

**CASTROVILLE COMMUNITY  
SERVICE DISTRICT**

**Auditors' Reports  
Financial Statements  
And  
Supplemental Information**

*For the Year Ended  
June 30, 2014*



**HINRICHER, DOUGLAS & PORTER**  
*Certified Public Accountants*

**Castroville Community Service District**  
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June 30, 2014

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# Castroville Community Service District

## ORGANIZATION

June 30, 2014

### GOVERNING BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>
David Lewis	President
Ron Stefani	Vice-President
Adriana Melgoza	Director
Silvestre Montejano	Director
Betty MacMillan	Director

### ADMINISTRATION

Eric Tynan	General Manager
Lidia Santos	Board Secretary/Office Manager

# Castroville Community Services District



*11499 Geil Street*  
CASTROVILLE, CA 95012

## Management's Discussion and Analysis

As management of the Castroville Community Services District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the Castroville Community Services District for the fiscal year ended June 30, 2014. The Castroville Community Services District's financial management is responsible for preparing the Management's Discussion and Analysis section.

The Castroville Community Services District was formerly the Castroville Water District, a special district formed in 1952 under the County Water District Act for the purpose of installing, operating, and distributing a water supply for the community of Castroville. In May of 2006 the District assumed the assets and liabilities for the sewer and storm drain from CSA 14. In February of 2008 the Castroville Water District and CSA 14 were merged to create the Castroville Community Services District that resulted in acquiring additional services such as street lighting, recreational funding, open space, and street maintenance.

At this time, Monterey County and the community of Castroville are following the Castroville Community Plan, a plan that guides development in Castroville for the next twenty years. This plan would more than double the size of Castroville, adding an additional 1,655 residential units, 40 new light industrial facilities, 50,000 square feet of commercial development, and a new light rail commuter train station.

In summary, the District with all the new services acts much like a small city government, which was in response to the community wanting more local control and accountability. With this merger, the District has doubled its area, and quadrupled its reserves, allowing for no increases in water or sewage fees.

### ENTERPRISE-WATER OPERATIONS

Presently, the District serves more than 7,250 customers through 2,124 water connections in the community of Castroville, which is located in the Salinas Valley in northern Monterey County. The District provides approximately 820 acre-feet of water annually to government, commercial, and residential customers. The District operates three domestic water production wells and the estimated capacity of all three wells is just over 4.4 million gallons per day. The water system encompasses approximately 13 miles of pipeline and includes two water storage tanks with a capacity of 1.1 million gallons. Monitoring wells are strategically placed along the coast to monitor water quality and groundwater levels in the aquifers that make up our water supply. All wells are sampled for over 180 constituents including but not limited to: chlorides, nitrates, total dissolved solids, static water level, and sodium. At this time, the District receives 100 percent of its water from the 400-foot aquifer but has drilled a new well at Well Site #2 that will get its supply from the 900-foot or "deep" aquifer. Unfortunately, this well has arsenic at 23 ppb, and the limit is 10 ppb per the State Water Resource Control Board. A filtration unit will need to be installed to meet the lower standard. The District anticipates arsenic treatment to cost approximately \$800,000 or alternatively we may blend with the existing well at this site to bring the blended water below the 10 ppb level. The District has been awarded a grant for \$581,000 from the California Department of Water Resources from Prop 84 measure to facilitate treatment of this source.

Historically, the District has been wary of salt-water intrusion of its source aquifers. There has been little or no movement in the Castroville area of the salt-water contour since 1997. We believe this is due at least in part to the Castroville Seawater Intrusion Project (CSIP). Well #3 is starting to show signs of seawater intrusion and has been modified to seal off the upper perforations that allowed chlorides to exceed the 500 mg/l limit. The well now has chlorides at 363 mg/l which is below the secondary standard of 500 mg/L. Unfortunately, the current drought has drawn down our well which exacerbates salt water intrusion. Additionally, the District is keeping an eye on the Salinas River Diversion Facility, which started up last year and it is expected that up to 21 supplemental wells will be retired around Castroville due to this project. The results could be twofold: reduced pumping could help restore the aquifer and some of the supplemental agriculture wells may be available for urban usage in the future. Due to the drought, the Salinas River Diversion Facility has not been able to produce water and the results are that the supplemental wells have continued to draw down the aquifer that Castroville depends on. It is probable that the District will lose Well #3 to salt water intrusion in the coming year.

## ENTERPRISE-SEWER OPERATIONS

The District assumed the responsibilities and assets for sewer and storm drain activities on May 1, 2006 from County Service Area 14 (CSA 14). The sewer system incorporates 18 miles of main lines and five lift stations, two located in Castroville (Zone 1) and the other two located in Zone 2. Along with these systems the District acquired a jetter truck, utility truck with a crane, and cash reserves of approximately \$5,060,460. The District has a large reserve fund balance as a result of the sale of a wastewater treatment facility a number of years ago by Castroville Sanitation District to the Monterey Regional Water Pollution Control Agency (MRWPCA); this fund itself generates additional income in the form of interest on principal. The proceeds and interest earned from the sale of the wastewater treatment facility are used to maintain, operate, repair, and construct sewer facilities in Zone 1 necessary to connect to the MRWPCA treatment facilities. For this reason, no sewer user fees are assessed for Castroville (Zone 1) at this time. Also, a new lift station was installed in the new Sea Garden apartments and came on-line in September 2013.

Since 2011, the District has contracted with the County to provide operation and emergency response services to the Moss Landing County Sanitation District at a cost of \$7,000 a month. The District is currently working with LAFCO and Monterey County to consolidate the Moss Landing County Sanitation District with the Castroville Community Services District system. We anticipate completing the consolidation by July 1, 2014.

Moro Cojo (Zone 2) is assessed user fees for sewer. Monte Del Lago Mobile Home Park and North Monterey County High School are also assessed user fees for sewer.

Furthermore, areas with broken or damaged sewer mains were repaired or replaced in past years have resulted in a much more efficient and less costly operation and maintenance program. In addition, a SCADA system control was installed that greatly increased the District's ability to monitor and respond to lift station concerns. Finally, the force mains were all "pigged" in 2008 to clear them of debris. The lift pumps were also repaired or replaced at all the lift stations.

## ENTERPRISE-STORM DRAIN OPERATIONS

Storm Drain user fees are assessed for both Castroville (Zone 1) and Moro Cojo (Zone 2). The storm drain system includes approximately 16 miles of main lines, four Vortec units, and one hundred seventy-eight catch basins. All basins were labeled with "Don't Dump, Flows to Bay." Currently, the District cleans the storm drain basins as needed as well as contracting with a private company for street sweeping every quarter to help keep debris from plugging the storm drain system. In September of 2013, the Union Storm Drain Project was completed in coordination with Monterey County Public Works. The District installed the basins and pipe and Monterey County Public Works put in the street, curb and gutter.

## GOVERNMENTAL-STREET LIGHTS

Street light user fees are assessed for both Castroville (Zone 1) and Moro Cojo (Zone 2). The District is responsible for the electrical cost of these street lights to PG&E. Street lights are not metered and instead charged a flat rate fee, therefore, it is important that the District notify PG&E when a street light needs to be repaired. This fiscal year, 46 street lights have been repaired by PG&E. The District has also replaced the lights, ballasts, and hardware on the crossover walkway in Zone 1. Furthermore, the ballasts and lights on the Castroville overhead sign were repaired and are now lit properly and a bulb-out was installed at the Castroville overhead sign to protect it from truck damage which is also located in Zone 1. Finally, in October 2013 the funds for installing crosswalks along Merritt Street were rescinded when the County failed to extend the contract. This was due to Caltrans taking more than 18 months to review or approve any modifications to the Merritt street traffic flows.

## GOVERNMENTAL-OPEN SPACE

Only Moro Cojo (Zone 2) is assessed user fees for open space. The District is only responsible for open space maintenance on approximately 3 acres fronting the Moro Cojo subdivision (Zone 2). This maintenance is performed twice a year and contracted out to either a qualified contractor or North County Recreation and Park District.

## GOVERNMENTAL-STREET MAINTENANCE

Only Moro Cojo (Zone 2) is assessed user fees for street maintenance. All streets were resurfaced and stop lines and limit lines stenciled for the streets in Moro Cojo during fiscal year 2013-14. For fiscal year 2013-14, damaged street signs were replaced and graffiti was painted over.

