

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**

**FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2016**

**ORIGINAL**



**SAN MIGUEL COMMUNITY SERVICES DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**FINANCIAL SECTION**







Moss, Levy & Hartzheim LLP  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Directors of San Miguel Community Services District  
San Miguel, California

### Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the San Miguel Community Services District (District), as of and for the fiscal 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.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Because of the matter described in the following paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions.

### Basis for Disclaim of Opinion

The District did not review bank reconciliations and the journal entries involved with bank reconciliations. The District did not properly record accounts payable. The District did not properly allocate the administration expenses. Accordingly, it was not practicable for us to extend our audit beyond the amounts recorded.

### Disclaimer of Opinion

Because of the significance of the matters discussed in the preceding paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions. Accordingly, we do not express opinions on these basic financial statements.

## **Emphasis of Matter**

### *Changes in Accounting Principles*

As discussed in note 2 to the basic financial statements effective July 1, 2015, the San Miguel Community Services District adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Applications*. 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 budgetary comparison information on pages 33 and 34, the schedule of funding progress for postemployment benefits on page 35, the schedule of proportionate share of net pension liability on pages 36, and the schedule of pension contributions on pages 37 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries of the basis 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 management's discussion and analysis that accounting principles generally accepted in the United State of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2017, on our consideration of the San Miguel Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Moss, Remy & Hutzheim LLP*

Santa Maria, California  
December 7, 2017

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF NET POSITION**  
June 30, 2016

|   | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> | <u>Total</u>        |
|---|------------------------------------|-------------------------------------|---------------------|
| <b>ASSETS</b>                           |                                    |                                     |                     |
| Cash and investments                    | \$ 742,083                         | \$ 1,281,209                        | \$ 2,023,292        |
| Accounts receivable, net                | 2,892                              | 56,973                              | 59,865              |
| Internal balances                       | (8,263)                            | 8,263                               |                     |
| Capital assets:                         |                                    |                                     |                     |
| Non Depreciable:                        |                                    |                                     |                     |
| Land                                    | 76,926                             | 61,774                              | 138,700             |
| Construction in progress                | 4,378                              | 344,026                             | 348,404             |
| Depreciable:                            |                                    |                                     |                     |
| Buildings, structures, and improvements | 618,634                            | 7,864,292                           | 8,482,926           |
| Equipment                               | 1,154,734                          | 337,364                             | 1,492,098           |
| Accumulated depreciation                | (1,184,636)                        | (2,730,173)                         | (3,914,809)         |
| Total assets                            | <u>1,406,748</u>                   | <u>7,223,728</u>                    | <u>8,630,476</u>    |
| <b>DEFERRED OUTFLOW OF RESOURCES</b>    |                                    |                                     |                     |
| Deferred pensions                       | 11,073                             | 44,290                              | 55,363              |
| Total deferred outflow or resources     | <u>11,073</u>                      | <u>44,290</u>                       | <u>55,363</u>       |
| <b>LIABILITIES</b>                      |                                    |                                     |                     |
| Accounts payable                        | 17,790                             | 140,555                             | 158,345             |
| Accrued liabilities                     | 6,236                              | 3,999                               | 10,235              |
| Accrued interest payable                |                                    | 27,607                              | 27,607              |
| Deposits                                | 2,000                              | 13,765                              | 15,765              |
| Noncurrent liabilities:                 |                                    |                                     |                     |
| Due within one year                     |                                    | 89,145                              | 89,145              |
| Due in more than one year               | 34,736                             | 1,748,307                           | 1,783,043           |
| Total liabilities                       | <u>60,762</u>                      | <u>2,023,378</u>                    | <u>2,084,140</u>    |
| <b>DEFERRED INFLOW OF RESOURCES</b>     |                                    |                                     |                     |
| Deferred pensions                       | 6,400                              | 25,600                              | 32,000              |
| Total deferred inflow or resources      | <u>6,400</u>                       | <u>25,600</u>                       | <u>32,000</u>       |
| <b>NET POSITION</b>                     |                                    |                                     |                     |
| Net investment in capital assets        | 670,036                            | 4,178,775                           | 4,848,811           |
| Restricted for:                         |                                    |                                     |                     |
| Fire and emergency services             | 380,757                            |                                     | 380,757             |
| Street lighting                         | 329,929                            |                                     | 329,929             |
| Capital expansion                       |                                    | 535,560                             | 535,560             |
| Debt service                            |                                    | 158,127                             | 158,127             |
| Unrestricted                            | (30,063)                           | 346,578                             | 316,515             |
| Total net position                      | <u>\$ 1,350,659</u>                | <u>\$ 5,219,040</u>                 | <u>\$ 6,569,699</u> |

The notes to basic financial statements are an integral part of this statement.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended June 30, 2016

|                                       | <u>Expenses</u>     | <u>Charges for Services</u> | <u>Program Revenues</u><br><u>Operating Contributions and Grants</u> |
|---------------------------------------|---------------------|-----------------------------|--|
| <b>Governmental activities:</b>       |                     |                             |  |
| Public safety                         | \$ 268,550          | \$ 123,222                  | \$ -   |
| Street lighting                       | 50,632              |                             |  |
| Depreciation (unallocated)            | 58,341              |                             |  |
| <b>Total governmental activities</b>  | <u>377,523</u>      | <u>123,222</u>              |  |
| <b>Business-type activities:</b>      |                     |                             |  |
| Water                                 | 704,908             | 367,252                     |  |
| Wastewater treatment project          | 535,924             | 374,621                     |  |
| <b>Total business-type activities</b> | <u>1,240,832</u>    | <u>741,873</u>              |  |
| <b>Total governmental</b>             | <u>\$ 1,618,355</u> | <u>\$ 865,095</u>           | <u>\$ -</u>  |

**General Revenues:**

- Taxes:
  - Property
  - Other
- Investment income
- Other general revenues

**Total general revenues and transfers**

Change in net position

Net position - beginning of fiscal year

Prior period adjustments

Net position - beginning of fiscal year, restated

Net position - end of fiscal year

The notes to basic financial statements are an integral part of this statement.

Net (Expenses) Revenue and Changes in Net Position

| <u>Capital<br/>Contributions<br/>and Grants</u> | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> | <u>Total</u>        |
|---|------------------------------------|-------------------------------------|---------------------|
| \$ -  | \$ (145,328)                       | \$ -                                | \$ (145,328)        |
|   | (50,632)                           |                                     | (50,632)            |
|   | (58,341)                           |                                     | (58,341)            |
|   | (254,301)                          |                                     | (254,301)           |
| 252,950   |                                    | (84,706)                            | (84,706)            |
| 282,610   |                                    | 121,307                             | 121,307             |
| 535,560   |                                    | 36,601                              | 36,601              |
| <u>\$ 535,560</u>                               | <u>(254,301)</u>                   | <u>36,601</u>                       | <u>(217,700)</u>    |
|   | 371,641                            | 142,277                             | 513,918             |
|   | 1,039                              | 4,740                               | 5,779               |
|   | 24,613                             | 16,878                              | 41,491              |
|   | 397,293                            | 163,895                             | 561,188             |
|   | 142,992                            | 200,496                             | 343,488             |
|   | 1,250,219                          | 4,977,797                           | 6,228,016           |
|   | (42,552)                           | 40,747                              | (1,805)             |
|   | 1,207,667                          | 5,018,544                           | 6,226,211           |
|   | <u>\$ 1,350,659</u>                | <u>\$ 5,219,040</u>                 | <u>\$ 6,569,699</u> |

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
June 30, 2016

|                                      | <u>Fire<br/>Fund</u> | <u>Street Lighting<br/>Fund</u> | <u>Totals</u>     |
|--------------------------------------|----------------------|---------------------------------|-------------------|
| <b>ASSETS</b>                        |                      |                                 |                   |
| Cash and investments                 | \$ 411,882           | \$ 330,201                      | \$ 742,083        |
| Accounts receivable                  | <u>1,446</u>         | <u>1,446</u>                    | <u>2,892</u>      |
| Total assets                         | <u>\$ 413,328</u>    | <u>\$ 331,647</u>               | <u>\$ 744,975</u> |
| <b>LIABILITIES AND FUND BALANCES</b> |                      |                                 |                   |
| Liabilities:                         |                      |                                 |                   |
| Accounts payable                     | \$ 16,072            | \$ 1,718                        | \$ 17,790         |
| Accrued liabilities                  | 6,236                |                                 | 6,236             |
| Deposits                             | 2,000                |                                 | 2,000             |
| Due to other funds                   | <u>8,263</u>         |                                 | <u>8,263</u>      |
| Total liabilities                    | <u>32,571</u>        | <u>1,718</u>                    | <u>34,289</u>     |
| Fund Balances:                       |                      |                                 |                   |
| Restricted:                          |                      |                                 |                   |
| Fire and emergency services          | 380,757              |                                 | 380,757           |
| Street lighting                      |                      | <u>329,929</u>                  | <u>329,929</u>    |
| Total fund balances                  | <u>380,757</u>       | <u>329,929</u>                  | <u>710,686</u>    |
| Total liabilities and fund balances  | <u>\$ 413,328</u>    | <u>\$ 331,647</u>               | <u>\$ 744,975</u> |

The notes to basic financial statements are an integral part of this statement.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS - BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
 June 30, 2016

Total fund balances - governmental funds \$ 710,686

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 at historical cost | \$ | 1,854,672          |
| Accumulated depreciation          |    | <u>(1,184,636)</u> |

Net 670,036

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported.

