THREE ARCH BAY
COMMUNITY SERVICES DISTRICT

Annual Financial Report

June 30, 2016

(With Independent Auditor's Report Thereon)

MGO Certified Public Accountants

THREE ARCH BAY COMMUNITY SERVICES DISTRICT

Table of Contents

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities and the general fund of the Three Arch Bay Community Services District (the District), as of and for the year ended June 30, 2016, 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, 2016, 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.

Emphasis of Matter

As discussed in Note 1(g), the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. 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 General Fund – Budgetary Comparison Schedule on page 28 and the Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Schedule of Contributions on page 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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.

Management has omitted the 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 GASB 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.

Macias Gini É O'Connell LLP

Newport Beach, California
January 20, 2017

THREE ARCH BAY COMMUNITY SERVICES DISTRICT

Statement of Net Position

June 30, 2016

Assets:		
Cash and investments	$	3,581,594
Receivables		91,933
Due from other governments		126
Capital assets, net of accumulated depreciation		3,867,248
Net pension asset		56,789
Total assets		7,597,690
Deferred Outflows of Resources:		
Differences in proportions		1,549
Pension contributions		2,354
Total deferred inflows of resources		3,903
Liabilities:		
Accounts payable		144,807
Unearned user fees		99,789
Total liabilities		244,596
Deferred Inflows of Resources:		
Differences between actual and proportionate share of contributions		2,098
Differences in proportions		5,425
Total deferred inflows of resources		7,523
Net position:		
Net investment in capital assets		3,867,248
Unrestricted		3,482,226
Total net position	$	7,349,474

See accompanying notes to the basic financial statements.

THREE ARCH BAY COMMUNITY SERVICES DISTRICT

Statement of Activities

For the Year Ended June 30, 2016

	Expenses	Charges for Services	Change in Net Position
Governmental activities:			
General government	$ 578,028	$ -	$ (578,028)
Security	664,371	513,784	(150,587)
Total governmental activities	$ 1,242,399	$ 513,784	(728,615)
General revenues:			
Property taxes			1,257,129
Investment income			4,559
Miscellaneous			460
Total general revenues			1,262,148
Change in net position			533,533
Net position - beginning of year			6,815,941
Net position - end of year			$ 7,349,474

See accompanying notes to the basic financial statements.

THREE ARCH BAY COMMUNITY SERVICES DISTRICT

Balance Sheet

General Fund

June 30, 2016

Assets:		
Cash and investments	$	3,581,594
Interest receivable		3,972
Taxes receivable		18,950
User fees receivable		69,011
Due from other governments		126
Total assets	$	3,673,653
Liabilities:		
Accounts payable	$	144,807
Unearned user fees		99,789
Total liabilities		244,596
Deferred Inflows of Resources:		
Unavailable user fee assessment revenue		52,954
Fund balance:		
Unassigned		3,376,103
Total liabilities, deferred inflows of resources and fund balance	$	3,673,653

Fund balance for general fund	$	3,376,103
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.		3,867,248
Pension related asset, deferred inflows of resources and deferred inflows of resources that are not available to pay current-period expenditures or are long term in nature and, therefore, not recognized in the governmental funds:		
Net pension asset		56,789
Deferred outflows of resources		3,903
Deferred inflows of resources		(7,523)
Unavailable revenues are not available to pay current-period expenditures and, therefore, are not recognized in the governmental funds.		52,954
Net position of governmental activities	$	7,349,474

See accompanying notes to the basic financial statements.

THREE ARCH BAY COMMUNITY SERVICES DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance

General Fund

For the Year Ended June 30, 2016

Revenues:		
Taxes	$	1,257,129
User fee assessments		413,946
Investment income		4,559
Property service fee - security		103,350
Miscellaneous		460
Total revenues		1,779,444
Expenditures:		
Current:		
General government		576,271
Security		664,371
Capital outlay		90,367
Total expenditures		1,331,009
Net change in fund balance		448,435
Fund balance - beginning of year		2,927,668
Fund balance - end of year	$	3,376,103

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

Net change in fund balance - total general fund			$	448,435
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives as depreciation expense. The amount by which depreciation expense exceeded capital outlay in the current period is as follows:				
Additions to capital assets	$	151,125		
Loss on disposal of capital assets		-		
Depreciation expense		(62,997)		88,128
Unavailable revenues are reported as deferred inflows of resources in the general fund, but are recognized as revenues in the statement of activities.				(3,512)
Pension related changes that are recognized in the statement of activities, as these items are long term in nature, therefore not recorded in the general fund.				482
Change in net position of governmental activities			$	533,533

See accompanying notes to the basic financial statements.