## GOVERNMENTAL-RECREATIONAL SERVICES

Recreational Services are extended services authorized to be provided by the District and the District can either provide services to its residents directly or may contract with another public agency to provide such services. Recreational funding is routed through the North County Recreation and Park District (NCRPD). Funds for NCRPD were paid by CSA 14 before it had dissolved. Recreational funding is provided by ad valorem property tax revenues collected for Castroville (Zone 1). For fiscal year ended June 30, 2014, \$138,612 was provided to NCRPD for recreational funding of which \$31,500 was to purchase and install new park equipment at Cato Philips Park. For clarification, revenues from ad valorem property taxes may be used for any purpose the District is authorized to perform.

## CAPITAL IMPROVEMENTS

This fiscal year the District completed the following capital improvement projects:

- Installed a motor at Well Site #3
- Installed and upgraded storm drains and inlets at Union Street and Duran alley
- Acquired the Sea Garden Lift Station
- Installed hardwood flooring in the district office

**Overview of the Financial Statements** This discussion and analysis are intended to serve as an introduction to the Castroville Community Services District's basic financial statements. The Castroville Community Services District's basic financial statements comprise four components:

- 1) government-wide financial statements,
- 2) governmental fund financial statements
- 3) proprietary fund financial statements, and
- 4) notes to the financial statements.

The financial statements presented here include all the activities of the Castroville Community Services District. Governmental Accounting Standards Board (GASB) Statement No. 34 requires that the financial report present the District together with any component units that it has. The District has no component units as described in the GASB Statement.

This report also contains other supplementary information in addition to the basic financial statements themselves. In addition, there are several different types of financial statements within the first three groups identified above.

### *Government-wide financial statements*

The *government-wide financial statements* are designed to provide readers with a broad overview of the Castroville Community Services District finances, in a manner similar to a private-sector business. This *government-wide financial statements* can be found on pages 11-12 of this report. This statement presents a measure of all assets, liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus using the accrual basis of accounting.

The *statement of net assets* presents information on all of the Castroville Community Services District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Castroville Community Services District is improving or deteriorating.

The *statement of activities* presents information showing how the entity's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows (inflows and outflows of cash) in future fiscal periods (e.g., earned but unused vacation leave).

The activities of the Castroville Community Services District are conducted by the District; governed by its own five-person board of directors who are responsible for policy decisions, which govern the operations of the District.

### ***Governmental fund financial statements***

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Castroville Community Services District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Castroville Community Services District uses enterprise fund types of proprietary funds for its business type activities. The Castroville Community Services District uses governmental funds types for its governmental type activities. The Castroville Community Services District uses governmental funds to account for its street light, open space, and street maintenance operations. Ad valorem property taxes are used for recreational services. In addition, as mentioned earlier, revenue from ad valorem property taxes may be used for any purpose the Castroville Community Services District is authorized to perform.

Governmental funds are used to report the same functions presented as governmental-type activities in the government-wide financial statements. The Castroville Community Services District uses governmental funds to account for its general government and recreation activities. Governmental funds financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

Governmental funds provide the same type of information as the government-wide financial statements, only in more detail. The governmental fund financial statements provide separate information for the general government and recreation activities of the Castroville Community Services District.

The basic governmental fund financial statements can be found on pages 13-14 of this report.

### ***Proprietary fund financial statements***

Enterprise funds are used to report the same functions presented as business-type activities. The Castroville Community Services District uses enterprise funds to account for its water, sewer and storm drain operations.

The proprietary fund financial statements provide separate information for the water, sewer, and storm drain operations, which are considered to be the major funds of the Castroville Community Services District. Proprietary funds financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The basic proprietary fund financial statements can be found on pages 15-18 of this report.

### ***Notes to the financial statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes provide a narrative description of certain items contained in the financial statements to enhance the understanding of those items. The notes to the financial statements can be found on pages 19-30 of this report.

### ***Other information***

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Castroville Community Services District's progress in funding its obligations. Required supplementary information can be found on pages 31-34 of this report.

### **Government-wide Financial Analysis – Overall Financial Position**

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the Castroville Community Services District, assets exceeded liabilities by \$14,970,932 at the close of the most recent fiscal year.

By far the largest portion of the Castroville Community Services District's net assets \$9,098,266 (61 percent) reflects unrestricted net assets, which may be used to meet the District's ongoing obligations to citizens and creditors. An additional portion of the Castroville Community

Services District's net assets \$5,065,392 (34 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. The Castroville Community Services District uses these capital assets to provide services to citizens of Castroville. Consequently, these assets are not available for future spending. Although the Castroville Community Services District's investment in its capital assets is reported net of related debt, it is not a spendable resource. The resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net assets of \$807,274 (5 percent), are restricted for special revenue projects and for the Monterey County Assessment Bond.

**Castroville Community Services District**

**Table 1  
Net Assets**

Description	Governmental-Type Activities		Enterprise-Type Activities	
	2014	2013	2014	2013
Cash and other assets	\$ 737,623	\$ 791,017	\$ 9,377,026	\$ 8,546,438
Capital assets	-	-	5,210,392	5,176,019
Total assets	\$ 737,623	\$ 791,017	\$ 14,587,418	\$13,722,457
Other liabilities	\$ 6,634	\$ 6,548	\$ 202,475	\$ 220,153
Long-term liabilities outstanding	-	-	145,000	443,718
Total liabilities	\$ 6,634	\$ 6,548	\$ 347,475	\$663,871
Net assets:				
Investment in Capital Assets	-	-	\$ 5,065,392	\$ 4,732,301
Restricted	\$ 730,989	\$ 784,469	76,285	-
Unrestricted	-	-	\$ 9,098,266	\$ 8,326,285
Total net assets	\$ 730,989	\$ 784,469	\$ 14,239,943	\$13,058,586
Total Liabilities and Net Assets	\$ 737,623	\$ 791,017	\$ 14,587,418	\$13,722,457

At the end of the current fiscal year, the Castroville Community Services District is able to report positive balances in its net assets. The same situation held true for the prior fiscal year.

**Castroville Community Services District**

**Table 2  
Changes in Net assets**

Description	Governmental-Type Activities		Enterprise-Type Activities	
	2014	2013	2014	2013
Program revenues:				
Fines, fees and charges for services	\$ 66,626	\$ 67,194	\$ 1,013,480	\$ 979,064
Operating grants	\$ 6,924	\$ 56,016	-	-
Other general revenues	-	-	\$ 1,679,559	\$835,069
Total Revenues	\$ 73,550	\$ 123,210	\$ 2,693,039	\$ 1,814,133
Expenses	(272,383)	(202,605)	(1,366,329)	(1,253,718)
Transfers in (out)	\$ 145,353	\$ 117,001	(145,353)	(117,001)
Change in net assets	(\$ 53,480)	\$ 37,606	\$ 1,181,357	\$ 443,414
Net Assets, beginning, as restated	\$ 784,469	\$ 746,863	\$13,058,586	\$12,615,172
Net Assets, Ending	\$ 730,989	\$ 784,469	\$14,239,943	\$13,058,586



The District's Governmental-type activities net assets decreased in 2014 compared to 2013. The primary reason is that funds were used for the Moro Cojo Slurry Seal project which cost \$86,955. The Business-type activities reflects an increase in net assets in 2014 compared to 2013. The primary reason for this difference is that in 2014 higher than anticipated general revenue were received due to the dissolution of redevelopment agencies. In addition, there was also the contribution of a sewer lift station valued at \$177,455 added to the net assets. This contribution was recorded as revenue and an addition to the Capital Assets.

*Proprietary funds.* The Castroville Community Services District's proprietary funds provide the same type of information found in the government wide financial statements, but in a classified format. The reason they are similar is that business type activities in the government-wide financial statements are presented on the economic resources measurement same as the Proprietary funds presented in the fund level financial statements.

**Financial Highlights**

The assets of the Castroville Community Services District exceeded its liabilities at the close of the most recent fiscal year by \$14,239,943 (*net assets*) in its business-type activities and \$730,989 for the governmental-type activities.