Long-term liabilities relating to governmental activities consist of:

|   |    |               |
|---|----|---------------|
| Compensated absences payable              | \$ | 3,819         |
| Other post employment benefits obligation |    | 1,908         |
| Net pension liability                     |    | <u>29,009</u> |

Total (34,736)

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.

4,673

Total net position - governmental activities \$ 1,350,659

The notes to basic financial statements are an integral part of this statement.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2016

|   | <u>Fire<br/>Fund</u> | <u>Street Lighting<br/>Fund</u> | <u>Totals</u>     |
|---|----------------------|---------------------------------|-------------------|
| <b>Revenues:</b>                                    |                      |                                 |                   |
| Property taxes                                      | \$ 291,174           | \$ 80,467                       | \$ 371,641        |
| Service charges and fees                            | 68,005               |                                 | 68,005            |
| Public facilities fees and assessments              | 55,217               |                                 | 55,217            |
| Investment income                                   | 832                  | 207                             | 1,039             |
| Miscellaneous income                                | 20,812               | 3,801                           | 24,613            |
| <b>Total revenues</b>                               | <u>436,040</u>       | <u>84,475</u>                   | <u>520,515</u>    |
| <b>Expenditures:</b>                                |                      |                                 |                   |
| Salaries and wages                                  | 107,251              | 8,233                           | 115,484           |
| Payroll taxes and benefits                          | 13,199               | 3,643                           | 16,842            |
| Contract labor                                      | 3,813                | 3,818                           | 7,631             |
| Workers compensation                                | 13,373               | 4,498                           | 17,871            |
| Maintenance and repairs                             | 17,102               | 2,868                           | 19,970            |
| Miscellaneous                                       | 6,923                | 35                              | 6,958             |
| Office supplies and expense                         | 4,535                | 3,176                           | 7,711             |
| Supplies  | 33,000               | 207                             | 33,207            |
| Professional services                               | 32,233               | 9,391                           | 41,624            |
| Dues, permits and fees                              | 13,484               | 139                             | 13,623            |
| Communications                                      | 11,331               | 557                             | 11,888            |
| Employee travel and training                        | 3,455                | 191                             | 3,646             |
| Utilities   | 1,768                | 13,775                          | 15,543            |
| Bank fees   | 1,814                | 220                             | 2,034             |
| Capital outlay                                      | 147,661              | 3,910                           | 151,571           |
| Debt Service  |                      |                                 |                   |
| Principal   | 69,097               |                                 | 69,097            |
| Interest  | 5,832                |                                 | 5,832             |
| <b>Total expenditures</b>                           | <u>485,871</u>       | <u>54,661</u>                   | <u>540,532</u>    |
| <b>Excess of revenues over (under) expenditures</b> | <u>(49,831)</u>      | <u>29,814</u>                   | <u>(20,017)</u>   |
| Fund balances - July 1                              | 430,588              | 311,922                         | 742,510           |
| Prior period adjustments                            |                      | (11,807)                        | (11,807)          |
| Fund balances - July 1, restated                    | <u>430,588</u>       | <u>300,115</u>                  | <u>730,703</u>    |
| <b>Fund balances - June 30</b>                      | <u>\$ 380,757</u>    | <u>\$ 329,929</u>               | <u>\$ 710,686</u> |

The notes to basic financial statements are an integral part of this statement.



**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended June 30, 2016

|  |                   |
|--|-------------------|
| Total net change in fund balances - governmental funds   | \$ (20,017)       |
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$151,571 is more than depreciation expense \$(58,341) in the period. | 93,230            |
| In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, vacation earned exceeded the amounts used by \$1,704.    | (1,704)           |
| In the statement of activities, postemployment benefits are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, benefits earned exceeded the amounts used by \$1,908. | (1,908)           |
| In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Payment of note payable principal was \$69,097.  | 69,097            |
| In governmental 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:  | <u>4,294</u>      |
| Changes in net position - governmental activities  | <u>\$ 142,992</u> |

The notes to basic financial statements are an integral part of this statement.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**  
June 30, 2016

|   | Wastewater<br>Fund  | Water<br>Fund       | Totals              |
|---|---------------------|---------------------|---------------------|
| <b>ASSETS</b>                                   |                     |                     |                     |
| Current assets:                                 |                     |                     |                     |
| Cash and investments                            | \$ 623,847          | \$ 657,362          | \$ 1,281,209        |
| Accounts receivable, net                        | 28,975              | 27,923              | 56,898              |
| Interest receivable                             |                     | 75                  | 75                  |
| Due from other funds                            | 52,932              |                     | 52,932              |
| Total current assets                            | <u>705,754</u>      | <u>685,360</u>      | <u>1,391,114</u>    |
| Noncurrent assets:                              |                     |                     |                     |
| Capital assets, net of accumulated depreciation | 1,328,180           | 4,549,103           | 5,877,283           |
| Total noncurrent assets                         | <u>1,328,180</u>    | <u>4,549,103</u>    | <u>5,877,283</u>    |
| Total assets                                    | <u>2,033,934</u>    | <u>5,234,463</u>    | <u>7,268,397</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>           |                     |                     |                     |
| Deferred pensions                               | 22,145              | 22,145              | 44,290              |
| Total deferred outflows of resources            | <u>22,145</u>       | <u>22,145</u>       | <u>44,290</u>       |
| <b>LIABILITIES</b>                              |                     |                     |                     |
| Current liabilities:                            |                     |                     |                     |
| Accounts payable                                | 61,257              | 79,298              | 140,555             |
| Accrued liabilities                             | 3,007               | 992                 | 3,999               |
| Accrued interest payable                        | 3,641               | 23,966              | 27,607              |
| Deposits payable                                | 5,150               | 8,615               | 13,765              |
| Due to other funds                              |                     | 44,669              | 44,669              |
| Note payable - current portion                  |                     | 37,905              | 37,905              |
| Bond payable - current portion                  | 35,000              | 16,240              | 51,240              |
| Total current liabilities                       | <u>108,055</u>      | <u>211,685</u>      | <u>319,740</u>      |
| Noncurrent liabilities:                         |                     |                     |                     |
| Compensated absences                            | 7,639               | 7,639               | 15,278              |
| Note payable                                    |                     | 346,739             | 346,739             |
| OPEB payable                                    | 3,815               | 3,815               | 7,630               |
| Bond payable                                    | 125,000             | 1,137,624           | 1,262,624           |
| Net pension liability                           | 58,018              | 58,018              | 116,036             |
| Total noncurrent liabilities                    | <u>194,472</u>      | <u>1,553,835</u>    | <u>1,748,307</u>    |
| Total liabilities                               | <u>302,527</u>      | <u>1,765,520</u>    | <u>2,068,047</u>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>            |                     |                     |                     |
| Deferred pensions                               | 12,800              | 12,800              | 25,600              |
| Total deferred inflows of resources             | <u>12,800</u>       | <u>12,800</u>       | <u>25,600</u>       |
| <b>NET POSITION</b>                             |                     |                     |                     |
| Net investment in capital assets                | 1,168,180           | 3,010,595           | 4,178,775           |
| Restricted for debt service                     | 94,993              | 63,134              | 158,127             |
| Restricted for capital expansion                | 282,610             | 252,950             | 535,560             |
| Unrestricted (deficit)                          | 194,969             | 151,609             | 346,578             |
| Total net position                              | <u>\$ 1,740,752</u> | <u>\$ 3,478,288</u> | <u>\$ 5,219,040</u> |

