable operating lease at June 30:

<u>Fiscal year</u>	<u>Amount</u>
2014	<u>\$ 35,509</u>

*Litigation*

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

**(9) Subsequent event**

Events occurring after June 30, 2014 have been evaluated for possible adjustment to the financial statements or disclosure as of January 28, 2015, which is the date the financial statements were available to be issued.

**Required Supplementary Information  
 Capistrano Bay Community Services District  
 Budgetary Comparison Schedule – All Funds Combined  
 For the year ended June 30, 2014**

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 701,360	\$ 701,360	\$ 748,766	\$ 47,406
Charges for services	227,500	227,500	229,737	2,237
Parking fees	39,400	39,400	37,706	(1,694)
Trash collection	3,540	3,540	7,690	4,150
Investment earnings	-	-	121	121
Other	19,240	19,240	33,025	13,785
	<u>991,040</u>	<u>991,040</u>	<u>1,057,045</u>	<u>66,005</u>
<b>Total revenues</b>				
<b>Expenditures</b>				
Salaries and wages	111,175	111,175	109,231	1,944
Employee benefits	39,565	39,565	28,817	10,748
Security	378,560	378,560	371,914	6,646
Facilities	359,110	359,110	238,661	120,449
Material and services	65,130	65,130	63,106	2,024
Parking expense to OCTA	37,500	37,500	35,509	1,991
	<u>991,040</u>	<u>991,040</u>	<u>847,238</u>	<u>143,802</u>
<b>Total expenditures</b>				
Net change in fund balance	-	-	209,807	209,807
Fund balance, beginning of year	<u>746,173</u>	<u>746,173</u>	<u>746,173</u>	<u>-</u>
Fund balance, end of year	<u>\$ 746,173</u>	<u>\$ 746,173</u>	<u>\$ 955,980</u>	<u>\$ 209,807</u>

See accompanying note to budgetary comparison schedule

**Required Supplementary Information**  
**Capistrano Bay Community Services District**  
**Note to Budgetary Comparison Schedule – All Funds Combined**  
**For the year ended June 30, 2014**

**Note 1 - Budgetary Information**

The District adopts an annual budget prepared on the full accrual basis of accounting for its major fund. The Board approves total budgeted appropriations and any amendments to the appropriations throughout the year. Actual expenses may not exceed budgeted appropriations, except by 2/3 vote of the Board. Formal budgetary integration is employed as a management control device during the year.

Actual expenditures in the budgetary comparison schedule are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current revenues and expenditures are included. The budgeted amounts are presented using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Below is a reconciliation of the final budget amounts on the full accrual basis to the actual amounts on the full accrual basis at June 30, 2014.

	Budgeted amounts			Accrual Basis Actual amounts	Variance with final budget
	Final	Actual amounts	Adjustment		
<b>Revenues</b>					
Property taxes	\$ 701,360	\$ 748,766	\$ -	\$ 748,766	\$ 47,406
Charges for services	227,500	229,737	-	229,737	2,237
Parking fees	39,400	37,706	-	37,706	(1,694)
Trash collection	3,540	7,690	-	7,690	4,150
Investment earnings	-	121	-	121	121
Other	19,240	33,025	-	33,025	13,785
Total revenues	<u>991,040</u>	<u>1,057,045</u>	<u>-</u>	<u>1,057,045</u>	<u>66,005</u>
<b>Expenditures</b>					
Salaries and wages	111,175	109,231	-	109,231	1,944
Employee benefits	39,565	28,817	-	28,817	10,748
Security	378,560	371,914	-	371,914	6,646
Facilities	359,110	238,661	89,126	327,787	31,323
Material and services	65,130	63,106	-	63,106	2,024
Parking expense to OCTA	37,500	35,509	-	35,509	1,991
Total expenditures	<u>991,040</u>	<u>847,238</u>	<u>89,126</u>	<u>936,364</u>	<u>54,676</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 209,807</u>	<u>\$ (89,126)</u>	<u>\$ 120,681</u>	<u>\$ 120,681</u>

The reconciling adjustment is made up of the following:

Adjustments:	
Cost of assets capitalized, less net book value of disposals	\$ 2,368
Depreciation expense	(101,586)
Change in compensated absences	10,092
	<u>\$ (89,126)</u>

## **Report on Internal Controls and Compliance**



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

PARTNERS

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Leena Shanbhag, CPA, MST, CGMA  
Jay H. Zercher, CPA (Partner Emeritus)  
Phillip H. Waller, CPA (Partner Emeritus)

Board of Directors  
Capistrano Bay Community Services District  
Capistrano Beach, California

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Gardenya Duran, CPA  
Juan Romero, CPA  
Ivan Gonzales, CPA, MSA  
Brianna Pascoe, CPA

We have audited, in accordance with the 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, the financial statements of the Capistrano Bay Community Services District, California (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated January 28, 2015.

***Internal control over financial reporting***

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*Governmental Audit  
Quality Center*

California Society of  
Certified Public Accountants

**Compliance and other matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Rogers Anderson Maloney & Scott, LLP". The signature is written in a cursive, flowing style.

San Bernardino, CA  
January 28, 2015