The Castroville Community Services District's total liabilities decreased primarily due to the \$298,718 reduction in long-term obligations. The note payable with City National Bank was paid in full in November 2013 and scheduled bond payable payments for the Castroville Water Project Assessment District Bonds were paid.

**Analysis of balances and transactions of funds**

The District is a multi-purpose, proprietary entity, and as such, maintains multiple fund types and thus there are interfund balances. The analysis of balances is shown in tables one and two of this report, and in the section labeled "Financial Highlights." For further detailed information refer to "Statement of Activities" on page 12, which reflects changes in net assets as well. Zone 1, Governmental Fund for street lighting and recreational services needed to be augmented by property tax monies that were transferred from the Sewer Fund. Zone 2, Governmental Fund remains in good shape.

**Analysis of variations between original and final budget amounts**

The District adopts its budget in accordance with California law. It is District policy to not modify the budget in total, although certain reallocations of expenditures may occasionally be made. The budget is adopted on a projected cash flow basis. It reflects items such as repayment of debt principal and projected capital expenditures as cash outflows that are not recognized as expenses under Generally Accepted Accounting Principles.

Budget variances are reviewed by District management on an ongoing basis as part of the financial management of the District. Budget variances during the year ended June 30, 2014 for Governmental activity consisted of:

Account	Budget	Actual	Variance	Explanation
<b>Revenues:</b>				
Grant Funding-MSSIP	\$ 5,600	\$ 5,645	\$ 45	Project contract expired October 31, 2013
Investment Earinings	\$ 2,500	\$ 1,597	\$ (903)	Interest earned with LAIF still low
Charges for Services	\$ 65,450	\$ 66,308	\$ 858	Slightly over budgeted amount
<b>Total Revenues:</b>	<b>\$ 73,550</b>	<b>\$ 73,550</b>	<b>-</b>	
<b>Expenditures:</b>				
Street, St Lights & Open Space	\$ 138,900	\$ 130,861	\$ 8,039	Cost under budget for Slurry Seal Project
Recreation	\$ 151,569	\$ 138,612	\$ 12,957	Project delayed pending Caltrans approval
Monterey County-MSSIP	\$ 3,000	\$ 2,910	\$ 90	Project contract expired October 31, 2013
<b>Total Expenditures:</b>	<b>\$ 293,469</b>	<b>\$ 272,383</b>	<b>\$ 21,086</b>	
Excess (Deficiency) of Revenues Over Expenditures	(\$219,919)	(\$198,833)	\$ 21,086	

## Capital Asset and Debt Administration

**Capital assets.** The Castroville Community Services District's investment in capital assets for its business type activities as of June 30, 2014, amounts to \$5,210,392 (net of accumulated depreciation). Investment in capital assets includes, water equipment, pumping equipment, lift station improvements, system improvements to storm drains and building improvements. The development of the new well, Well 5 (formerly Well 2b) is still in progress. Additionally, the Sea Garden sewer lift station was donated to the District. Still, the District had a slightly greater investment in capital assets this year in comparison to last fiscal year.

**Castroville Community Services District**  
**Table 3**  
**Capital Assets**  
**(Net of depreciation)**

Major capital asset events during the current fiscal year included the following:

	2014	2013
Construction in progress	\$ 1,243,739	\$ 1,215,224
Sewer Equipment and Vehicles	791,519	610,166
Buildings and Improvements	659,082	648,301
Project, Wells, and Pipes	7,046,917	6,958,363
	<u>\$ 9,741,257</u>	<u>\$ 9,432,054</u>

Additional information on the Castroville Community Services District's capital assets can be found in Note 3 on page 26.

**Long-term debt.** At the end of the current fiscal year, the Castroville Community Services District had total debt outstanding of \$145,000 comprised of improvement bonds. The bank note payable for the Well 5 (formerly Well 2b) has been paid in full.

**Castroville Community Services District**  
**Table 4**  
**Outstanding Debt**  
**General Obligation and Revenue Bonds**

Description	2014	2013
Castroville Water Project Assessment District	\$ 145,000	\$ 182,000
City National Bank Note Payable – Well 5 (formerly Well 2b)	-	261,718
Totals	<u>\$ 145,000</u>	<u>\$ 443,718</u>

Additional information on the Castroville Community Services District's long-term debt can be found in Note 4 on page 26.

## Infrastructure Assets

The District has adopted the recommended approach of GASB Statement No. 34 with regard to infrastructure assets. All identifiable infrastructure assets have been capitalized at their purchase cost, estimated value for contributed or donated assets, or estimated cost for those items expensed in prior years and not previously capitalized.

### Economic Factors and Next Year's Rates:

- The unemployment rate for Monterey County in which Castroville Community Services District is located is currently 7.0 percent, which is a decrease of 1.2 percent from a rate of 8.2 percent a year ago. This is lower than the state's average unemployment rate at 7.8 percent but higher than the national average rate of 6.2 percent
- The District may consider raising water rates in 2015.

All of these factors were considered in preparing the Castroville Community Services District's budget for the 2014/2015 fiscal year.

The District is required to adopt a budget by California law. Before the Districts adopts its budget, notice is hereby given that the preliminary budgets of the Castroville Community Services District of Monterey County for the fiscal year will be considered for adoption by the Board of Directors and are available at the following time and place within the District for inspection by interested taxpayers.

## Requests for Information

This financial report is designed to provide a general overview of the Castroville Community Services District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Castroville Community Services District, 11499 Geil Street, Castroville, CA 95012.

## **Hinricher, Douglas & Porter, LLP**

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### **Board of Directors**

Castroville Community Service District

Castroville, California

### **Independent Auditors' Report**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Castroville Community Service District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Castroville Community Service District, California, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund and the major special revenue fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2-8 and 32-34 and the Schedule of Funding Progress on page 31 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Castroville Community Service District's basic financial statements. The accompanying combining and individual non-major fund financial statements and schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements of the Castroville Community Service District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, such information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hinricher, Douglas & Porter*

September 22, 2014

# Castroville Community Service District

## Statement of Net Assets

June 30, 2014

ASSETS	Governmental	Business-Type	Total
Cash and Investments	\$ 737,315	\$ 6,825,822	\$ 7,563,137
Restricted Cash	-	76,285	76,285
Investments	-	2,273,978	2,273,978
Accounts Receivable	-	37,070	37,070
Interest Receivable	308	31,125	31,433
Inventory	-	32,415	32,415
Prepaid Expenses	-	8,695	8,695
Organizational Costs	-	91,325	91,325
Bond Issue Cost	-	311	311
Capital Assets			
Nondepreciable, <i>Net</i>	-	1,449,349	1,449,349
Depreciable, <i>Net</i>	-	3,761,043	3,761,043
Total Capital Assets	-	5,210,392	5,210,392
<b>Total Assets</b>	<b>737,623</b>	<b>14,587,418</b>	<b>15,325,041</b>
<b>LIABILITIES</b>			
Accounts Payable	6,634	14,877	21,511
Accrued Payroll	-	75,272	75,272
Refundable Deposits	-	63,331	63,331
OPEB Liability	-	48,995	48,995
Long-term Debt			
Due within one year	-	19,000	19,000
Due in more than one year	-	126,000	126,000
<b>Total Liabilities</b>	<b>6,634</b>	<b>347,475</b>	<b>354,109</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	-	5,065,392	5,065,392
Restricted for:			
Monterey County Assessment Bond	-	76,285	76,285
Special Revenue Projects	730,989	-	730,989
Total Restricted Net Assets	730,989	76,285	807,274
Unrestricted Net Assets	-	9,098,266	9,098,266
Total Net Assets	\$ 730,989	\$ 14,239,943	\$ 14,970,932
<b>Total Liabilities and Net Assets (memo only)</b>	<b>\$ 737,623</b>	<b>\$ 14,587,418</b>	<b>\$ 15,325,041</b>