(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 capital outlay 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.

(d) Assets, Liabilities, and Classification of Fund Balance and Net Position

1. Capital Assets

Capital assets are not capitalized in the General Fund. Instead, capital acquisition and construction are reflected as capital outlay expenditures in the General Fund and are capitalized on the government-wide statement of net position. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical record exists. Donated capital assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized. The District utilizes a capitalization threshold of $5,000. Depreciation is charged to operations using the straight-line method based on the estimated useful life of the related asset. The estimated useful lives of the assets are as follows:

	Years
Storm Drain System	75
Infrastructure	35-95
Gates	20
Entrance Security	10
Vehicles	5

2. Property Taxes

Property taxes are a lien as of January 1 of each year, at which time they become an enforceable lien on real property. Taxes are levied by the County of Orange, California (County), in September. Taxes for the first installment are due on November 1 and are payable through December 10 without penalty. The second installment of taxes is due February 1 and becomes delinquent on April 10. District property taxes are recognized when levied to the extent that they result in current receivables, collected within an availability period of 60 days after year-end. The District participates in the County Teeter Plan guaranteed payments. The County collects an administration fee from the District for its services. The District receives a percentage of the basic 1% ad valorem tax rate allowed on property within the District. Property taxes are remitted to the District from the County at various times throughout the year.

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 is 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, 2016.

- 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, 2016.

- 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, 2016.

- 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, 2016.

- 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.

4. Classification of Net Position

On the statement of net position, net position is classified into three components, which are defined as follows:

- **Net investment in capital assets -** This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The District does not have any capital debt outstanding at June 30, 2016.

- **Restricted net position -** This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The District does not have any restricted net position at June 30, 2016.

- **Unrestricted net position -** This component consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

(e) Net Pension Asset, Deferred Outflows of Resources, Deferred Inflows of Resources, and Pension Expense

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employees’ Retirement System (CalPERS) and additions to/deduction from CalPERS’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publically available reports that can be obtained at CalPERS’ website under Forms and Publications (www.calpers.ca.gov). Reported results pertain to liability and assets information within the following defined timeframes:

Valuation Date (VD) – June 30, 2014
Measurement Date (MD) – June 30, 2015
Measurement Period (MP) – July 1, 2014 to June 30, 2015

(f) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America includes the use of estimates that affect the financial statements and related disclosures. Accordingly, actual results could differ from those estimates.

(g) Recently Issued Accounting Standards

The following list recent Governmental Accounting Standards Board (GASB) pronouncements implemented in FY 2015-16:

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application.* This statement addresses accounting and financial reporting standards related to fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For some assets and liabilities, observable market information might not be available. The objective of fair value measure is to determine the price that would take place between market participants at the measurement date under current market conditions. Valuation techniques used to determine fair value are one or more of three approaches to measure fair value: the market approach, cost approach, and income approach. The District implemented the provisions of this pronouncement, the effects of which are disclosed in Note 2.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The "GAAP hierarchy" identifies the sources of guidance that state and local governments follow when preparing financial statements in conformity with GAAP and lists the order of priority for pronouncements to which a government should look for guidance. The objective of this statement is to simplify the structure of the hierarchy of GAAP to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments."* These changes are intended to improve financial reporting for governments by establishing a framework for the evaluation of accounting guidance with less variation. There was no impact to the District's financial statements.

The District is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements that will be implemented in a future fiscal year:

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which establishes new accounting and financial reporting requirements for OPEB improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of GASB Statement No. 45, Accounting and Financial *Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB 57. GASB 75 is effective for the District's fiscal year ending June 30, 2018.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures.* This Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015 which requires the District to implement this Statement for the fiscal year ending June 30, 2017.

In March 2016, GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73* (GASB 82), which addresses accounting and financial reporting issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements. GASB 82 is effective for the Districts financial statements for the year ending June 30, 2018.

The following pronouncements were issued by GASB and are effective for future fiscal years but were determined to not have an impact on the District's financial statements:

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73), which establishes requirements for defined benefit pensions that are not within the scope of GASB 68, as well as for the assets accumulated for the purposes of providing those pensions. GASB 73 amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans* and GASB 68 for pension plans and pensions that are within their respective scopes. GASB 73 addresses the recognition of the total pension liability of such plans and the disclosures necessary for the plans that did not meet the definition of GASB 68.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74), which establishes new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits (OPEB), as well as for certain non-employer governments that have a legal obligation to provide financial support to OPEB provided to the employees of other entities. GASB 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. GASB 74 replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended* (GASB 43), and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* (GASB 57). It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended*, GASB 43, and GASB Statement No. 50, *Pension Disclosures*.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for a cost-sharing multiple employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan).