The notes to basic financial statements are an integral part of this statement.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
For the Fiscal Year Ended June 30, 2016

|   | Wastewater<br>Fund  | Water<br>Fund       | Totals              |
|---|---------------------|---------------------|---------------------|
| <b>Operating Revenues:</b>                |                     |                     |                     |
| Utility                                   | \$ 374,621          | \$ 367,252          | \$ 741,873          |
| Total operating revenues                  | <u>374,621</u>      | <u>367,252</u>      | <u>741,873</u>      |
| <b>Operating Expenses:</b>                |                     |                     |                     |
| Salaries and wages                        | 152,936             | 166,967             | 319,903             |
| Payroll taxes and benefits                | 24,978              | 28,557              | 53,535              |
| Contract labor                            | 4,698               | 4,530               | 9,228               |
| Workers compensation                      | 13,404              | 13,412              | 26,816              |
| Maintenance and repairs                   | 57,929              | 58,014              | 115,943             |
| Insurance                                 | 6,579               |                     | 6,579               |
| Miscellaneous                             | 293                 | 1,955               | 2,248               |
| Office supplies and expense               | 11,277              | 12,857              | 24,134              |
| Supplies                                  | 15,907              | 26,107              | 42,014              |
| Professional services                     | 93,233              | 131,367             | 224,600             |
| Dues, permits and fees                    | 21,562              | 5,964               | 27,526              |
| Communications                            | 3,569               | 2,925               | 6,494               |
| Employee travel and training              | 3,043               | 3,308               | 6,351               |
| Utilities                                 | 62,507              | 29,831              | 92,338              |
| Bank fees                                 | 2,467               | 2,450               | 4,917               |
| Depreciation                              | 48,124              | 154,112             | 202,236             |
| Total operating expenses                  | <u>522,506</u>      | <u>642,356</u>      | <u>1,164,862</u>    |
| Operating income (loss)                   | <u>(147,885)</u>    | <u>(275,104)</u>    | <u>(422,989)</u>    |
| <b>Non-Operating Revenues (Expenses):</b> |                     |                     |                     |
| Property taxes and assessments            | 90,951              | 51,326              | 142,277             |
| Investment income                         | 2,078               | 2,662               | 4,740               |
| Other non-operating revenue               | 4,808               | 12,070              | 16,878              |
| Interest expense                          | (13,418)            | (62,552)            | (75,970)            |
| Total non-operating revenues (expenses)   | <u>84,419</u>       | <u>3,506</u>        | <u>87,925</u>       |
| <b>Capital Contributions:</b>             |                     |                     |                     |
| Connection fees                           | 282,610             | 252,950             | 535,560             |
| Change in net position                    | <u>219,144</u>      | <u>(18,648)</u>     | <u>200,496</u>      |
| Net position (deficit) - July 1           | 1,489,340           | 3,488,457           | 4,977,797           |
| Prior period adjustments                  | 32,268              | 8,479               | 40,747              |
| Net position (deficit) - July 1, restated | <u>1,521,608</u>    | <u>3,496,936</u>    | <u>5,018,544</u>    |
| Net position (deficit) - June 30          | <u>\$ 1,740,752</u> | <u>\$ 3,478,288</u> | <u>\$ 5,219,040</u> |

The notes to basic financial statements are an integral part of this statement.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
For the Fiscal Year Ended June 30, 2016

|  | Wastewater<br>Fund | Water<br>Fund     | Totals              |
|--|--------------------|-------------------|---------------------|
| <b>Cash Flows From Operating Activities:</b>                         |                    |                   |                     |
| Receipts from customers  | \$ 320,466         | \$ 363,113        | \$ 683,579          |
| Payments to suppliers  | (454,342)          | (211,485)         | (665,827)           |
| Payments to employees  | (159,147)          | (197,459)         | (356,606)           |
| Net cash provided (used) by operating activities                     | <u>(293,023)</u>   | <u>(45,831)</u>   | <u>(338,854)</u>    |
| <b>Cash Flows From Capital and Related Financing Activities:</b>     |                    |                   |                     |
| Acquisition of capital assets  | (69,369)           | (253,714)         | (323,083)           |
| Capital contributions  | 282,610            | 252,950           | 535,560             |
| Principal paid on capital debt                                       | (30,000)           | (52,321)          | (82,321)            |
| Interest paid on capital debt  | (9,777)            | (38,586)          | (48,363)            |
| Net cash provided (used) by capital and related financing activities | <u>173,464</u>     | <u>(91,671)</u>   | <u>81,793</u>       |
| <b>Cash Flows from Noncapital Financing Activities:</b>              |                    |                   |                     |
| Property taxes and assessments                                       | 90,951             | 51,326            | 142,277             |
| Other revenue  | 4,808              | 12,070            | 16,878              |
| Net cash provided (used) by noncapital financing activities          | <u>95,759</u>      | <u>63,396</u>     | <u>159,155</u>      |
| <b>Cash Flows From Investing Activities:</b>                         |                    |                   |                     |
| Interest income  | 2,078              | 2,587             | 4,665               |
| Net cash provided (used) by investing activities                     | <u>2,078</u>       | <u>2,587</u>      | <u>4,665</u>        |
| Net increase (decrease) in cash and cash equivalents                 | (21,722)           | (71,519)          | (93,241)            |
| Cash and cash equivalents - July 1                                   | 645,569            | 728,881           | 1,374,450           |
| Cash and cash equivalents - June 30                                  | <u>\$ 623,847</u>  | <u>\$ 657,362</u> | <u>\$ 1,281,209</u> |
| <b>Reconciliation to Statement of Net Position:</b>                  |                    |                   |                     |
| Cash and investments   | <u>\$ 623,847</u>  | <u>\$ 657,362</u> | <u>\$ 1,281,209</u> |

(Continued)

The notes to basic financial statements are an integral part of this statement.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS (Continued)**  
For the Fiscal Year Ended June 30, 2016

|   | Wastewater<br>Fund  | Water<br>Fund      | Totals              |
|---|---------------------|--------------------|---------------------|
| <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b> |                     |                    |                     |
| Operating income (loss)   | \$ (147,885)        | \$ (275,104)       | \$ (422,989)        |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities  |                     |                    |                     |
| Depreciation expense  | 48,124              | 154,112            | 202,236             |
| Change in assets, liabilities, deferred inflows of resources, and deferred outflows of resources:     |                     |                    |                     |
| Receivables, net  | (2,000)             | (2,952)            | (4,952)             |
| Due from other funds  | (52,932)            |                    | (52,932)            |
| Deferred outflows   | (9,557)             | (9,557)            | (19,114)            |
| Accounts payable  | 49,962              | 68,906             | 118,868             |
| Accrued liabilities   | (2,270)             | (26,551)           | (28,821)            |
| Deposits  | 777                 | (1,187)            | (410)               |
| Due to other funds  | (182,858)           | 40,886             | (141,972)           |
| Compensated absences  | 830                 | 830                | 1,660               |
| OPEB payable  | 3,815               | 3,815              | 7,630               |
| Net pension liability   | 7,953               | 7,953              | 15,906              |
| Deferred inflows  | (6,982)             | (6,982)            | (13,964)            |
| Net cash provided (used) by operating activities  | <u>\$ (293,023)</u> | <u>\$ (45,831)</u> | <u>\$ (338,854)</u> |

The notes to basic financial statements are an integral part of this statement.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. The Financial Reporting Entity

The San Miguel Community Services District (District) is a multi-purpose special district established on February 1, 2000, by the consolidation of the San Miguel Fire Protection District, which was established in 1941, the Water Works District #1, and the San Miguel Lighting District. The San Miguel Sanitation District was dissolved in April 2001 and incorporated into the San Miguel Community Services District. The District is a political subdivision of the State of California and operates under a Board of Directors- Manager form of government. The District provides fire protection, street lighting, water, wastewater, solid waste, and general administrative services.

There are no component units included in this report which meet the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39 and No. 61.

B. Basis of Presentation

*Fund Financial Statements:*

The fund financial statements provide information about the District's funds. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories with each major fund displayed in a separate column.

**Major Funds**

The District reported the following major governmental funds in the accompanying financial statements:

Fire Fund - This fund accounts for activities of the Fire Station. The fire department provides fire suppression, emergency paramedic services, and fire prevention including public education.

Street Lighting Fund – The fund accounts for activities for the maintenance of the Street lights in San Miguel.

The District reports the following major proprietary funds in the accompanying financial statements:

Water Fund - This fund accounts for the operation and maintenance of the District's water distribution system. The water department is responsible for the operation and maintenance of five groundwater supply wells providing treatment, monitoring, and distribution services.