See Auditor's Report

The Notes to Financial Statements Are An Integral Part of This Statement

# Castroville Community Service District

## Statement of Activities

For the year ended June 30, 2014

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Operating Expenses	Fines, Fees and Charges for Services	Operating Grants	Governmental Activities	Business-type Activities	
<b>Governmental Activities:</b>						
Streets, Street Lights and Open Space	130,861	\$ 66,626	\$ -	\$ (64,235)	\$ -	\$ (64,235)
Public Works	2,910	-	6,924	4,014	-	4,014
Recreation	138,612	-	-	(138,612)	-	(138,612)
<i>Total Governmental Activities</i>	272,383	66,626	6,924	(198,833)	-	(198,833)
<b>Business-type Activities:</b>						
Water	786,987	860,447	-	-	73,460	73,460
Sewer	579,342	153,033	-	-	(426,309)	(426,309)
<i>Total Business-type Activities</i>	1,366,329	1,013,480	-	-	(352,849)	(352,849)
<b>Total Primary Government</b>	1,638,712	1,080,106	6,924	(198,833)	(352,849)	(551,682)
<b>General Revenues:</b>						
Property Taxes				-	100,335	100,335
Investment Earnings				-	7,187	7,187
Miscellaneous				-	1,572,037	1,572,037
<b>Total General Revenues</b>				-	1,679,559	1,679,559
<b>Change in Net Assets</b>				(198,833)	1,326,710	1,127,877
<b>Interfund Transfers</b>				145,353	(145,353)	-
<b>Net Assets-Beginning</b>				784,469	13,058,586	13,843,055
<b>Net Assets-Ending</b>				\$ 730,989	\$ 14,239,943	\$ 14,970,932

**Castroville Community Service District**  
**Governmental Funds**  
**Balance Sheet**  
June 30, 2014

	<u>Zone 1</u> <u>Castroville</u>	<u>Zone 2</u> <u>Moro Cojo</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<b>ASSETS</b>			
Cash and Investments	\$ 606,383	\$ 130,932	\$ 737,315
Interest Receivable	254	54	308
Total Assets	<u>\$ 606,637</u>	<u>\$ 130,986</u>	<u>\$ 737,623</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 1,448	\$ 5,186	\$ 6,634
Total Liabilities	<u>1,448</u>	<u>5,186</u>	<u>6,634</u>
<b>FUND BALANCES</b>			
Fund Balance			
Restricted:			
Special Revenue Fund	605,189	125,800	730,989
Total Fund Balances	<u>605,189</u>	<u>125,800</u>	<u>730,989</u>
Total Liabilities and Fund Balances	<u>\$ 606,637</u>	<u>\$ 130,986</u>	<u>\$ 737,623</u>

# Castroville Community Service District

## Governmental Funds

### Statement of Revenues, Expenditures

### and Changes in Fund Balance

For the Year Ended June 30, 2014

	<b>Zone 1 Castroville</b>	<b>Zone 2 Moro Cojo</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Grant Funding	\$ 5,645	\$ -	\$ 5,645
User Fees	32,357	33,951	66,308
Interest Income	1,279	318	1,597
Total Revenues	39,281	34,269	73,550
<b>EXPENDITURES</b>			
Current:			
Streets, Street Lights and Open Space	38,945	91,916	130,861
Public Works	2,910	-	2,910
Recreation	138,612	-	138,612
Total Expenditures	180,467	91,916	272,383
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(141,186)</b>	<b>(57,647)</b>	<b>(198,833)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	145,353	-	145,353
Total Other Financing Sources (Uses)	145,353	-	145,353
<b>NET CHANGE IN FUND BALANCES</b>	4,167	(57,647)	(53,480)
<b>BEGINNING FUND BALANCES</b>	601,022	183,447	784,469
<b>ENDING FUND BALANCES</b>	<b>\$ 605,189</b>	<b>\$ 125,800</b>	<b>\$ 730,989</b>

See Auditor's Report

The Notes to Financial Statements Are An Integral Part of This Statement



**Castroville Community Service District**  
**Statement of Net Assets - Proprietary Funds**  
June 30, 2014 and 2013

**ASSETS**

	<u>6/30/2014</u>			<u>6/30/2013</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
<b><u>CURRENT ASSETS</u></b>				
Cash and Cash Equivalents	\$ 2,243,043	\$ 677,837	\$ 2,920,880	\$ 1,888,136
Cash and Cash Equivalents, Designated for Capital Additions	828,437	3,012,279	3,840,716	4,045,979
Investments	-	2,273,978	2,273,978	2,247,599
Cash - Designated for Customer Deposits	62,325	1,901	64,226	65,085
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$1,200	32,586	4,484	37,070	53,210
Interest Receivable	1,707	29,418	31,125	4,312
Supplies Inventory	29,577	2,838	32,415	30,784
Prepaid Expenses	4,397	4,298	8,695	8,390
Total Current Assets	<u>3,202,072</u>	<u>6,007,033</u>	<u>9,209,105</u>	<u>8,343,495</u>
<b><u>NON-CURRENT ASSETS</u></b>				
Property Plant and Equipment, Net of Accumulated Depreciation, Note 3	2,484,133	1,482,520	3,966,653	3,975,989
Construction in Progress	1,243,739	-	1,243,739	1,200,030
Total Property, Plant and Equipment	<u>3,727,872</u>	<u>1,482,520</u>	<u>5,210,392</u>	<u>5,176,019</u>
<b><u>RESTRICTED ASSETS</u></b>				
Cash and Cash Equivalents (Restricted)	76,285	-	76,285	98,944
Total Restricted Assets	<u>76,285</u>	<u>-</u>	<u>76,285</u>	<u>98,944</u>
<b><u>OTHER ASSETS</u></b>				
Bond Costs, Net of Accumulated Amortization of \$29,465 and \$28,972, Respectively	311	-	311	804
Organizational Costs, Net of Accumulated Amortization of \$32,344 and \$28,222 Respectively	-	91,325	91,325	95,447
Well Finance Legal Fee Charges, Net of Accumulated Amortization of \$14,524 and \$6,776, Respectively	-	-	-	7,748
Total Other Assets	<u>311</u>	<u>91,325</u>	<u>91,636</u>	<u>103,999</u>
Total Assets	<u>\$ 7,006,540</u>	<u>\$ 7,580,878</u>	<u>\$ 14,587,418</u>	<u>\$ 13,722,457</u>

See Auditor's Report

The Accompanying Notes Are An Integral Part of These Financials Statements

**Castroville Community Service District**  
Statement of Net Assets - Proprietary Funds *(continued)*  
June 30, 2014 and 2013

**LIABILITIES AND NET ASSETS**

	<u>6/30/2014</u>			<u>6/30/2013</u>
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>	
<b><u>CURRENT LIABILITIES</u></b>				
Accounts Payable	\$ 9,820	\$ 5,057	\$ 14,877	33,304
Accrued Payroll	56,001	19,271	75,272	70,710
Accrued Interest Payable	-	-	-	2,978
Customer Deposits	61,430	1,901	63,331	64,166
Current Note Payable	19,000	-	19,000	62,451
Other Post Employment Benefits	32,503	16,492	48,995	48,995
Total Current Liabilities	<u>178,754</u>	<u>42,721</u>	<u>221,475</u>	<u>282,604</u>
<b><u>LONG-TERM DEBT</u></b>				
Notes Payable	-	-	-	236,267
Bonds Payable	126,000	-	126,000	145,000
Total Long-Term Liabilities	<u>126,000</u>	<u>-</u>	<u>126,000</u>	<u>381,267</u>
Total Liabilities	<u>304,754</u>	<u>42,721</u>	<u>347,475</u>	<u>663,871</u>
<b><u>NET ASSETS</u></b>				
Invested in Capital Assets, Net of Related Deb	3,582,872	1,482,520	5,065,392	4,732,301
Restricted for Monterey County Assessment Bonc	76,285	-	-	65,085
Unrestricted	3,042,629	6,055,637	9,098,266	8,261,200
Total Net Assets	<u>\$ 6,701,786</u>	<u>\$ 7,538,157</u>	<u>\$ 14,239,943</u>	<u>\$ 13,058,586</u>
Total Liabilities and Net Assets	<u>\$ 7,006,540</u>	<u>\$ 7,580,878</u>	<u>\$ 14,587,418</u>	<u>\$ 13,722,457</u>