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB 79). This statement establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. GASB 79 also establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81), which requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement and revenue when the resources become applicable to the reporting period. GASB 81 also requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests.

(2) DETAILED NOTES ON GENERAL FUND

(a) Cash and Investments

Cash and investments consist of the following in the accompanying financial statements:

Cash	$	1,423,400
Investments:		
U.S. treasury obligations		600,784
U.S. agency obligations		200,542
Mutual funds		480,689
Negotiable certificates of deposit		876,179
Total cash and investments	$	3,581,594

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.

Investment Types Authorized by State Law	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	None
Mortgage Pass-Through Securities	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other Investment Pools)	N/A	None	None

At June 30, 2016, the District exceeded the maximum percentage of portfolio allowed to be invested in mutual funds and negotiable certificates of deposit and exceeded the maximum percentage of the portfolio in a single issuer allowed to be invested in mutual funds.

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 a rating by a nationally recognized statistical rating organization. At June 30, 2016, the District's portfolio had the following ratings by security.

	Ratings	
Investment Type	Moody's	Standard & Poor's
U.S. treasury obligations		
Treasury bill	NR	NR
Treasury notes	AAA	NR
U.S. agency obligations		
FHLB Bonds	AAA	AA+
Mutual fund		
America Cap World GR & Inc A (CWGIX)	NR	NR
Negotiable certificates of deposit		
Goldman Sachs New York NY CD	NR	NR
National Coop BK NA Hillsboro OH CD	NR	NR
Sallie Mae BK CD Salt Lake City UT CD	NR	NR
Bank of India New York City NY CD	NR	NR
Amex Centurion Salt Lake City UT CD	NR	NR
Israel Disc BK CD New York CD	NR	NR

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local 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 percent 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 percent of the secured public deposits. As of June 30, 2016, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

THREE ARCH BAY COMMUNITY SERVICES DISTRICT
Notes to the Basic Financial Statements (Continued)
June 30, 2016

Concentration of Credit Risk

As of June 30, 2016, the District has investments representing more than 5% in the following issuers:

Investment Type	% of Portfolio Invested
U.S. treasury obligations	28%
U.S. agency obligations	
Fed Home Loan Bank	9%
Mutual fund	
America Cap World GR & Inc A (CWGIX)	22%
Negotiable certificates of deposit	
Goldman Sachs New York NY CD	6%
National Coop BK NA Hillsboro OH CD	11%
Sallie Mae BK CD Salt Lake City UT CD	6%
Bank of India New York City NY CD	6%
Amex Centurion Salt Lake City UT CD	6%

Fair Value Hierarchy

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted market prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is the summary of the fair value hierarchy of the fair value of investments of the District as of June 30, 2016:

Investment Type	Level 1	Level 2	Level 3
U.S. treasury obligations	$ 600,784	$ -	$ -
U.S. agency obligations	-	200,542	-
Mutual funds	-	480,689	-
Negotiable certificates of deposit	-	876,179	-
	$ 600,784	$ 1,557,410	$ -

Interest Rate Risk

Interest rate risk refers to 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 will be the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by purchasing shorter term investments to provide immediate cash flow and liquidity needed for operations.

Interest rate risk related to the District's investments is disclosed in the following table:

Investment Type	Fair Value	Less than 1 Year	1 to 5 Years
U.S. treasury obligations			
U.S. treasury bill	$ 249,766	$ 249,766	$ -
U.S. treasury notes	351,018	351,018	-
U.S. agency obligations			
FHLB bond	200,542	200,542	-
Mutual funds			
America Cap Wrld GR & Inc A (CWGIX)	480,689	480,689	-
Negotiable certificates of deposit			
Goldman Sachs New York NY CD	250,184	250,184	-
National Coop BK NA Hillsboro OH CD	125,064	125,064	-
Sallie Mae BK CD Salt Lake City UT CD	125,156	125,156	-
Bank of India New York City NY CD	125,008	125,008	-
Amex Centurion Salt Lake City UT CD	125,271	125,271	-
Israel Disc BK CD New York CD	125,496	-	125,496
	$ 2,158,194	$ 2,032,698	$ 125,496

(b) Capital Assets

The table below presents summary information on the changes in capital assets for the year ended June 30, 2016.