Wastewater Fund – This fund accounts for the operation and maintenance of the District's wastewater system.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

On the government-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item "b" below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds are accounted for using a "current financial resources" measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. All proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or non-current) associated with the operation of these funds are reported. Proprietary fund equity is classified as net position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District defines available to be within 60 days of fiscal year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for principal and interest on long term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent that they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds for governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest, and charges for services. Certain indirect costs are included in program expenses reported for individual functions and activities.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal revenues and expenses. 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. Property Taxes

The County levies, bills, and collects property taxes and special assessments for the District. Property taxes levied are recorded as revenue in the fiscal year of levy, due to the adoption of the "alternate method of property tax distribution," known as the Teeter Plan, by the District and the County. The Teeter Plan authorizes the Auditor/Controller of the County to allocate 100% of the secured property taxes billed, excluding unitary tax (whether paid or unpaid). The County remits tax monies to the District every month and twice a month in December and April. The final amount which is "teetered" is remitted in August each year.

Tax collections are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls, which constitute a lien against the property, may be paid in two installments; the first is due November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the tax becomes delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payment.

Property valuations are established by the Assessor of the County for the secured and unsecured property tax rolls. Under the provisions of Article XIII A of the State Constitution, properties are assessed at 100% of purchase price or value in 1978 whichever is later. From this base assessment, subsequent annual increases in valuation are limited to a maximum of 2 percent. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax levy dates are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property, as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Cash and Investments**

The District pools the cash of all funds, except for monies that are reserved for specific purposes. The cash and investments balance in each fund represents that fund's equity share of the District's cash and investment pool.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on month-end balances. Interest income on restricted cash and investments with fiscal agents is credited directly to the related fund.

The District's investments are carried at fair value. The fair value of equity and debt securities is determined based on sales prices or bid-and-asked quotations from Securities and Exchange Commission (SEC) registered securities exchanges or NASDAQ dealers. The County Treasurer of San Luis Obispo County determines the fair value of their portfolio quarterly and reports a factor to the District. Changes in fair value are allocated to each participating fund.

For purposes of the statement of cash flows, the District has defined cash and cash equivalents to be change and petty cash funds, equity in the District's cash and investment pool, and restricted non-pooled investments with initial maturities of three months or less.

**F. Accounts and Interest Receivable**

In the government-wide statements, receivables consist of all revenues earned at fiscal year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts if applicable, and estimated refunds due. Major receivable balances for the governmental activities may include sales taxes, property taxes, grants, and other fees, if any. Business-type activities report utilities as their major receivables.

In the fund financial statements, material receivables in governmental funds may include revenue accruals such as franchise tax, grants, service charges and other similar intergovernmental revenues that are both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned and if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at fiscal year-end and not yet received. Utility accounts receivable and interest earnings comprise the majority of proprietary fund receivables. The fiduciary fund receivables primarily consist of tax assessments.

**G. Prepaid Expenses**

Payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

**H. Restricted Assets**

Funds that are under the control of external parties are restricted.

**I. Capital Assets**

The accounting treatment over property, plant, and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations. The presentation and recording of governmental assets are described below.

*Government-Wide Statements*

In the government-wide financial statements, capital assets with a historical cost of \$5,000 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, if any, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets.



SAN MIGUEL COMMUNITY SERVICES DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets (Continued)

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

|                                   |            |
|-----------------------------------|------------|
| Buildings                         | 40 years   |
| Improvements other than buildings | 5-25 years |
| Equipment and systems             | 5-30 years |

*Fund Financial Statements*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are capitalized when purchased.

J. Accumulated Compensated Absences

Compensated absences comprise unused vacation leave, sick leave, and compensatory time off, which are accrued as earned. Vacation can accrue no more than a maximum of two times their annual entitlement to vacation pay. Upon termination, all accumulated vacation hours can be paid for the regular employees. The District's liability for the current and long-term portions of compensated absences is shown in the government-wide Statement of Net Position for both governmental funds and proprietary funds. Only proprietary funds reflect the long-term portion in the fund financials report, Statement of Net Position. The short-term portion is reflected for both governmental and proprietary funds in the fund financial statements. Computation was based on rates in effect as of the fiscal year-end.

K. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing source, and the proprietary fund types report long-term debt and other long-term obligations as liabilities.

L. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category, refer to Note 8 for a detailed listing of the deferred outflows of resources the District has recognized.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 8 for a detailed listing of the deferred inflows of resources the District has recognized.

M. Interfund Transactions

Following is a description of the three basic types of interfund transactions that can be made during the fiscal year and the related accounting policies:

1. Interfund services provided and used - transactions for services rendered or facilities provided. These transactions are recorded as revenues in the receiving fund and expenditures in the disbursing fund.
2. Reimbursements (expenditure transfers) - transactions to reimburse a fund for specific expenditures incurred for the benefit of another fund. These transactions are recorded as expenditures in the disbursing fund and a reduction of expenditures in the receiving fund.
3. Transfers - all interfund transactions which allocate resources from one fund to another fund. These transactions are recorded as transfers in and out.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Equity Classifications

*Government-Wide Statements*

GASB Statement No. 63 requires that the difference between assets and the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is *net investment in capital assets* consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. *Restricted net position* is the portion of the net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. *Unrestricted net position* consists of net position that does not meet the definition of net investments in capital assets or restricted net position.

O. Fund Balances

Fund balance of the governmental fund is classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the District.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Q. New Accounting Pronouncements**

Governmental Accounting Standards Board Statement No. 72

For the fiscal year ended June 30, 2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application." This Statement is effective for periods beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *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. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Implementation of the GASB Statement No. 72 and the impact on the District's financial statements are explained in Note 2 – Cash and Investments.

**P. Future Accounting Pronouncements**

GASB Statements listed below will be implemented in future financial statements:

|                  |   |  |
|------------------|---|--|
| Statement No. 74 | "Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans"          | The provisions of this statement are effective for fiscal years beginning after June 15, 2016.     |
| Statement No. 75 | "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"      | The provisions of this statement are effective for fiscal years beginning after June 15, 2017.     |
| Statement No. 77 | "Tax Abatement Disclosures"   | The provisions of this statement are effective for fiscal years beginning after December 15, 2015. |
| Statement No. 78 | "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"       | The provisions of this statement are effective for fiscal years beginning after December 15, 2015. |
| Statement No. 79 | "Certain External Investment Pools and Pool Participants"                                 | The provisions of this statement are effective for fiscal years beginning after December 15, 2015. |
| Statement No. 80 | "Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14" | The provisions of this statement are effective for fiscal years beginning after June 15, 2016.     |
| Statement No. 81 | "Irrevocable Split-Interest Agreements"   | The provisions of this statement are effective for fiscal years beginning after December 15, 2016. |
| Statement No. 82 | "Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"               | The provisions of this statement are effective for fiscal years beginning after June 15, 2017.     |

**Q. Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employees' Retirement System (CALPERS) (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CALPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**R. Use of Estimates**

The financial statements have been prepared in accordance with principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by Management. Actual results could differ from these amounts.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 – CASH AND INVESTMENTS**

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2016, the District had the following cash and investments on hand:

|   |                                   |
|---|-----------------------------------|
| Cash in checking accounts                           | \$ 1,107,416                      |
| Cash in savings account                             | 500                               |
| Cash in money market account                        | 609,337                           |
| Cash and investments with County of San Luis Obispo | 168,148                           |
| Investments   | 137,891                           |
| <b>Total</b>  | <b><u><u>\$ 2,023,292</u></u></b> |

Cash and investments listed above are presented on the accompanying basic financial statements, as follows:

|                      |                                   |
|----------------------|-----------------------------------|
| Cash and investments | <u>\$ 2,023,292</u>               |
| <b>Total</b>         | <b><u><u>\$ 2,023,292</u></u></b> |

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. These principles recognize a three-tiered fair value hierarchy. 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 had investments in the San Luis Obispo County Investment Pool, however, that external pool is not measured under Level 1, 2, or 3.

The District has the following recurring fair value measurements as of June 30, 2016:

| Investments by fair value level                 | Fair Value Measurement Using                                   |   |   |
|---|--|---|---|
|   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Negotiable certificate of deposit               | \$ 136,902   | \$ 136,902                                    | \$ -                                      |
| Mutual funds                                    | 989  | 989   | -   |
| <b>Total investments measured at fair value</b> | <b><u><u>\$ 137,891</u></u></b>                                | <b><u><u>\$ 137,891</u></u></b>               | <b><u><u>\$ -</u></u></b>                 |

Investments of the District are governed by the California Government Code and by the District's investment policy. The General Manager of the District acts as the District Finance Officer and Treasurer who is tasked to perform investment functions in accordance with the investment policy. The objectives of the policy are safety, liquidity, yield, and compliance with State and Federal laws and regulations.

