THREE ARCH BAY COMMUNITY SERVICES DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

THREE ARCH BAY COMMUNITY SERVICES DISTRICT

LAGUNA BEACH, CALIFORNIA

JUNE 30, 2018

MEMBER	OFFICE	TERM EXPIRES
Rhoads Martin	President	December 2018
Alan Anderson	Director	December 2020
Tim Hamchuk	Director	December 2018
Elizabeth Gapp	Director	December 2020
Gary Rubel	Director	December 2020

ADMINISTRATION

Nicki Roknifard	Contracted Manager

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THREE ARCH BAY COMMUNITY SERVICES DISTRICT

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FINANCIAL SECTION

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DENNIS COOPER AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and major fund of Three Arch Bay Community Services District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Three Arch Bay Community Services District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Three Arch Bay Community Services District's 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 major fund of Three Arch Bay Community Services District, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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DENNIS COOPER

AND

ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, pension schedules, and OPEB schedules on pages 25–28, respectively, 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.

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 Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information

Dennis Cooper & Associates C.P.A.s

October 12, 2018

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GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION
JUNE 30, 2018

	General Fund	Adjustments (Note 2-A.)	Statement of Net Position
ASSETS			
Cash and cash equivalents	$ 1,014,247	$ -	$ 1,014,247
Accrued receivables	79,586	78,775	158,361
Prepaid expenditures	134	-	134
Investments	3,985,879	59,000	4,044,879
Nondepreciable capital assets	-	82,566	82,566
Depreciable capital assets, net	-	3,677,504	3,677,504
Total Assets	5,079,846	3,897,845	8,977,691
DEFERRED OUTFLOWS OF RESOURCES	-	2,800	2,800
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 5,079,846	$ 3,900,645	$ 8,980,491
LIABILITIES			
Accrued payables	$ 60,855	$ -	$ 60,855
Unearned revenue	90,106	-	90,106
Long-term liabilities, non-current	-	18,700	18,700
Total Liabilities	150,961	18,700	169,661
FUND BALANCE / NET POSITION			
Fund Balance			
Non-spendable, prepaid reservation	134	(134)	-
Unassigned	4,928,751	(4,928,751)	-
Net Position			
Net investment in capital assets	-	3,760,070	3,760,070
Unrestricted	-	5,050,760	5,050,760
Total Fund Balance / Net Position	4,928,885	3,881,945	8,810,830
TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCE / NET POSITION	$ 5,079,846	$ 3,900,645	$ 8,980,491

The accompanying notes are an integral part of these financial statements

THREE ARCH BAY COMMUNITY SERVICES DISTRICT

GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Adjustments (Note 2-B.)	Statement of Activities
REVENUE			
Property taxes, general purpose	$ 1,504,912	$ -	$ 1,504,912
Property assessments, general purpose	415,705	31,056	446,761
Grants and contributions not restricted to specific programs	7,688	-	7,688
Revenue from use of money	64,433	13,631	78,064
Other revenues	246	-	246
Total Revenue	1,992,984	44,687	2,037,671
EXPENDITURES / EXPENSES			
Current:			
Benefits	1,930	(1,300)	630
Services	1,184,774	-	1,184,774
Depreciation	-	75,331	75,331
Capital Outlay	46,516	(46,516)	-
Total Expenditures / Expenses	1,233,220	27,515	1,260,735
Excess (Deficiency) of Revenue over Expenditures/Expenses	759,764	17,172	776,936
OTHER FINANCING SOURCES/USES			
Special items, loss on cancellation of projects	-	(14,072)	(14,072)
NET CHANGE IN FUND BALANCE / NET POSITION	759,764	3,100	762,864
Fund Balance / Net Position - Beginning (Restated)	4,169,121	3,878,845	8,047,966
Fund Balance / Net Position - Ending	$ 4,928,885	$ 3,881,945	$ 8,810,830

The accompanying notes are an integral part of these financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 - A. Financial Reporting Entity

Three Arch Bay Community Services District was formed on June 17, 1957, under the provisions of the Community Services District Law, Government Code §61000, et seq. The District maintains the storm drain system and furnishes security services to the residents of the District, located in Laguna Beach, California

There is a five-person elected board of trustees, which serves as the governance to the District.