# Castroville Community Service District

## Statement of Activities - Proprietary Funds

For the Years Ended June 30, 2014 and 2013

	6/30/2014			6/30/2013
	Water	Sewer	Totals	
<b><u>OPERATING REVENUES</u></b>				
Water Sales	\$ 850,671	\$ -	\$ 850,671	\$ 817,851
Property Tax and User Fees	-	253,368	253,368	261,035
New Service and Connection Fees	9,776	-	9,776	6,495
ROPS Pass-Through Income	-	1,202,360	1,202,360	-
Other Revenues	52,578	317,099	369,677	721,259
Total Operating Revenues	<u>913,025</u>	<u>1,772,827</u>	<u>2,685,852</u>	<u>1,806,640</u>
<b><u>OPERATING EXPENSES</u></b>				
General Operation Expenses				
Depreciation Expense	218,180	74,286	292,466	287,963
Payroll and Related Expenses	80,381	93,514	173,895	153,891
Utility Expense	81,211	-	81,211	7,917
Water and Sewer Line Expenses	21,499	17,683	39,182	3,866
General Operations	15,123	3,988	19,111	18,566
Meter Expenses	5,113	-	5,113	1,481
Automobile Expenses	3,445	11,816	15,261	7,350
Lift Station Expenses	-	21,964	21,964	25,009
Well Site Expenses	16,351	-	16,351	5,609
Storm drain Expenses	-	7,598	7,598	13,559
Hydrant Expenses	780	-	780	484
Administrative Expenses				
Payroll and Related Expenses	196,468	237,380	433,848	409,646
Consulting Expenses	14,946	44,049	58,995	43,702
Office Expenses	30,057	18,103	48,160	38,463
Retirement Plan Contributions	34,345	31,694	66,039	72,136
Billing Expenses	20,622	-	20,622	17,496
Insurance Expense	8,959	8,177	17,136	23,881
Utility Expenses	3,941	4,249	8,190	74,070
Bond, Loan and Certificate Expense	-	719	719	16,369
Bad Debts	323	-	323	617
Total Operating Expenses	<u>751,744</u>	<u>575,220</u>	<u>1,326,964</u>	<u>1,222,075</u>
<b><u>NON-OPERATING REVENUES and (EXPENSES)</u></b>				
Interest Revenue	7,187	-	7,187	7,493
Amortization of Investment Discount	(7,748)	(4,122)	(11,870)	(5,090)
Bond Issue Cost Amortization	(493)	-	(493)	(493)
Interest on Long-Term Debt	(21,307)	-	(21,307)	(20,467)
Debt Administration Costs	(5,695)	-	(5,695)	(5,593)
Total Non-operating Revenues (Expenses)	<u>(28,056)</u>	<u>(4,122)</u>	<u>(32,178)</u>	<u>(24,150)</u>
Net Income Before Transfers	133,225	1,193,485	1,326,710	560,415
<b><u>TRANSFERS</u></b>				
Transfers In/(Out)	794,433	(939,786)	(145,353)	(117,001)
<b><u>CHANGE IN NET ASSETS</u></b>				
	927,658	253,699	1,181,357	443,414
<b><u>NET ASSETS</u></b>				
Net Assets, Beginning of Year	5,774,128	7,284,458	13,058,586	12,615,172
Net Assets, End of Year	<u>\$ 6,701,786</u>	<u>\$ 7,538,157</u>	<u>\$ 14,239,943</u>	<u>\$ 13,058,586</u>

See Auditor's Report

The Accompanying Notes Are An Integral Part of These Financial Statements

**Castroville Community Service District**  
**Statement of Cash Flows - Proprietary Funds**  
For the Years Ended June 30, 2014 and 2013

	6/30/2014			6/30/13
	Water	Sewer	Totals	
<b><u>Cash Flows From Operating Activities:</u></b>				
Cash Received from Customers	\$ 866,185	\$ 268,254	\$ 1,134,439	\$ 1,109,317
Other Cash Receipts	52,578	1,514,975	1,567,553	721,413
Cash Paid to Suppliers for Services and Inventories	(302,816)	(188,588)	(491,404)	(388,599)
Cash Paid to Employees for Services	(291,558)	(311,623)	(603,181)	(560,383)
Net Cash Provided By Operations	<u>324,389</u>	<u>1,283,018</u>	<u>1,607,407</u>	<u>881,748</u>
<b><u>Cash Flows from Non-Capital Financing Activities:</u></b>				
Debt Administration Costs	(5,695)	-	(5,695)	(5,593)
Interest on Long Term Debt	(24,285)	-	(24,285)	(19,185)
Payment and Current maturities of Long-Term Debt	(255,267)	-	(255,267)	(44,451)
Transfers Between Funds	794,433	(939,786)	(145,353)	(126,237)
Net Cash (Used) By Non-Capital Financing Activities	<u>509,186</u>	<u>(939,786)</u>	<u>(430,600)</u>	<u>(195,466)</u>
<b><u>Cash Flows from Capital Financing Activities:</u></b>				
Purchase of Property and Equipment	(23,027)	(260,103)	(283,130)	(138,915)
Additions to Construction in Progress	(43,709)	-	(43,709)	(3,620)
Net Cash (Used) By Non-Capital Financing Activities	<u>(66,736)</u>	<u>(260,103)</u>	<u>(326,839)</u>	<u>(142,535)</u>
<b><u>Cash Flows Provided by Investing Activities:</u></b>				
Purchase of Investments	-	(26,379)	(26,379)	3,302
Interest Earned on Operating Funds	6,717	(26,343)	(19,626)	21,160
Net Cash Flows (Used) by Investing Activities	<u>6,717</u>	<u>(52,722)</u>	<u>(46,005)</u>	<u>24,462</u>
Net Increase (Decrease) in Cash	773,556	30,407	803,963	568,209
Cash and Cash Equivalents at Beginning of Year	2,436,534	3,661,610	6,098,144	5,529,935
Cash and Cash Equivalents at End of Year	<u>\$ 3,210,090</u>	<u>\$ 3,692,017</u>	<u>\$ 6,902,107</u>	<u>\$ 6,098,144</u>
<b><u>Cash at End of Year is Composed of:</u></b>				
Cash, Restricted	\$ 76,285	\$ -	\$ 76,285	\$ 98,944
Cash, Unrestricted	3,133,805	3,692,017	6,825,822	5,999,200
Total Cash	<u>\$ 3,210,090</u>	<u>\$ 3,692,017</u>	<u>\$ 6,902,107</u>	<u>\$ 6,098,144</u>
<b><u>Reconciliation of Operating Income(Loss) to Net Cash Provided (Used) by Operating Activities</u></b>				
Operating Income (loss)	\$ 161,281	\$ 1,197,607	\$ 1,358,888	\$ 584,565
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	218,180	74,286	292,466	287,964
Changes in assets and liabilities:				
Accounts Receivable	5,738	10,402	16,140	24,090
Prepaid Expenses	(152)	(153)	(305)	100
Inventory	(1,621)	(10)	(1,631)	5,583
Accrued Payroll and Related Items	(14,709)	19,271	4,562	3,154
Deposits	(835)	-	(835)	(2,061)
Accounts Payable	(42)	(18,385)	(18,427)	9,137
Note Payable	(43,451)	-	(43,451)	(30,784)
Net Cash Provided (Used) by Operating Activities	<u>\$ 324,389</u>	<u>\$ 1,283,018</u>	<u>\$ 1,607,407</u>	<u>\$ 881,748</u>

See Auditor's Report

The Accompanying Notes Are An Integral Part of These Financial Statements

# Castroville Community Service District

## Notes to Financial Statements

For the Year Ended June 30, 2014

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

#### **Description of Operations:**

Castroville Community Service District (the "District") is authorized by California Government Code Sections 6100 et seq. The District provides water, sewer, storm drain, street lights, open space, street maintenance and recreational services to residential and commercial customers in and around the Township of Castroville, California.

The District has defined its reporting entity in accordance with GASB Statement No. 14, "The Financial Reporting Entity," which provides guidance for determining which governmental activities, organizations, and functions should be included in its reporting entity. The District's reporting entity includes all significant operation and revenue sources which the District Board of Directors exercises oversight responsibility. Oversight responsibility is determined on the basis of selection of the governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, and the scope of public service.