Investments of the District as of June 30, 2016

The table below identifies the investment types the District has that are authorized for the District by the California Government Code or the District's investment policy, where more restrictive, that addresses interest rate risk, credit risk, and concentration of credit risk.

| Authorized Investment Type         | Maximum Maturity | Maximum Percentage Of Portfolio | Maximum Investment in One Issuer |
|------------------------------------|------------------|---------------------------------|----------------------------------|
| Local Agency Bonds                 | 5 years          | 25%                             | None                             |
| U.S. Treasury Obligations          | 5 years          | 70%                             | None                             |
| Federal Agency Securities          | 5 years          | 60%                             | 20%                              |
| Commercial Paper                   | 270 days         | 20%                             | 25%                              |
| Negotiable Certificates of Deposit | 4 years          | 20%                             | 25%                              |
| Repurchase and Reserve             |                  |                                 |                                  |
| Repurchase Agreements              | 1 year           | 20% of base value               | 25%                              |
| Medium-Term Notes                  | 4 years          | 20%                             | 25%                              |
| Mutual Funds                       | N/A              | 15%                             | 25%                              |
| Money Market Mutual Funds          | N/A              | None                            | None                             |
| County Pooled Investment Fund      | N/A              | 40%                             | None                             |
| Local Agency Investment Fund       | N/A              | 60%                             | None                             |

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District's interest rate risk is mitigated is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2016:

| Investment Type                        | Carrying Amount   | Remaining Maturity (in Months) |              |                   |                     |
|--|-------------------|--------------------------------|--------------|-------------------|---------------------|
|  |                   | 12 Months Or Less              | 13-24 Months | 25-60 Months      | More than 60 Months |
| Negotiable certificates of deposit     | \$ 136,902        | \$ -                           | \$ -         | \$ 136,902        | \$ -                |
| Mutual funds                           | 989               | 989                            |              |                   |                     |
| San Luis Obispo County Investment Pool | 168,148           | 168,148                        |              |                   |                     |
|  | <u>\$ 306,039</u> | <u>\$ 169,137</u>              | <u>\$ -</u>  | <u>\$ 136,902</u> | <u>\$ -</u>         |

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The District has no investments that are highly sensitive to interest rate fluctuations.

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 nationally recognized statistical rating organizations. Presented below is the minimum rating required by (where applicable) the California Government Code, the investment policy, or debt agreements, and the actual rating as of the fiscal year ended June 30, 2016 for each investment type.

| Investment Type                        | Carrying Amount   | Minimum Legal Rating | Rating as of Fiscal Year End |             |             |                   |
|--|-------------------|----------------------|------------------------------|-------------|-------------|-------------------|
|  |                   |                      | AAA                          | AA+         | AA-         | Not Rated         |
| Negotiable certificates of deposit     | \$ 136,902        | N/A                  | \$ -                         | \$ -        | \$ -        | \$ 136,902        |
| Mutual funds                           | 989               |                      |                              |             |             | 989               |
| San Luis Obispo County Investment Pool | 168,148           | N/A                  |                              |             |             | 168,148           |
|  | <u>\$ 306,039</u> |                      | <u>\$ -</u>                  | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 306,039</u> |

Concentration of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments is as follows:

| Investment Type                      | Reported Amount |
|--------------------------------------|-----------------|
| Negotiable certificates of deposit * | \$ 136,902      |

\*- The percentage did not adhere to the District's investment policy.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District investment policy do 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 government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Deposits are insured up to \$250,000.

At June 30, 2016, none of the District's deposits with financial institutions in excess of Federal depository insurance limits were held in uncollateralized accounts.

**NOTE 3 – INTERFUND TRANSACTIONS**

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Due From/Due to Other Funds

Individual fund interfund receivable and payable balances at June 30, 2016, are as follows:

| <u>Fund</u>              | <u>Interfund<br/>Receivables</u> | <u>Interfund<br/>Payables</u> |
|--------------------------|----------------------------------|-------------------------------|
| Major Governmental Fund: |                                  |                               |
| Fire Fund                | \$ -                             | \$ 8,263                      |
| Proprietary Funds:       |                                  |                               |
| Wastewater Fund          | 52,932                           |                               |
| Water Fund               | <u>          </u>                | <u>44,669</u>                 |
| Totals                   | <u>\$ 52,932</u>                 | <u>\$ 52,932</u>              |

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 4 – CAPITAL ASSETS**

**Governmental activities:**

|   | Balance at<br>July 1, 2015 | Additions        | Deletions   | Balance at<br>June 30, 2016 |
|---|----------------------------|------------------|-------------|-----------------------------|
| Capital assets not being depreciated        |                            |                  |             |                             |
| Land  | \$ 76,926                  | \$ -             | \$ -        | \$ 76,926                   |
| Construction in progress                    | 4,378                      |                  |             | 4,378                       |
| Total capital assets not being depreciated  | <u>\$ 81,304</u>           | <u>\$ -</u>      | <u>\$ -</u> | <u>\$ 81,304</u>            |
| Capital assets being depreciated            |                            |                  |             |                             |
| Buildings, structures, and improvements     | \$ 467,063                 | \$ 151,571       | \$ -        | \$ 618,634                  |
| Equipment                                   | 1,154,734                  |                  |             | 1,154,734                   |
| Total capital assets being depreciated      | <u>1,621,797</u>           | <u>151,571</u>   | <u>-</u>    | <u>1,773,368</u>            |
| Less accumulated depreciation               | <u>1,126,295</u>           | <u>58,341</u>    |             | <u>1,184,636</u>            |
| Total capital assets being depreciated, net | <u>\$ 495,502</u>          | <u>\$ 93,230</u> | <u>\$ -</u> | <u>\$ 588,732</u>           |
| Net capital assets                          | <u>\$ 576,806</u>          | <u>\$ 93,230</u> | <u>\$ -</u> | <u>\$ 670,036</u>           |

**Business-type activities:**

|   | Balance at<br>July 1, 2015 | Additions           | Deletions   | Transfers          | Balance at<br>June 30, 2016 |
|---|----------------------------|---------------------|-------------|--------------------|-----------------------------|
| Capital assets not being depreciated        |                            |                     |             |                    |                             |
| Land  | \$ 61,774                  | \$ -                | \$ -        | \$ -               | \$ 61,774                   |
| Construction in progress                    | 333,876                    | 282,505             |             | (272,355)          | 344,026                     |
| Total capital assets not being depreciated  | <u>\$ 395,650</u>          | <u>\$ 282,505</u>   | <u>\$ -</u> | <u>\$(272,355)</u> | <u>\$ 405,800</u>           |
| Capital assets being depreciated            |                            |                     |             |                    |                             |
| Building and improvements                   | \$ 7,551,679               | \$ 31,282           | \$ -        | \$ 281,331         | \$ 7,864,292                |
| Plant and equipment                         | 337,044                    | 9,296               |             | (8,976)            | 337,364                     |
| Total capital assets being depreciated      | <u>7,888,723</u>           | <u>40,578</u>       |             | <u>272,355</u>     | <u>8,201,656</u>            |
| Less accumulated depreciation               | <u>2,527,937</u>           | <u>202,236</u>      |             |                    | <u>2,730,173</u>            |
| Total capital assets being depreciated, net | <u>\$ 5,360,786</u>        | <u>\$ (161,658)</u> | <u>\$ -</u> | <u>\$ 272,355</u>  | <u>\$ 5,471,483</u>         |
| Net capital assets                          | <u>\$ 5,756,436</u>        | <u>\$ 120,847</u>   | <u>\$ -</u> | <u>\$ -</u>        | <u>\$ 5,877,283</u>         |

**Governmental Activities:**

|  |                  |
|--|------------------|
| Unallocated  | \$ 58,341        |
| Total governmental activities depreciation expense | <u>\$ 58,341</u> |

**Business-type Activities:**

|   |                   |
|---|-------------------|
| Water services                                      | \$ 154,112        |
| Wastewater services                                 | 48,124            |
| Total business-type activities depreciation expense | <u>\$ 202,236</u> |

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 5 – LONG-TERM LIABILITIES**