1 - B. Basis of Presentation

Government-wide Statements. The statement of net position and the statement of activities display information about the District. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

Fund Financial Statements. The fund financial statements provide information about the District's only fund, the general fund.

Combined Fund and Government-Wide Statements. Governments engaged in a single governmental program may combine their fund financial statements with their government-wide statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column.

The District presents the combined governmental fund balance sheet/statement of net position, and combined statement of governmental fund revenues, expenditures, and changes in fund balances/statement of activities. The explanations for the reconciliation items in the "Adjustments" column are not provided on the face of the statement, but instead are disclosed in the notes. The District realigns the statement of activities to be compatible with the fund financial statement format.

Major Governmental Funds

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in other funds. The general fund is always a major fund and GASB has defined other major funds based on percentage thresholds. However, management has the discretion to include funds, which are of particular importance to financial statement users.

1 - C. Basis of Accounting – Measurement Focus

Government-wide. The government-wide statement is 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 when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes and assessments. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

Governmental Fund Financial Statements. Governmental funds 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 governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

1 - D. Assets, Liabilities, and Net Position

Fair Value. 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 the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2018:

- Investments of $4.0 million are valued using quoted market prices (Level 1 inputs)

Acquisition Value. The price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date.

Prepaid Items.
Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Accrued Receivables
The District considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year.

Capital Assets
Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at acquisition value. The District maintains a capitalization threshold of $5,000. Infrastructure assets are long-lived capital assets that are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Depreciation of capital assets is computed and recorded by the straight-line method over the following estimated useful life:

Asset Class	Estimated Useful Life
Infrastructure (including storm drains)	35-95
Improvements (gates)	20
Equipment (including entrance security, vehicles, entrance security, and cameras	3 – 10

Unearned Revenue. Amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met. Under the modified accrual basis of accounting, such amounts are measurable but not available. For the District there is $90,106 in user fees that were "pre-paid" by the residents, as of June 30, 2018.

Accrued Liabilities
All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

Fund Balances
The fund balance for governmental funds is reported in classifications based on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable. The resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable include prepaid assets.

Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

1 - E. <u>Revenue and Expenditures/Expenses</u>

Property Tax Calendar
Property taxes are government mandated non-exchange transactions and are recognized when all eligibility requirements have been met. Secured property taxes are levied on or before the first business day of September of each year, and become a lien on real property on March 1 proceeding the fiscal year for which taxes are levied. These tax payments can be made in two equal installments; the first is due on November 1 and delinquent with penalties after December 10; the second is due on February 1 and delinquent with penalties after April 10. The County of Orange bills and collects the taxes on behalf of the District. The District recognizes property tax revenues as reported by the Orange County Auditor-Controller.

Expenses/Expenditures.
On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Estimates
The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data
Per Government Code §61110, on or before July 1 of each year or, for districts using two one-year budgets or a biennial budget, every other year, the board of directors may adopt a preliminary budget that conforms to generally accepted accounting and budgeting procedures for special districts.

The board of directors may divide the preliminary budget into categories, including, but not limited to Maintenance and operation, Services and supplies, Employee compensation, Capital outlay, Interest and redemption for indebtedness, Designated reserve for capital outlay, Designated reserve for contingencies.

On or before July 1 of each year or, for districts using two one-year budgets or a biennial budget, every other year, the board of directors shall publish a notice stating either that it has adopted a preliminary budget or that the general manager has prepared a proposed final budget which is available for inspection at a time and place within the district specified in the notice; and the date, time, and place when the board of directors will meet to adopt the final budget and that any person may appear and be heard regarding any item in the budget or regarding the addition of other items. The board of directors shall publish the notice at least two weeks before the hearing in at least one newspaper of general circulation in the district pursuant to Government Code § 6061.

At the time and place specified for the hearing, any person may appear and be heard regarding any item in the budget or regarding the addition of other items. The hearing on the budget may be continued from time to time.

On or before September 1 of each year or, for districts using two one-year budgets or a biennial budget, every other year, the board of directors shall adopt a final budget that conforms to generally accepted accounting and budgeting procedures for special districts. The general manager shall forward a copy of the final budget to the auditor of each county in which the district is located.