#### **Basis of Presentation:**

The Castroville Community Service District's financial statements have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**Government-wide Statements:** The *Statement of Net Assets* and the *Statement of Activities* display information about the primary government (the District). These statements include the financial activities of the overall District government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities*, which are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from *business-type activities*, which are financed, in whole or in part, by fees charged to external parties.

**Fund Financial Statements:** The fund financial statements provide information about the District's funds. Separate statements for fund categories – *governmental and proprietary* -are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. *Non-operating* revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Financial reporting is based upon all Governmental Accounting Standards Board (GASB) pronouncements, as well as the Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements. The District reported the following major funds in the accompanying financial statements:

**Water Fund** (Proprietary) – This fund accounts for all of the District's water resources.

**Sewer Fund** (Proprietary) – This Fund accounts all the District's sewer operations.

**Zone 1 Castroville** (Governmental) – This fund accounts for the income and expenditures related to street lighting and recreation activities in Zone 1.

**Zone 2** (Governmental) – This fund accounts for the income and expenditures related to the open space, street lighting, and Streets activities in Zone 2.

#### **Basis of Accounting:**

The Castroville Community Service District uses the accrual method of accounting for financial statement reporting purposes. Under the accrual method revenues are recognized when they are earned, and expenses are recognized when they are incurred.

See Auditor's Report

# Castroville Community Service District

## Notes to Financial Statements

For the Year Ended June 30, 2014

### ***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):***

#### **Reporting Entity:**

The District's reporting entity includes all significant operation and revenue sources for which the District Board of Directors exercises oversight responsibility as determined under the criteria established by the National Council on Governmental Accounting Statement No. 3, as adopted by FASB. Oversight responsibility is determined on the basis of selection of the governing board, designation of management, ability to significantly influence operations, accountability for fiscal matters, and the scope of public service. The financial statements of Castroville Water District include the financial activities of the District as well as transactions made by the fiscal agent under authority granted by the District in various resolutions authorizing the issuance of improvement bonds and water certificates. The District is exempt from federal income and state franchise taxes.

#### **Cash and Cash Equivalents:**

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. The District maintains bank accounts at financial institutions located within the Counties of Monterey and San Francisco.

Cash and cash equivalents are summarized as follows:

	<u>2014</u>
FDIC Insured Accounts	\$ 378,389
Funds in County Treasury	76,285
Funds in CAMP	335,537
Funds in LAIF	6,848,411
Petty Cash	800
Total Cash	<u>\$ 7,639,422</u>

It is the District's policy to maintain all investments in insured accounts in the District's name. Assessments in excess of estimated current bond requirements of the District are deposited in the Local Agency Investment Fund. Said cash earns interest based on the fund's prorata share of the cash in the fund. In accordance with the Governmental Accounting Standards Board Statement 3 (i.e., Deposits with Financial Institutions, GASB 3), the cash is to be categorized to indicate the level of credit risk assumed by the Fund at year end. Substantially, all investments are insured or registered and held by the Fund or its agent in the agent's nominee name, with subsidiary records listing the Fund as the legal owner. Accordingly, said cash investment would be included in "Category 1" as defined by GASB 3. See Note 2 for further discussion of Cash & Cash Equivalents.

#### **Investments**

In December 2012, the District entered into an agreement with the CalTrust Joint Powers Authority to invest in the CalTrust Money Market Fund. The fair market value of the District's investment in the CalTrust Medium Term Fund at June 30, 2014 was \$2,273,978. The District's investment policy is based upon the provisions of the California Government Code commencing with Section 53600 governing the investments of local agency funds and deposits of public monies.

#### **Accounts Receivable:**

Accounts Receivable as reflected in the financial statements are from customers whose property is located within the County of Monterey. Accounts receivable consists of amounts due from customers for water and sewer charges.

#### **Interfund Transfers:**

Expenses are allocated between the Water Fund (45%) and Sewer Fund (55%). All expenses are paid out of the Water Fund's checking account. These expenses are shown as Interfund Transfers on the Statement of Net Activities.

#### **Inventories**

Inventories are valued at cost, which approximates market. The District's inventory consists of parts and components for wells, lift stations and other infrastructure kept onsite.

# Castroville Community Service District

## Notes to Financial Statements

For the Year Ended June 30, 2014

### ***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):***

#### **Capital Assets:**

Minor expenditures for renewals and betterments are charged to expense. Major expenditures for renewals and betterments are capitalized. In cases where assets are donated to the District, construction costs or estimated market values are recorded. Costs of assets sold, retired or otherwise disposed of have been eliminated from the accounts, and gains or losses on disposition are included in operations.

The cost of property and equipment is depreciated over the estimated lives of the assets from date of acquisition based on the straight-line method of depreciation over the following estimated useful lives:

<u>Asset Category</u>	<u>Useful Lives</u>
Buildings and Improvements	5-35 years
Water Equipment, and Vehicles	3-30 years
Sewer Equipment, and Vehicles	3-50 years
Hydrants	10-45 years
Meters	5-30 years
Projects, Wells, and Pipes	10-40 years
SCADA System	5 years
Telemetry System	5-7 years

#### **Compensated Absences:**

The District has recorded an accrual for compensated absences in accordance with the District's policy of paying for unused vacation time of employees. Sick leave is not included in the accrual as the District does not pay for unused sick time upon employee termination.

Employees earn vacation leave after six months of continuous employment as follows:

<u>Time of Employment</u>	<u>Accrual of Vacation Leave</u>
Six months to one year	40.00 hours earned
One to five years	6.67 hours per month
Five to ten years	10.00 hours per month
Ten or more years	13.33 hours per month

#### **Customer Deposits:**

New customers are required to provide deposits for service. The customer deposits held by the District are refunded upon termination of service or on written request after one year.

#### **Restricted and Designated Assets:**

Certain cash and investments of the District are classified as restricted because their uses are limited by commitments to customers for service deposits and to bondholders in accordance with bond covenants. Also, certain assets are classified as designated due to the Board of Directors designation for capital additions.

#### **Capital Asset Contributions**

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. These contributions are accounted for as revenues at the time the capital assets are contributed. Assets donated to the District during the year totaled \$177,455.

**Castroville Community Service District**  
Notes to Financial Statements  
For the Year Ended June 30, 2014

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**Long-Term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in the Proprietary Fund Type Statement of Net Assets. Debt principal payments are reported as decreases in the balance of the liability on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Net Assets/Fund Equity**

The financial statements are presented using the net asset method. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Assets – This category presents external restrictions on net assets imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – This category represents net assets of the District not restricted for any project or other purpose.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred on debt issued to finance construction is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

**Fund Balances – Governmental Funds**

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances of the governmental funds are classified as follows:

*Non-spendable* – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

*Restricted* – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* – amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the district. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the governing board.

*Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the district's adopted policy, only the governing board or chief business officer may assign amounts for specific purposes.

*Unassigned* – contains all other spendable amounts.

The District applies restricted resources first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available. When expenditures are 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, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.



# Castroville Community Service District

## Notes to Financial Statements

For the Year Ended June 30, 2014

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**Revenues – Operating:**

Revenues, such as charges for services, result from exchange transactions, in which each party gives and receives essentially equal value. On an accrual basis, revenue from charges for service is recognized in the period in which the service has been completed. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

**Revenues – Non-operating:**

Revenues that result from non-exchange transactions or ancillary activities in which the District receives value without directly giving equal value in return, include investment earnings, subsidies, property taxes and ROPS revenues. On an accrual basis, non-exchange transactions is recognized in the period in which the ancillary activity takes place.

**NOTE 2 – CASH AND INVESTMENTS:**

California law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposits or first trust deed mortgage notes with a value of 150% of the deposit as collateral for all public agency deposits. Under California law this collateral remains with the institution but is held in the District's name and places the District ahead of general creditors of the institution.