The following is a summary of changes in the District's long-term liabilities for the fiscal year ended June 30, 2016:

|   | Balance at<br>July 1, 2015 | Additions        | Reductions        | Prior Period<br>Adjustment | Balance at<br>June 30, 2016 | Current<br>Portion |
|---|----------------------------|------------------|-------------------|----------------------------|-----------------------------|--------------------|
| <b>Governmental Activities:</b>           |                            |                  |                   |                            |                             |                    |
| Compensated Absences                      | \$ -                       | \$ 3,654         | \$ 1,950          | \$ 2,115                   | \$ 3,819                    | \$ -               |
| Note Payable                              | 69,097                     |                  | 69,097            |                            |                             |                    |
| Other Post Employment Benefits Obligation |                            | 1,908            |                   |                            | 1,908                       |                    |
| Net Pension Liability                     |                            | 10,270           | 6,294             | 25,033                     | 29,009                      |                    |
| <b>Total Governmental Activities</b>      | <b>\$ 69,097</b>           | <b>\$ 15,832</b> | <b>\$ 8,244</b>   | <b>\$ 27,148</b>           | <b>\$ 34,736</b>            | <b>\$ -</b>        |
| <b>Business-Type Activities:</b>          |                            |                  |                   |                            |                             |                    |
| Compensated Absences                      | \$ 13,618                  | \$ 14,616        | \$ 12,956         | \$ -                       | \$ 15,278                   | \$ -               |
| Notes payable                             | 421,407                    |                  | 36,763            |                            | 384,644                     | 37,905             |
| Bonds payable                             | 1,359,423                  |                  | 45,559            |                            | 1,313,864                   | 51,240             |
| Other Post Employment Benefits Obligation |                            | 7,630            |                   |                            | 7,630                       |                    |
| Net Pension Liability                     |                            | 35,766           | 19,860            | 100,130                    | 116,036                     |                    |
| <b>Total Business-Type Activities</b>     | <b>\$ 1,794,448</b>        | <b>\$ 58,012</b> | <b>\$ 115,138</b> | <b>\$ 100,130</b>          | <b>\$ 1,837,452</b>         | <b>\$ 89,145</b>   |

**NOTE 6 – NOTE PAYABLE**

In October 1994, the District was issued a Note payable from the State of California totaling \$969,969, payable in semiannual payments of \$24,486 with an interest rate of 2.955% due April 1, 2025. At June 30, 2016, the principal balance outstanding was \$384,644. The required note principal and interest payments are as follows:

| For the Fiscal Year<br>Ending June 30 | Principal         | Interest         | Total             |
|---------------------------------------|-------------------|------------------|-------------------|
| 2017                                  | \$ 37,905         | \$ 11,066        | \$ 48,971         |
| 2018                                  | 39,010            | 9,961            | 48,971            |
| 2019                                  | 40,172            | 8,799            | 48,971            |
| 2020                                  | 41,353            | 7,618            | 48,971            |
| 2021                                  | 42,612            | 6,359            | 48,971            |
| 2022-2025                             | 183,592           | 12,430           | 196,022           |
| <b>Total</b>                          | <b>\$ 384,644</b> | <b>\$ 56,233</b> | <b>\$ 440,877</b> |

**NOTE 7 – BONDS PAYABLE**

**2008 Certificate of Participation Bonds**

United States Department of Agriculture Certificate of Participation Bonds were issued on August 1, 2008 totaling \$1,250,000, payable in semiannual payments, with an interest rate of 4.375%, due August 1, 2048. At June 30, 2016, the bonds principal balance outstanding was \$1,153,864. The required bond principal and interest payments are as shown on the following page:



**SAN MIGUEL COMMUNITY SERVICES DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 7 – BONDS PAYABLE (Continued)**

**2008 Certificate of Participation Bonds (Continued)**

| For the Fiscal Year<br>Ending June 30 | Principal           | Interest            | Total               |
|---------------------------------------|---------------------|---------------------|---------------------|
| 2017                                  | \$ 16,240           | \$ 50,126           | \$ 66,366           |
| 2018                                  | 16,950              | 49,400              | 66,350              |
| 2019                                  | 17,692              | 48,642              | 66,334              |
| 2020                                  | 18,466              | 47,852              | 66,318              |
| 2021                                  | 19,274              | 47,026              | 66,300              |
| 2022-2026                             | 109,780             | 221,426             | 331,206             |
| 2027-2031                             | 135,989             | 194,643             | 330,632             |
| 2032-2036                             | 168,456             | 161,466             | 329,922             |
| 2037-2041                             | 208,675             | 120,368             | 329,043             |
| 2042-2046                             | 258,495             | 69,457              | 327,952             |
| 2047-2048                             | 183,847             | 12,294              | 196,141             |
| <b>Total</b>                          | <b>\$ 1,153,864</b> | <b>\$ 1,022,700</b> | <b>\$ 2,176,564</b> |

**1994 Wastewater Series B Bonds**

On June 16, 1994, Wasterwater Series B bonds were issued totaling \$594,977, payable in semiannual payments with an interest rate ranging from 6.75% to 6.85%, due September 2, 2019. At June 30, 2016, the principal balance outstanding was \$160,000. The required principal and interest payments are as follows:

| For the Fiscal Year<br>Ending June 30 | Principal         | Interest         | Total             |
|---------------------------------------|-------------------|------------------|-------------------|
| 2017                                  | \$ 35,000         | \$ 9,733         | \$ 44,733         |
| 2018                                  | 40,000            | 7,183            | 47,183            |
| 2019                                  | 40,000            | 4,453            | 44,453            |
| 2020                                  | 45,000            | 1,541            | 46,541            |
| <b>Total</b>                          | <b>\$ 160,000</b> | <b>\$ 22,910</b> | <b>\$ 182,910</b> |

**NOTE 8 – PENSION PLANS**

**A. General Information about the Pension Plans**

*Plan Descriptions*

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8 – PENSION PLANS (Continued)**

**A. General Information about the Pension Plans (Continued)**

*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. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Pre-Retirement Option Settlement. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Contribution rates are based on the Actuarial Valuation Report as of June 30, 2014. The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

|   | <u>Miscellaneous</u>              |                                      |
|---|-----------------------------------|--------------------------------------|
|   | <u>Classic Member</u>             | <u>New Member</u>                    |
| Hire Date   | Hired Prior to<br>January 1, 2013 | Hired On or after<br>January 1, 2013 |
| Benefit formula                                   | 2.0% @ 55                         | 2% @ 62                              |
| Benefit vesting schedule                          | 5 years service                   | 5 years service                      |
| Benefit payments                                  | monthly for life                  | monthly for life                     |
| Retirement age                                    | 50-63                             | 52-67                                |
| Monthly benefits, as a % of eligible compensation | 1.46% to 2.418%                   | 1.0% to 2.5%                         |
| Required employee contribution rates              | 7%                                | 6.50%                                |
| Required employer contribution rates              | 11.478%                           | 6.65%                                |

*Contributions*

Section 20814(c) of the California Public Employees' Retirement Law 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. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$19,438 for the Miscellaneous Plan for the fiscal year ended June 30, 2016.

**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

At June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net position liability was \$145,045. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability 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 liability 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 Pension Plan participants, actuarially determined. At June 30 2015, the District's proportion was 0.00529%, which decreased by 0.00023% from June 30, 2014.

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$(2,026). Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8 – PENSION PLANS (Continued)**

**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

|   | Deferred Outflows<br>of Resources | Deferred Inflows of<br>Resources |
|---|-----------------------------------|----------------------------------|
| District contributions subsequent to the measurement date   | \$ 19,438                         | \$ -                             |
| Changes in assumptions  |                                   | 15,860                           |
| Differences between expected and actual experience  | 1,676                             |                                  |
| Net difference between projected and actual earnings on retirement plan investments                           |                                   | 7,950                            |
| Adjustment due to differences in proportion   | 25,207                            | 8,190                            |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 9,042                             |                                  |
|   | <u>\$ 55,363</u>                  | <u>\$ 32,000</u>                 |

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

\$19,438 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expenses as follows:

| Fiscal year ending June 30, | Amount          |
|-----------------------------|-----------------|
| 2017                        | \$ (2,744)      |
| 2018                        | (2,213)         |
| 2019                        | (1,284)         |
| 2020                        | 10,166          |
|                             | <u>\$ 3,925</u> |

*Actuarial Assumptions*

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

|                               | Miscellaneous  |
|-------------------------------|--|
| Valuation Date                | June 30, 2014  |
| Measurement Date              | June 30, 2015  |
| Actuarial Cost Method         | Entry-Age Normal Cost Method                             |
| <b>Actuarial Assumptions:</b> |  |
| Discount Rate                 | 7.65%  |
| Inflation                     | 2.75%  |
| Payroll Growth                | 3%   |
| Projected Salary Increase     | Varies by Entry Age and Service                          |
| Investment Rate of Return (1) | 7.50%  |
| Mortality                     | Derived using CalPERS' Membership Data for all Funds (1) |

- (1) Net of pension plan investment and administrative expenses including inflation
- (2) 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.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8 – PENSION PLANS (Continued)**

**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

*Change of 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 expenses. The discount rate was changed from 7.50% (net of administrative expenses in 2014) to 7.65% as of June 30, 2015 to correct the adjustment which previously reduced the discount rate for administrative expenses.