1 - F. New Accounting Pronouncements

The Governmental Accounting Standards Board ("GASB") has issued the following standards:

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.
- GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.* The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.
- GASB Statement No. 84, *Fiduciary Activities*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.
- GASB Statement No. 85, *Omnibus 2017*. The provisions of this Statement are effective for periods beginning after June 15, 2017. Earlier application is encouraged.
- GASB Statement No. 87, *Leases.* Effective Date: For reporting periods beginning after December 15, 2019.

For specific details about the standards, please see www.gasb.org.

NOTE 2 – EXPLANATION OF DIFFERENCES BETWEEN THE FUND FINANCIAL STATEMENTS AND DISTRICT-WIDE FINANCIAL STATEMENTS

2 - A. Governmental Funds Balance Sheet and Statement of Net Position

Total Fund Balance - Governmental Funds		$ 4,928,885
Amounts reported for assets, deferred outflows of resources, liabilities, and deferred inflows of resources for governmental activities in the statement of net position are different from amounts reported in governmental funds because:		
Capital assets:		
In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:		
Capital assets relating to governmental activities, at historical cost:	$ 4,355,813	
Accumulated depreciation:	(595,743)	3,760,070
Deferred recognition of earned but unavailable revenues:		
In governmental funds, revenue is recognized only to the extent that it is "available," meaning it will be collected soon enough after the end of the period to finance expenditures of that period. Receivables for revenues that are earned but unavailable are deferred until the period in which the revenues become available. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenues that were deferred in governmental funds, but are recognized in the government-wide statements, is:		78,775
Long-term liabilities:		
In governmental funds, only current assets and liabilities are reported. In the statement of net position, all assets and liabilities, including long-term liabilities, are reported. Long-term items relating to governmental activities consist of:		
Net Pension (Liability)/Asset ("NPL")		59,000
Net OPEB Obligation		(18,700)
Deferred outflows and inflows of resources relating to pensions:		
In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.		
Deferred outflows of resources relating to pensions		2,800
Total Net Position - Governmental Activities:		$ 8,810,830

2 - B. Governmental Funds Operating Statements and the Statement of Activities

Net Changes in Fund Balances - Total Governmental Funds		$ 759,764
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:		
Capital outlay:		
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:		
Expenditures for capital outlay:	$ 46,516	
Depreciation expense:	(75,331)	(28,815)
Earned but unavailable revenues:		
In governmental funds, revenues are recognized only to the extent that they are "available," meaning they will be collected soon enough after the end of the period to finance expenditures of that period. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of earned but unavailable revenues relating to the current period, less revenues that became available in the current period but related to a prior period, is:		31,056
Pensions:		
In government funds, pension costs are recognized when employer contributions are made. in the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:		13,631
Postemployment benefits other than pensions (“OPEB”):		
In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:		1,300
Cost write-off for canceled capital projects:		
If a planned capital project is canceled and will not be completed, costs previously capitalized as Work in Progress must be written off to expense. Costs written off for canceled projects were:		(14,072)
Change in Net Position of Governmental Activities:		$ 762,864

NOTE 3 – DEPOSITS AND INVESTMENTS

3 - A. Summary of Deposit and Investment Balances

	Governmental Activities
Deposits in financial institutions	$ 698,857
Mutual funds	315,390
Total Cash and Cash Equivalents	$ 1,014,247

3 - B. Policies and Practices

Allowable investment instruments per Government Code §s 16340, 16429.1, 53601, 53601.8, 53635, 53635.2, 53635.8, and 53638.

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations— CA And Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper— Pooled Funds	270 days	40% of the agency's money	Highest letter and number rating by an NRSROH
Commercial Paper— Non-Pooled Funds	270 days	25% of the agency's money	Highest letter and number rating by an NRSROH
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	None	None
Placement Service Deposits	5 years	30%	None
Placement Service Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 daysL	20% of the base value of the portfolio	None
Medium-Term Notes	5 years	30%	"A" rating category or its equivalent or better
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass–Through Securities	5 years	20%	"AA" rating category or its equivalent or better R
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 years	30%	"AA" rating category or its equivalent or better

3 - C. Cash Deposits

Custodial Credit Risk. There is a risk that, in the event of a bank failure, the District's deposits may not be returned. The District's deposit policy requires that all deposits are covered by the Federal Depository Insurance Corporation ("FDIC") or are collateralized as required by Statutes of the State. As of June 30, 2018, the carrying amount of the District's bank deposits was $698,857, and the respective bank balances totaled $674,813. Of the total bank balance, $378,018 was insured through the FDIC. The remaining $296,795 was collateralized with pooled securities held by the financial institutions' trust departments. These securities are held in the name of the financial institution and not that of the District.