Cash and Investments at June 30, 2014 are classified on the Financial Statements as follows:

Statement of Net Assets	Water Fund	Sewer Fund	Governmental Funds	Total
Cash and Investments	\$ 3,133,805	\$ 5,965,995	\$ 737,315	\$ 9,837,115
Restricted Cash and Investments	76,285	-	-	76,285
Total Cash and Investments	<u>\$ 3,210,090</u>	<u>\$ 5,965,995</u>	<u>\$ 737,315</u>	<u>\$ 9,913,400</u>

The District's Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District. The following also identifies certain provisions of the District and California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligation	5 years	N/A	100%	No Limit
U.S. Agency Securities	5 years	N/A	100%	No Limit
Bankers Acceptances	180 days	N/A	40%	30%
Commercial Paper	270 days	A-I	25%	10%
Negotiable Certificates of Deposit	5 years	N/A	30%	No Limit
Repurchase Agreements	1 year	N/A	100%	No Limit
Reverse Repurchase Agreements	92 days	N/A	20%	No Limit
Demand Deposits	N/A	Highest Category	20%	10%
Medium Term Notes	5 years	A	30%	No Limit
Money Market Mutual Funds	N/A	Highest Category	20%	10%
Asset-Backed Securities	5 years	AA	20%	No Limit
State of California Obligations	5 years	N/A	100%	No Limit
Local Agency Investment Fund	N/A	N/A	\$50 million account	No Limit

The District must maintain required amounts of cash and investments with trustees or fiscal agents based on the terms of their debt agreements. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under the debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures or State statutes.

# Castroville Community Service District

## Notes to Financial Statements

For the Year Ended June 30, 2014

**NOTE 2 – CASH AND INVESTMENTS (continued):**

The table below identifies the investment types that are authorized for investments held by fiscal agents.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>
Local District Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State of California Obligations	5 years	None	100%
California Local District Obligations	5 years	None	None
U.S. Agencies	5 years	None	None
Bankers Acceptances	180 days	None	40%
Commercial Paper	270 days	A1/P1/F1	25%
Negotiable Certificates of Deposit	5 years	None	30%
Repurchase Agreements	1 year	Various	None
Reverse Repurchase Agreements	92 days	A	20% of Base
Medium Term Notes	5 years	Various	30%
Money Market Mutual Funds	N/A	None	20%
Collateralized Bank Deposits	5 years	AA	None
Mortgage Pass-Through Securities	5 years	None	20%
Time Deposits	5 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Country Pooled Investment Funds	N/A	None	None
Non-Negotiable Certificates of Deposit	1 year	None	100%

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity the more sensitive the investment is to market fluctuations.

The sensitivity of the District's investments is summarized by the following table. This table shows the maturity terms of the District's investments.

<u>Investment Type</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>Total</u>
LAIF	\$ 6,848,411	\$ -	\$ 6,848,411
CAMP	335,537	-	335,537
Monterey County Investment Pool	76,285		76,285
CalTrust	-	2,273,978	2,273,978
Total Cash Equivalents and Investments	<u>\$ 7,260,233</u>	<u>\$ 2,273,978</u>	<u>9,534,211</u>
Cash in Bank and on Hand			379,189
Total Cash and Investments			<u>\$ 9,913,400</u>

**Local Agency Investment Fund (LAIF)**

The Local Agency Investment Fund was created by statute and began in 1977. The Local Agency Investment Fund is a voluntary program for California local governments and special districts. The Fund is administered by the California State Treasurer, and is enabled by Section 16429.1 et seq. of the California Government Code.

All securities purchased within LAIF are purchased under the authority of Government Code Section 16430 and 16480.4. All investments are purchased at market and a market valuation is conducted monthly. All District deposits with LAIF are available on demand.

# Castroville Community Service District

## Notes to Financial Statements

For the Year Ended June 30, 2014

**NOTE 2 – CASH AND INVESTMENTS (continued):**

**California Asset Management Program (CAMP)**

The California Asset Management Program is a Joint Powers Authority formed in 1989 by treasurers and finance directors of several local government agencies to provide professional investment services to California public agencies at a reasonable cost. CAMP offers investors the option of investing in either the CAMP money market portfolio, which is rated AAAM by Standard & Poor's, or other individually managed portfolios.

**CalTrust Medium Term Fund**

CalTrust is a Joint Powers Authority formed by the CSAC Finance Corporation and the League of California Cities to provide a convenient method for local agencies to pool their assets for investment. CalTrust offers local agencies the option of investing in either the Money Market, Short-Term or Medium-Term accounts, which are rated AAA by Standard & Poor's.

**Credit Risk**

Credit risk is measured by nationally recognized statistical agencies such as Standard & Poor's. Credit risk is simply the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The below table shows the credit ratings of the Districts Cash and Investments.

	<u>Rating as of Year-End</u>		<u>Total</u>	<u>% of Total</u>
	<u>AAA</u>	<u>AAAm</u>		
<b>Investment Type</b>				
Monterey County Pool	\$ 76,285	\$ -	\$ 76,285	8%
CAMP Money Market Fund	-	335,537	335,537	3%
CalTrust Medium-Term Fund	2,273,978	-	2,273,978	23%
Total Cash Equivalents	<u>\$ 2,350,263</u>	<u>\$ 335,537</u>	2,685,800	
<b>Not Rated:</b>				
LAIF			6,848,411	69%
Cash in Bank and on Hand			379,189	4%
Total Cash and Investments			<u>\$ 9,913,400</u>	

# Castroville Community Service District

## Notes to Financial Statements

For the Year Ended June 30, 2014

**NOTE 3 – CAPITAL ASSETS:**

**Capital assets at June 30, 2014 comprise:**

	<b>June 30, 2013</b>	<b>Additions</b>	<b>Dispositions</b>	<b>June 30, 2014</b>
<i>Capital assets not being depreciated:</i>				
Land	\$ 205,610	\$ -	\$ -	\$ 205,610
Construction in Progress	1,215,224	28,515	-	1,243,739
<i>Total Capital Assets not being Depreciated</i>	1,420,834	28,515	-	1,449,349
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	648,301	10,781	-	659,082
Water Equipment, and Vehicles	426,988	8,837	-	435,825
Sewer Equipment and Vehicles	610,166	181,353	-	791,519
Hydrants	30,012	7,280	-	37,292
Meters	347,120	1,519	-	348,639
Projects, Wells, and Pipes	6,958,363	88,554	-	7,046,917
Telemetry System	173,095	-	-	173,095
<i>Total Capital Assets being Depreciated</i>	9,194,045	298,324	-	9,492,369
<i>Less: Accumulated Depreciation:</i>				
Buildings and Improvements	(254,649)	(13,143)	-	(267,792)
Water Equipment, and Vehicles	(351,394)	(17,751)	-	(369,145)
Sewer Equipment and Vehicles	(350,463)	(74,830)	-	(425,293)
Hydrants	(22,033)	(891)	-	(22,924)
Meters	(131,619)	(11,462)	-	(143,081)
Projects, Wells, and Pipes	(4,155,607)	(174,389)	-	(4,329,996)
Telemetry System	(173,095)	-	-	(173,095)
<i>Total Accumulated Depreciation</i>	(5,438,860)	(292,466)	-	(5,731,326)
Net Capital Assets being Depreciated	3,755,185	5,858	-	3,761,043
<i>Business-Type Activity Capital Assets, Net</i>	\$ 5,176,019	\$ 34,373	\$ -	\$ 5,210,392

**NOTE 4 - LONG-TERM DEBT:**

Long-term debt and related current maturities as of June 30, 2014, are as follows:

	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2014</b>	<b>Current Portion</b>
Castroville Water Project					
Assessment District Bonds	\$ 182,000	\$ -	\$ 37,000	\$ 145,000	\$ 19,000
City National Bank Note					
Payable – Well 2b	261,718	-	261,718	-	-
<b>Total Business-Type Activity Debt</b>	\$ 443,718	\$ -	\$ 298,718	\$ 145,000	\$ 19,000

**Castroville Community Service District**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2014

**NOTE 4 - LONG-TERM DEBT (continued):**

**Castroville Water Project Assessment District Bonds**

On March 10, 1982 the District issued Water Project Assessment District Bonds, Series 1982-1 in the amount of \$465,000 at 5%, payable in semi-annual installments every January and July, maturing in 2021.

**City National Bank Note Payable – Well 2b**

The District signed an agreement dated August 15, 2006 to borrow \$400,000 for the construction of Well 2b. The loan is payable from the net revenues of the District and payments are made semiannually on May 1 and November 1. The Note bears interest at 4.95%. The loan was paid in full during the year ended June 30, 2014.