	Balance July 1, 2015	Additions/ Transfers	Deletions/ Transfers	Adjustment	Balance June 30, 2016
Nondepreciable:					
Construction in progress	$ 100,967	$ 90,367	$ (132,264)	$ -	$ 59,070
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	204,221	35,831	-	-	240,052
VDS Debris Basin New Pipe	52,482	-	-	-	52,482
VDS Mitigation System	13,259	-	-	-	13,259
27 N. La Senada Overflow	44,050	-	-	-	44,050
Roadway Project	1,518,929	-	-	-	1,518,929
107-118 South La Senda	113,381	96,433	-	-	209,814
Entrance security	103,939	60,758	-	-	164,697
13 N. Callecita Junction Structure	32,950	-	-	-	32,950
Gates	27,625	-	-	-	27,625
Vehicles	8,060	-	-	-	8,060
Total depreciable	4,060,236	193,022	-	-	4,253,258
Less accumulated depreciation:					
Accumulated depreciation	(382,083)	(62,997)	-	-	(445,080)
Total capital assets, being depreciated, net	3,678,153	130,025	-	-	3,808,178
Governmental activities, capital assets	$ 3,779,120	$ 220,392	$ (132,264)	$ -	$ 3,867,248

Depreciation expense of $62,997 was charged to the general government function of the District.

(3) OTHER INFORMATION

(a) Insurance Coverage

The District is exposed to various risks of loss related to property and general liability. These risks are addressed through commercial insurance.

The District is subject to various deductible amounts in addition to the payment of premiums for insurance coverage.

Commercial General Liability. Limits are $10 million for each occurrence, $1 million for damages to rented property for each occurrence, and $10 million for personal and advertising injury.

General Aggregate Limit per Policy. Limit is $10 million for products/completed operations in the aggregate.

Automobile Liability. Limit is $10 million each accident of hired and non-owned autos.

Public Officials Errors and Omissions. Limit is $10 million per occurrence and annual aggregate deductible of $5,000.

Employment Practices Liability. Limit is $2 million per occurrence and annual aggregate deductible of $10,000.

Settled claims have not exceeded any of the District's coverage amounts in the last three fiscal years, and there were no reductions in the District's coverage during the year ended June 30, 2016.

(b) Related Party Transactions

1. Management Services Agreement

The Board of Directors of the District entered into a management services agreement with the Three Arch Bay Association (Association), a legally separate, but geographically related entity. The term of this management services agreement has no expiration date.

Under the management services agreement, the Association provides general manager services, secretarial services, and clerical services to the District's governing board, plus other incidental services necessary to fulfill the District's duties. The District paid the Association a monthly sum of $18,913 for a total of $226,956 related to the management services agreement.

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, 2016, the monthly lease payment was $3,810, with annual increases of 3% each July 1. Total lease expense for the year ended June 30, 2016, was $45,714.

(c) Defined Benefit Plan

Plan Description – The District participates in a public agency cost-sharing multiple-employer defined benefit pension plan (the Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous pool and a safety pool (referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. The District is part of the miscellaneous pool.

CalPERS is governed by the Board of Administration (the Board), which consists of 13 members; two elected by CalPERS members, one elected by active State members, one elected by active CalPERS school members, one elected by active CalPERS public agency members, one elected by retired members of CalPERS, two appointed by the Governor, one public representative appointed jointly by Speaker of the Assembly and Senate Rules Committee and four ex officio members: State Treasurer, State Controller, Director of California Department of Human Resources and Designee of the State Personnel Board. The Board of Administration is responsible for the management and control of CalPERS, including the exclusive control of the administration and investment of the Plan. CalPERS acts as the common investment and administrative agency for the Plan.
The Plan was established to provide service retirement, death and disability benefits, which are established by statute. The Plan is closed and with no active employee participants and 2 retiree participants receiving benefits.

In January 2013, the California Public Employees' Pension Act (PEPRA) took effect which changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. Individuals hired on or after January 2013 are under PEPRA. All members, who do not fall under this category, are considered classic members. Classic members will retain existing benefit levels for future service with the same employer. The District's two retiree participants are classified as classic members.

Benefits provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service.

Contributions – Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (the measurement date), the District did not have any active employees and the employer actuarial determined contribution was 0.00%. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability – For the measurement period ended June 30, 2015 (measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability determined in the June 30, 2014 actuarial valuation.