3 - D. Investments

Investments	S &P Rating	Fair Value	Maturities in years < 1
U.S. Treasuries	AA+	$ 2,064,228	$ 2,064,228
U.S. agencies	AA+	1,921,651	1,921,651
Total Investments		$ 3,985,879	$ 3,985,879

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's $3,985,879 investments' underlying securities are held by the investment's counterparty.

There is a risk that, in the event of a counterparty failure, the District's investments may not be returned. As of June 30, 2018, the carrying amount of the District's investments was $3,985,879. Of the total investment balance, $1,000,000 was insured through the Securities Investor Protection Corporation ("SIPC"). The remaining $ was collateralized with pooled securities held by the financial institutions' trust departments. These securities are held in the name of the financial institution and not that of the District.

NOTE 4 – ACCRUED RECEIVABLES

Receivables at June 30, 2018, were as follows:

	General Fund	Entity-Wide	Total Governmental Activities
Taxes	$ 22,767	$ -	$ 22,767
User fees	40,553	78,775	119,328
Interest	16,266	-	16,266
Total Accrued Receivables	$ 79,586	$ 78,775	$ 158,361

All receivables are considered collectible in full, by management.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018

	Balance Jul. 01, 2017	Additions	Deletions	Balance Jun. 30, 2018
Capital Assets Not Being Depreciated				
Construction in progress	$ 70,111	$ 26,527	$ 14,072	$ 82,566
Capital Assets Being Depreciated				
Infrastructure	$ 4,052,876	$ -	$ -	$ 4,052,876
Improvements	27,625	-	-	27,625
Equipment	172,757	19,989	-	192,746
Total assets being depreciated	4,253,258	19,989	-	4,273,247
Less Accumulated Depreciation				
Infrastructure	386,978	53,381	-	440,359
Improvements	2,763	1,381	-	4,144
Equipment	130,671	20,569	-	151,240
Total accumulated depreciation	520,412	75,331	-	595,743
Total Capital Assets Being Depreciated, Net	$ 3,732,846	$ (55,342)	$ -	$ 3,677,504

NOTE 6 – ACCRUED PAYABLES

Payables at June 30, 2018, were as follows:

	General Fund
Vendors	$ 60,805
Credit card	50
Total Accrued Payables	$ 60,855

NOTE 7 – DEFINED BENEFIT PENSION

7 - A. General Information about the Pension Plan

Plan Description
The California Public Employees' Retirement System ("CalPERS" or the System) is a cost-sharing, multiple-employer defined benefit public pension fund. CalPERS provides retirement benefit services for state, school, and public employers. Governed by a 13-member Board of Administration consisting of member-elected, appointed, and ex officio members. Established by legislation in 1931, the System became operational in 1932 to provide retirement to state employees. In 1939, new legislation allowed public agency and classified school employees to join CalPERS for retirement benefits. The benefits for the public agencies are established by contract with the System, in accordance with the provisions of the Public Employees' Retirement Law. CalPERS issues a publicly available financial report that can be obtained at https://www.calpers.ca.gov/docs/forms-publications/cafr-2017.pdf.

For accounting purposes only, Public Employees' Retirement Fund ("PERF") is comprised of and reported as three separate entities. PERF A is comprised of agent multiple-employer plans, which includes the State of California and most public agencies' rate plans with more than 100 active members. PERF B is a cost-sharing multiple employer plan of school employers consisting of non-teaching and non-certified employees. PERF C is a cost-sharing multiple-employer plan of public agencies with generally less than 100 active members. The District's NPL is a part of PERF B

Benefits Provided
The benefits for the defined benefit plans are based on members' years of service, age, final compensation, and benefit formula. The District's part of the Miscellaneous Plan risk pool, with a benefit formula of 2.0% @ 55 (more detailed calculation can be found in Appendix B in Section 2 of the Risk Pool Valuation Report. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years (10 years for state Second Tier members) of credited service. All non-state Second Tier members are eligible to receive cost-of-living (COLA) adjustments up to a maximum of 2 percent compounded annually (up to 5 percent maximum as a contract option for retired members of local agencies). State Second Tier members are eligible for a COLA of 3 percent fixed compounded annually.