*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 the discount rate for public agency plans (including PERF C), 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 of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 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 7.65 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. 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.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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 pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound 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 were 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 the 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 rates of return are net of administrative expenses.

| Asset Class                   | New Strategic Allocation | Real Return Years 1-10(a) | Real Return Years 11+(b) |
|-------------------------------|--------------------------|---------------------------|--------------------------|
| 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%                   |
| Total                         | 100%                     |                           |                          |

(a) An expected inflation of 2.5% was used for this period.

(b) An expected inflation of 3.0% was used for this period.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8 – PENSION PLANS (Continued)**

**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rate*

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability 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:

|                       |    |         |
|-----------------------|----|---------|
| 1% Decrease           |    | 6.65%   |
| Net Pension Liability | \$ | 237,715 |
| Current Discount Rate |    | 7.65%   |
| Net Pension Liability | \$ | 145,045 |
| 1% Increase           |    | 8.65%   |
| Net Pension Liability | \$ | 68,533  |

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**C. Payable to the Pension Plan**

At June 30, 2016, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2016.

**NOTE 9 – OTHER POST EMPLOYMENT BENEFITS**

Plan Description

The District provides a defined benefit healthcare plan (the "Retiree Health Plan"). The Retiree Health Plan provides healthcare insurance for eligible retirees up until age 65 through the CalPERS Health Benefit Program, which covers both active and retired members. The District only pays 70% of the retiree's premium for health benefits up to \$900.

Funding Policy

The District's Board of Directors will not be funding the plan in the current fiscal year. The Board will review the funding requirements and policy annually.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over the remaining period of 30 years. The following table shows the components of the District's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the its net OPEB obligation to the Retiree Health Plan:

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (Continued)**

Annual OPEB Cost and Net OPEB Obligation (Continued)

|  |                             |
|--|-----------------------------|
| Annual required Contribution                   | \$ 9,538                    |
| Interest on net OPEB obligation                | <u>                    </u> |
| Annual OPEB cost (expense)                     | 9,538                       |
| Contributions made                             | <u>                    </u> |
| Increase in net OPEB obligation                | 9,538                       |
| Net OPEB obligation - beginning of fiscal year | <u>                    </u> |
| Net OPEB obligation - end of fiscal year       | <u><u>\$ 9,538</u></u>      |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the last fiscal year is as follows:

| <u>Fiscal Year</u><br><u>Ending June 30</u> | <u>Annual OPEB</u><br><u>Cost</u> | <u>Actual</u><br><u>Contribution</u> | <u>Percentage of</u><br><u>Annual OPEB Cost</u><br><u>Contributed</u> | <u>Net OPEB</u><br><u>Obligation</u> |
|---|-----------------------------------|--------------------------------------|---|--------------------------------------|
| 2016  | \$ 9,538                          | \$ -                                 | 0%  | \$ 9,538                             |

Funding Status and Funding Progress

As of July 1, 2015, the actuarial accrued liability (AAL) for benefits was \$58,741, all of which is unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer as subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term prospective of the calculations.

In the July 1, 2015 valuation, the level percentage of payroll method was used. The assumptions included a 4% discount rate and interest rate of 4%. The healthcare trend rate was 1% for each future year. The plan's unfunded accrued liability is being amortized over a 30 year- amortization period.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Excess of expenditures over appropriations in individual funds is as follows:

| <u>Fund</u>                  | <u>Excess Expenditures</u> |
|------------------------------|----------------------------|
| <b>Fire Fund</b>             |                            |
| Salaries and wages           | \$ 1,651                   |
| Contract labor               | 3,813                      |
| Workers compensation         | 8,373                      |
| Maintenance and repairs      | 3,102                      |
| Office supplies and expense  | 2,075                      |
| Supplies                     | 5,790                      |
| Professional services        | 16,733                     |
| Dues, permits, and fees      | 7,384                      |
| Employee travel and training | 2,455                      |
| Bank fees                    | 1,814                      |
| Capital outlay               | 3,911                      |
| Debt service- Principal      | 32,097                     |
| Debt service- Interest       | 5,832                      |
| <b>Street Lighting Fund</b>  |                            |
| Payroll taxes and benefits   | \$ 1,946                   |
| Contract labor               | 3,818                      |
| Workers compensation         | 3,998                      |
| Office supplies and expense  | 2,951                      |
| Professional services        | 2,391                      |
| Dues, permits, and fees      | 139                        |
| Employee travel and training | 191                        |
| Bank fees                    | 220                        |
| Capital outlay               | 3,910                      |

**NOTE 11 – CONTINGENCIES AND COMMITMENTS**

According to the District's staff and attorney, no contingent liabilities are outstanding and no lawsuits are pending of any real financial consequence.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 12 – PRIOR PERIOD ADJUSTMENTS**

|  | <u>Statement of Activities</u> |                                 | <u>Fund Statements</u>    |                          |
|--|--------------------------------|---------------------------------|---------------------------|--------------------------|
|  | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Governmental Funds</u> | <u>Proprietary Funds</u> |
| <b>Governmental Funds:</b>   |                                |                                 |                           |                          |
| <b>Street Lighting Fund</b>  |                                |                                 |                           |                          |
| Adjustment was made to reconcile Due to/from other funds from prior years. | \$ (11,807)                    | \$ -                            | \$ (11,807)               | \$ -                     |
| <b>Governmental Long-Term Liabilities:</b>                                 |                                |                                 |                           |                          |
| To record prior year net pension liability and deferred infows/outflows    | (28,630)                       |                                 |                           |                          |
| To record accrued compensation as a long term liability                    | (2,115)                        |                                 |                           |                          |
| <b>Proprietary Funds:</b>  |                                |                                 |                           |                          |
| <b>Water Fund</b>  |                                |                                 |                           |                          |
| To record prior year net pension liability and deferred infows/outflows    |                                | (57,258)                        |                           | (57,258)                 |
| To record prior year balance for debt service fund with County.            |                                | 65,737                          |                           | 65,737                   |
| <b>Wastewater Fund</b>   |                                |                                 |                           |                          |
| To record prior year net pension liability and deferred infows/outflows    |                                | (57,258)                        |                           | (57,258)                 |
| To record prior year balance for debt service fund with County.            |                                | 89,526                          |                           | 89,526                   |
|  | <u>\$ (42,552)</u>             | <u>\$ 40,747</u>                | <u>\$ (11,807)</u>        | <u>\$ 40,747</u>         |