The June 30, 2015 (measurement date) total pension liability was determined based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table[1]	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumption – GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of June 30, 2015 (measurement date) to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rate - The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10[1]	Real Return Years 11+[2]
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

[1]An expected inflation of 2.5% used for this period
[2]An expected inflation of 3.0% used for this period

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate - The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/(Asset)	$ (48,393)	$ (56,789)	$ (63,712)

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions – As of June 30, 2016, the District reported a net pension asset of $56,789. The District's net pension asset is measured as the difference between the District's proportionate share of the Plan's fiduciary net positon and the District's proportionate share of the Plan's total pension liability. The net pension asset is measured as of June 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension asset was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the Plan's net pension liability as of June 30, 2014 and 2015 measurement dates was as follows:

Proportion – June 30, 2014	(0.00092%)
Proportion – June 30, 2015	(0.00083%)
Change – Increase (Decease)	0.00009%

For the year ended June 30, 2016, the District recognized pension expense of $1,872. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 2,354	$ -
Difference between Expected and Actual Experience	-	-
Changes of Assumptions	-	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	-
Adjustment due to Differences in Proportions	1,549	5,425
Difference between the employer's contributions and the employer's proportionate share of contributions	-	2,098
Total	$ 3,903	$ 7,523

The amounts above are net of outflows and inflows recognized in the 2014-15 measurement period expense.

Amounts reported as deferred outflows and deferred inflows of resources related to pensions, will be recognized in future pension expense as follows:

Year Ended June 30,		Deferred Outflows/(Inflows) of Resources
2017	$	(1,826)
2018		(1,999)
2019		(2,148)
2020		-
	$	(5,974)

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

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Required Supplementary Information

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THREE ARCH BAY COMMUNITY SERVICES DISTRICT
General Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2016
(Unaudited)

	Original/Final Budget	Actual	Budget Positive/ (Negative) Variance
Revenues:			
Taxes	$ 1,100,500	$ 1,257,129	$ 156,629
User fee assessments	400,000	413,946	13,946
Investment income	35,500	4,559	(30,941)
Property service fee-security	103,000	103,350	350
Miscellaneous	1,600	460	(1,140)
Total revenues	1,640,600	1,779,444	138,844
Expenditures:			
Current:			
General government	593,244	576,271	16,973
Security	640,000	664,371	(24,371)
Capital outlay	315,000	90,367	224,633
Total expenditures	1,548,244	1,331,009	217,235
Net change in fund balance	92,356	448,435	356,079
Fund balance - beginning of year	2,927,668	2,927,668	-
Fund balance - end of year	$ 3,020,024	$ 3,376,103	$ 356,079

THREE ARCH BAY COMMUNITY SERVICES DISTRICT
Required Supplementary Information (Unaudited)
June 30, 2016

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Two Fiscal Years

Measurement Period		6/30/2015[1]		6/30/2014[1]
District's Proportionate of the Net Pension Liability/(Asset)		-0.00083%		-0.00092%
District's Proportionate Share of the Net Pension Liability/(Asset)	$	(56,789)	$	(57,399)
District's Covered-Employee Payroll[2]	$	-	$	-
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll		0.00%		0.00%
District's Proportionate Share of the Fiduciary Net Position as a Percentage of District's Total Pension Liability		78.40%		189.03%
District's Proportionate Share of the Aggregate Employer Contributions[3]	$	4,097	$	3,295

SCHEDULE OF CONTRIBUTIONS
Two Fiscal Years

Fiscal Year		2016[1]		2015[1]
Actuarially Determined Contribution[4]	$	-	$	-
Contributions in Relation to the Actuarially Determined Contribution[4]		(2,354)		(1,250)
Contribution Deficiency (Excess)	$	(2,354)	$	(1,250)
Covered-Employee Payroll[2]	$	-	$	-
Contributions as a Percentage of Covered-Employee Payroll[2]		0.00%		0.00%

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.

[2] Covered-Employee Payroll represents total payroll of employees that are provided pensions through the pension plan.

[3] The District's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The District's proportionate share of aggregate contributions is based on the District's proportion of fiduciary net position in the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

[4] Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.

(1) 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.

(2) Change in Benefit Terms - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014, as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes). The District does not have separately financed employer-specific liabilities at June 30, 2016.

(3) Change in Assumptions - GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of June 30, 2015 (measurement date) to correct the adjustment which previously reduced the discount rate for administrative expense.