Contributions
The CalPERS Annual Valuation Report for Three Arch Bay Community Services District as of June 30, 2015, reported 2016-17 required employer contributions to be 0.0% of creditable salaries for the "Employer Normal Cost Rate," plus $0 the "Employer Payment of Unfunded Liability." The report also reported an employee contribution rate of 0%. Contributions to the pension plan from the District was $0 for the year ended June 30, 2018.

7 - B. Pension Asset, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported an asset of $59,000 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension asset was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating agencies, actuarially determined. The District's proportion was calculated as follows:

	Jun. 30, 2017	Jun. 30, 2016	Difference
Miscellaneous Plan:			
Total Pension Liability Allocation Basis	0.0000018	0.0000042	-0.0000024
Fiduciary Net Position Allocation Basis	0.0000074	0.0000104	-0.0000030

For the year ended June 30, 2018, the District recognized pension revenue of $13,631. At June 30, 2018, the District reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Changes of assumptions	$ 1,100
Differences between expected and actual experience	(100)
Net difference between projected and actual earnings on pension plan investments	300
Changes in proportion and differences between District contributions and proportionate share of contributions	1,500
Total	$ 2,800

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

Year ended June 30:	
2019	$ 1,300
2020	1,300
2021	400
2022	(200)
Total	$ 2,800

7 - C. Actuarial Assumptions and Discount Rate Information

Actuarial Assumptions

The June 30, 2016 valuation was rolled forward to determine the June 30, 2017 total pension liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method:	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial Assumptions:	
Discount Rate:	7.15%
Inflation rate	2.75%
Salary increases	Varies by Entry Age and Service
Mortality Rate Table [1]	Derived using CalPERS membership data for all funds
Post-Retirement Benefit Increase	Contract COLA up to 2.75% until PPPA 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, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report may be accessed on the CalPERS website at www.calpers.ca.gov under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the 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. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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 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 (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), 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 PERF 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 equal 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. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	Current Target Allocation	Real Return Years 1 – 10 [1]	Real Return Years 11+ [2]
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	(0.40%)	(0.90%)

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (-100 basis points) or one percentage point higher (+100 basis points) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension asset	$ 92,000	$ 59,000	$ 32,000

Pension Plan Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS Comprehensive Annual Financial Report.

NOTE 8 – POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description
The District's defined benefit OPEB plan, provides OPEB for all permanent full-time employees of the District. The plan is a single-employer, defined benefit OPEB plan administered by the District and CalPERS. **No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75**.

Benefits Provided
The Postemployment Benefit Plan (the "Plan) is a single-employer defined benefit healthcare plan administered by Cal PERS. The Plan offers the following benefits:

Benefit types provided	Medical only
Duration of Benefits	Life of retiree
Required Service	5 years creditable service
Minimum Age	55
District Contribution	$133.00 for calendar year 2017 and $136 for calendar year 2018

Employees Covered by Benefit Terms
At June 30, 2018, the membership consisted of one retiree receiving benefits and NO active employees.

OPEB Liability
The District's OPEB liability was measured as June 30, 2018, and the OPEB liability was measured in conformity with the requirements in GASB No. 75, paragraphs 225 and 226 for the alternative measurement method.