**REQUIRED SUPPLEMENTARY INFORMATION**



**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**FIRE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2016

|   | Budgeted Amounts  |                   | Actual Amounts    | Variance with       |
|---|-------------------|-------------------|-------------------|---------------------|
|   | Original          | Final             |                   | Final Budget        |
|   |                   |                   |                   | Positive (Negative) |
| <b>Revenues:</b>                                |                   |                   |                   |                     |
| Property taxes                                  | \$ 264,548        | \$ 264,430        | \$ 291,174        | \$ 26,744           |
| Service charges and fees                        | 4,700             | 4,700             | 68,005            | 63,305              |
| Public facilities fees and assessments          | 67,000            | 67,000            | 55,217            | (11,783)            |
| Investment income                               |                   |                   | 832               | 832                 |
| Miscellaneous income                            | 9,843             | 5,000             | 20,812            | 15,812              |
| <b>Total revenues</b>                           | <b>346,091</b>    | <b>341,130</b>    | <b>436,040</b>    | <b>94,910</b>       |
| <b>Expenditures:</b>                            |                   |                   |                   |                     |
| Salaries and wages                              | 103,500           | 105,600           | 107,251           | (1,651)             |
| Payroll taxes and benefits                      | 9,880             | 13,330            | 13,199            | 131                 |
| Contract labor                                  |                   |                   | 3,813             | (3,813)             |
| Workers compensation                            | 5,700             | 5,000             | 13,373            | (8,373)             |
| Maintenance and repairs                         | 17,200            | 14,000            | 17,102            | (3,102)             |
| Miscellaneous                                   | 11,000            | 24,651            | 6,923             | 17,728              |
| Office supplies and expense                     | 2,560             | 2,460             | 4,535             | (2,075)             |
| Supplies  | 24,210            | 27,210            | 33,000            | (5,790)             |
| Professional services                           | 4,500             | 15,500            | 32,233            | (16,733)            |
| Dues, permits and fees                          | 6,100             | 6,100             | 13,484            | (7,384)             |
| Communications                                  | 23,220            | 24,220            | 11,331            | 12,889              |
| Employee travel and training                    | 6,000             | 1,000             | 3,455             | (2,455)             |
| Utilities                                       | 5,965             | 2,965             | 1,768             | 1,197               |
| Bank fees                                       |                   |                   | 1,814             | (1,814)             |
| Capital outlay                                  |                   | 143,750           | 147,661           | (3,911)             |
| Debt Service                                    |                   |                   |                   |                     |
| Principal                                       | 37,000            | 37,000            | 69,097            | (32,097)            |
| Interest  |                   |                   | 5,832             | (5,832)             |
| <b>Total expenditures</b>                       | <b>256,835</b>    | <b>422,786</b>    | <b>485,871</b>    | <b>(63,085)</b>     |
| Excess of revenues<br>over (under) expenditures | 89,256            | (81,656)          | (49,831)          | 31,825              |
| <b>Other Financing Sources (Uses)</b>           |                   |                   |                   |                     |
| Transfers in                                    |                   | 33,151            |                   | (33,151)            |
| <b>Total other financing sources (uses)</b>     |                   | <b>33,151</b>     |                   | <b>(33,151)</b>     |
| <b>Net change in fund balance</b>               | <b>89,256</b>     | <b>(48,505)</b>   | <b>(49,831)</b>   | <b>(1,326)</b>      |
| Fund balance - July 1                           | 430,588           | 430,588           | 430,588           |                     |
| <b>Fund balance - June 30</b>                   | <b>\$ 519,844</b> | <b>\$ 382,083</b> | <b>\$ 380,757</b> | <b>\$ (1,326)</b>   |

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**STREET LIGHTING FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
For the Fiscal Year Ended June 30, 2016

|   | Budgeted Amounts  |                   | Actual Amounts    | Variance with<br>Final Budget<br>Positive (Negative) |
|---|-------------------|-------------------|-------------------|--|
|   | Original          | Final             |                   |  |
| <b>Revenues:</b>                                |                   |                   |                   |  |
| Property taxes                                  | \$ 75,229         | \$ 75,229         | \$ 80,467         | \$ 5,238   |
| Investment income                               |                   |                   | 207               | 207  |
| Miscellaneous income                            | 4,381             |                   | 3,801             | 3,801  |
| <b>Total revenues</b>                           | <b>79,610</b>     | <b>75,229</b>     | <b>84,475</b>     | <b>9,246</b>   |
| <b>Expenditures:</b>                            |                   |                   |                   |  |
| Salaries and wages                              | 8,870             | 8,870             | 8,233             | 637  |
| Payroll taxes and benefits                      | 1,697             | 1,697             | 3,643             | (1,946)  |
| Contract labor                                  |                   |                   | 3,818             | (3,818)  |
| Workers compensation                            | 500               | 500               | 4,498             | (3,998)  |
| Maintenance and repairs                         | 6,000             | 6,000             | 2,868             | 3,132  |
| Miscellaneous                                   | 3,613             | 3,613             | 35                | 3,578  |
| Office supplies and expense                     | 225               | 225               | 3,176             | (2,951)  |
| Supplies  | 400               | 400               | 207               | 193  |
| Professional services                           | 3,500             | 7,000             | 9,391             | (2,391)  |
| Dues, permits, and fees                         |                   |                   | 139               | (139)  |
| Communications                                  | 865               | 865               | 557               | 308  |
| Employee travel and training                    |                   |                   | 191               | (191)  |
| Utilities                                       | 20,100            | 16,600            | 13,775            | 2,825  |
| Bank fees                                       |                   |                   | 220               | (220)  |
| Capital outlay                                  |                   |                   | 3,910             | (3,910)  |
| <b>Total expenditures</b>                       | <b>45,770</b>     | <b>45,770</b>     | <b>54,661</b>     | <b>(8,891)</b>                                       |
| Excess of revenues<br>over (under) expenditures | <b>33,840</b>     | <b>29,459</b>     | <b>29,814</b>     | <b>355</b>   |
| <b>Other Financing Sources (Uses)</b>           |                   |                   |                   |  |
| Transfers in                                    | 4,381             | 29,994            |                   | (29,994)   |
| <b>Total other financing sources (uses)</b>     | <b>4,381</b>      | <b>29,994</b>     |                   | <b>(29,994)</b>                                      |
| <b>Net change in fund balance</b>               | <b>38,221</b>     | <b>59,453</b>     | <b>29,814</b>     | <b>(29,639)</b>                                      |
| Fund balance - July 1                           | 311,922           | 311,922           | 311,922           |  |
| Prior period adjustment                         |                   |                   | (11,807)          | (11,807)   |
| Fund balance - July 1, restated                 | 311,922           | 311,922           | 300,115           | (11,807)   |
| Fund balance - June 30                          | <u>\$ 350,143</u> | <u>\$ 371,375</u> | <u>\$ 329,929</u> | <u>\$ (41,446)</u>                                   |

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFITS**  
**OTHER THAN PENSIONS**  
For the Fiscal Year Ended June 30, 2016

The following table provides required supplementary information regarding the District's postemployment healthcare benefits.

**SCHEDULE OF FUNDING PROGRESS**

| Actuarial Valuation Date | Actuarial Accrued Liability (AAL) Entry Age (a) | Actuarial Value of Assets (b) | Unfunded Actuarial Accrued Liability (UAAL) (a-b) | Funded Status (b/a) | Annual Covered Payroll (c) | UAAL as a % of payroll ([a-b]/c) |
|--------------------------|---|-------------------------------|---|---------------------|----------------------------|----------------------------------|
| 7/1/15                   | \$ 58,741                                       | \$ -                          | \$ 58,741   | 0%                  | \$ 114,000                 | 51.5%                            |

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
 Last 10 Years\*  
 As of June 30, 2016

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The following table provides required supplementary information regarding the District's Pension Plan.

|  | <u>2016</u>      | <u>2015</u>      |
|--|------------------|------------------|
| Proportion of the net pension liability  | 0.00211%         | 0.00201%         |
| Proportionate share of the net pension liability   | \$ 145,045       | \$ 125,163       |
| Covered- employee payroll  | \$ 104,896       | \$ 99,676        |
| Proportionate share of the net pension liability as percentage of covered-employee payroll | 138.28%          | 125.57%          |
| Plan's total pension liability   | \$31,771,217,402 | \$30,829,966,631 |
| Plan's fiduciary net position  | \$24,907,305,871 | \$24,607,502,515 |
| Plan fiduciary net position as a percentage of the total pension liability                 | 78.40%           | 79.82%           |

\*- Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**SAN MIGUEL COMMUNITY SERVICES DISTRICT**  
**SCHEDULE OF CONTRIBUTIONS**  
 Last 10 Years\*  
 As of June 30, 2016

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The following table provides required supplementary information regarding the District's Pension Plan.

|  | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| Contractually required contribution (actuarially determined)         | \$ 19,438   | \$ 26,154   |
| Contribution in relation to the actuarially determined contributions | 19,438      | 26,154      |
| Contribution deficiency (excess)                                     | <u>\$ -</u> | <u>\$ -</u> |
| Covered- employee payroll  | \$ 116,592  | \$ 104,896  |
| Contributions as a percentage of covered-employee payroll            | 16.67%      | 24.93%      |

**Notes to Schedule**

|   |  |
|---|--|
| Valuation Date:   | 6/30/2014  |
| Methods and assumptions used to determine contribution rates: |  |
| Actuarial cost method   | Entry Age  |
| Asset valuation method  | 5-year smoothed market   |
| Discount rate   | 7.50%  |
| Price 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   | Derived using CalPERS' Membership data for all funds.  |
| Post Retirement Benefit                                       | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, |
| Valuation Date:   | 6/30/2015  |
| Discount rate   | 7.65%  |

\*- Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