Measurement Assumptions and Other Inputs
The OPEB liability in the June 30, 2018 valuation was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation Rate:	1.70%, based on https://my.spindices.com/indices/fixed-income/sp-municipal-bond-20-year-high-grade-rate-index
Discount Rate:	1.38%, https://data.bls.gov/timeseries/CUUR0000SA0L1E?output_view=pct_12mths
Mortality:	CalPERS Mortality Rate, Miscellaneous

The CalPERS Miscellaneous assumptions can be downloaded at:
https://www.calpers.ca.gov/docs/public-agencies-schools-assumption-methods.xlsx

Changes in the Total OPEB Liability

Restated Balances at July 01, 2017	$	20,000
Changes for the year:		
Interest		300
Benefit payments		(1,600)
Net changes		(1,300)
Balances at June 30, 2018	$	18,700

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate
The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (0.38%)	Current Discount Rate (1.38%)	1% Increase (2.38%)
District's proportionate share of the net OPEB liability	$ 19,900	$ 18,700	$ 17,600

OPEB Expense
For the year ended June 30, 2018, the District recognized an OPEB expense of $1,300.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Litigation
The District has been named in various pending or threatened litigation. The ultimate outcome/resolution of these matters is not known at this time. The District is monitoring the progress of these matters and has referred various matters to the District's attorney for consultation and representation.

NOTE 10 – RELATED PARTY TRANSACTIONS

The District entered into a management services agreement and a lease with the Three Arch Bay Association ("Association"), a legally separate, but geographically related entity. Under the management services agreement, the Association provides administrative services to the District, and the lease provides for facilities, as well as, right of ways and other easements. The District paid $189,289 and $48,497, respectively, to the Association for the year ended June 30, 2018.

NOTE 11– RESTATEMENT

Due to the implementation of GASB Statement Nos. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the prior period adjustments of net position consist of the following:

	Statement of Net Position
Net Position, June 30, 2017	$ 8,067,966
Increase In:	
OPEB	(20,000)
Restated Beginnig Net Position	$ 8,047,966

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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, 2018

	Budgeted Amounts			Variance with Final Budget - Positive / (Negative)
	Original	Final	Actual	
REVENUE				
Property taxes, general purpose	$ 1,388,200	$ 1,388,200	$ 1,504,912	$ 116,712
Property assessments, general purpose	360,000	360,000	415,705	55,705
Grants and contributions not restricted to specific programs	5,050	5,050	7,688	2,638
Revenue from use of money	52,100	52,100	64,433	12,333
Other revenues	-	-	246	246
Total Revenue	1,805,350	1,805,350	1,992,984	187,634
EXPENDITURES				
Current:				
Benefits	2,500	2,500	1,930	570
Services	1,084,100	1,084,100	1,184,774	(100,674)
Capital Outlay	260,000	260,000	46,516	213,484
Total Expenditures	1,346,600	1,346,600	1,233,220	113,380
NET CHANGE IN FUND BALANCE	458,750	458,750	759,764	301,014
Fund Balance - Beginning	4,169,121	4,169,121	4,169,121	
Fund Balance - Ending	$ 4,627,871	$ 4,627,871	$ 4,928,885	$ 301,014

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION ASSET AND RELATED RATIOS

	2018	2017	2016	2015	2014
Miscellaneous Plan:					
District's proportion of the net pension (asset)	$ (59,000)	$ (55,000)	$ (59,000)	$ (57,000)	$ (44,000)
District's proportionate share of the net pension (asset)	-0.001%	-0.002%	-0.002%	-0.002%	-0.001%
District's covered payroll	-	-	-	-	-
District's proportionate share of the net pension (asset) as a percentage of its covered payroll	0%	0%	0%	0%	0%
Plan fiduciary net position as a percentage of the total pension (asset)	75%	76%	80%	81%	74%

The amounts presented for each fiscal year were determined as of June 30 of the prior fiscal year

THREE ARCH BAY COMMUNITY SERVICES DISTRICT

SCHEDULE OF PENSION CONTRIBUTIONS

	2018	2017	2016	2015	2014
Miscellaneous Plan:					
Contractually required contribution	$ -	$ -	$ -	$ -	$ -
Contributions in relation to the contractually required contribution	-	-	(2,354)	(1,250)	-
Contribution deficiency (excess)	$ -	$ -	$ (2,354)	$ (1,250)	$ -
District's covered payroll	-	-	-	-	-
Contributions as a percentage of covered payroll	0%	0%	0%	0%	0%

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

		2018
Changes for the year:		
Interest	$	300
Benefit payments		(1,600)
Net Changes in Total OPEB Liability		(1,300)
Total OPEB Liability - Beginning		20,000
Total OPEB Liability - Ending	$	18,700