**Debt Service Requirements**

The annual requirements to amortize the principal and interest of the above long-term debt as of June 30, 2014 are outlined below.

Years Ending June 30,	Principal	Interest	Total
2015	\$ 19,000	\$ 7,250	\$ 26,250
2016	20,000	6,300	26,300
2017	21,000	5,300	26,300
2018	22,000	4,250	26,250
2019	23,000	3,150	26,150
Thereafter	40,000	2,800	42,800
	<u>\$ 145,000</u>	<u>\$ 29,050</u>	<u>\$ 174,050</u>

**NOTE 5 - DEFINED BENEFIT PENSION PLAN:**

**Plan Description**

The District contributes to the California Public Employee's Retirement System (PERS), an agent cost-sharing multiple-employer public employee defined benefit pension plan. The District's plan is of the "Miscellaneous 2% at 60 Risk Pool" and "2% at 62 Risk Pool". Those employees who first established CalPERS membership prior to January 1, 2013 without a break in service greater than six months participate in the "Miscellaneous 2% at 60 Risk Pool". Employees hired on or after January 1, 2013 who participate in CalPERS for the first time and also those employees not eligible for reciprocity with another California public retirement system participate in the "Miscellaneous 2% at 62 Risk Pool". PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for all participating public entities within the State of California. Benefit Provisions and other requirements are established by state statute. Copies of PERS annual financial report may be obtained from their Executive Office - 400 P Street - Sacramento CA 95814.

**Funding Policy**

All full-time District employees must participate in PERS, based on state statute. The Plan requires participants to contribute an amount of 7% or 6.5% of their annual covered salary determined by actuarial valuation and which plan applies to employees as described in the paragraph above. The contribution rate for the 2013-14 fiscal year was 8.181% for those employees hired prior to January 1, 2013 and 6.70% for those employees hired on or after January 1, 2013 of annual covered payroll. The District's contributions to CalPERS for the fiscal years ending June 30, 2014 and 2013 were \$35,237 and \$44,789, respectively.

# Castroville Community Service District

## Notes to Financial Statements

For the Year Ended June 30, 2014

### **NOTE 6 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:**

The District maintains bank accounts at various financial institutions. The balances of these accounts may occasionally exceed the FDIC insured amount of \$250,000.

### **NOTE 7 – POSTEMPLOYMENT HEALTHCARE PLAN:**

The District has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. The annual required contribution (ARC) was \$24,626 for the year ended June 30, 2014. The District has established an irrevocable trust in CalPERS California Employees Retiree Benefit Trust fund. The ARC was paid in full. Therefore, there is no increase to the OPEB Obligation during this year. The accumulated obligation at June 30, 2014 is \$48,995.

#### Plan Description

The post employment benefit plan (the plan) is a multi-employer defined benefit healthcare plan administered by California Public Employees Retirement System (CalPERS). The plan offers lifetime medical benefits to certain eligible participants. Employees hired before January 1, 2013, that are at least 50 years of age upon retirement and have a total of 20 years of services with the District shall be eligible for 100% retiree health benefits for themselves and their qualified dependents upon retirement. Employee's hired on or after January 1, 2013, are at least 52 years of age upon retirement will receive the minimum employer contribution for health benefits upon retirement with CalPERS.

#### Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District's Board of Directors. The Employer's Contribution for each employee shall be the amount necessary to pay the full cost of his/her enrollment including the enrollment of family members in a health benefits plan or plans up to a maximum of total premium per month. The District is required to contribute the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover a period not to exceed thirty years.

#### Annual OPEB Cost and Net OPEB Obligation

For fiscal year ended on June 30, 2014, the District's annual OPEB cost (expense) is calculated based on ARC of the employer, an amount actuarially determined in accordance with GASB 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover *normal* cost and to *amortize* the unfunded actuarial accrued liability (UAAL) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed and changes to the Districts' net OPEB Obligation to the Plan.

Annual required contribution	\$ 24,626
Contributions made	<u>(24,626)</u>
Increase in net OPEB obligation	-
Net OPEB Obligation, beginning of the year	<u>48,995</u>
Net OPEB Obligation, end of year	<u>\$ 48,995</u>

**Castroville Community Service District**  
Notes to Financial Statements  
For the Year Ended June 30, 2014

**NOTE 7 – POSTEMPLOYMENT HEALTHCARE PLAN (continued):**

**Trend Information**

Trend information for annual OPEB cost, the percentage of annual OPEB Cost contributed to the Plan, and the net OPEB Obligation is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	\$ 16,690	\$ -	0%	\$ 16,690
6/30/2011	\$ 32,305	\$ -	0%	\$ 48,995
6/30/2012	\$ 25,805	\$ 25,805	100%	\$ 48,995
6/30/2013	\$ 25,805	\$ 25,805	100%	\$ 48,995
6/30/2014	\$ 24,626	\$ 24,626	100%	\$ 48,995

**Funded Status and Funding Progress**

The funded status of the plan as of June 30, 2013, the most recent actuarial valuation date, was as follows:

<u>Actuarial Valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial Accrued Liability (AAL)- Entry Age (b)</u>	<u>Unfunded AAL(UAAL) (B-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b- a)/c)</u>
6/30/2010	\$ -	\$ 380,122	\$ 380,122	0%	\$ 378,311	100%
6/30/2011	\$ -	\$ 380,122	\$ 380,122	0%	\$ 450,988	84%
6/30/2012	\$ 25,805	\$ 273,626	\$ 266,840	9%	\$ 435,374	61%
6/30/2013	\$ 54,614	\$ 280,722	\$ 226,108	19%	\$ 421,270	54%

Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality and health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are 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 presented as required supplementary information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan are increasing or decreasing over time relative to the accrued liabilities for benefits.

# Castroville Community Service District

## Notes to Financial Statements

For the Year Ended June 30, 2014

### **NOTE 7 – POSTEMPLOYMENT HEALTHCARE PLAN (continued):**

#### **Actuarial Method 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 benefit 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 actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term prospective of the calculations.

For the year ended on June 30, 2013, the most recent actuarial valuation, the entry age actuarial cost method was used in the actuarial valuation. The District has seven eligible participants in total and six active employees that are eligible for the plan. Since the Plan includes fewer than 100 employees, GASB Statement No. 45 provides an alternate allowable method.

Actuarial Cost Method	Entry Age Normal
Valuation Date	6/30/2013
Inflation Rate	2.75% per year
Discount Rate	7.25%
Trend Rate	4.00%
Payroll Growth Rate	2.75%
Retirement Rates	CalPERS retirement rates for the 2%@60 Rates for Miscellaneous Employees
Turnover Assumptions	CalPERS turnover for Miscellaneous employees for all employees

### **NOTE 8 – CONSOLIDATION WITH MOSS LANDING COUNTY SANITATION DISTRICT**

As of July 1, 2014, the District has consolidated with the Moss Landing County Sanitation District and as a result all financial assets of the Moss Landing County Sanitation District have been transferred to the District. Also as a result of the consolidation the District paid off the Moss Landing Sewer Bond in the amount of \$234,946 as of July 1, 2014.

### **NOTE 9 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.



**Castroville Community Service District**  
 Required Supplemental Information  
 For the Year Ended June 30, 2014

***SCHEDULE OF FUNDING PROGRESS***  
***Of Other Post Employment Healthcare Plan***

**Postemployment Healthcare Plan**

Actuarial Valuation date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL(UAAL) (B-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b- a)/c)
6/30/2010	\$ -	\$ 380,122	\$ 380,122	0%	\$ 378,311	100%
6/30/2011	\$ -	\$ 380,122	\$ 380,122	0%	\$ 450,988	84%
6/30/2012	\$ 25,805	\$ 273,626	\$ 266,840	9%	\$ 435,374	61%
6/30/2013	\$ 54,614	\$ 280,722	\$ 226,108	19%	\$ 421,270	54%

# Castroville Community Service District

## Required Supplemental Information Budget to Actual - Governmental Funds For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Grant Funding	\$ 5,600	\$ 5,600	\$ 5,645	\$ 45
Investment Earnings	2,500	2,500	1,597	(903)
Charges for Services and Other	65,450	65,450	66,308	858
Total Revenues	73,550	73,550	73,550	-
<b>EXPENDITURES:</b>				
Current:				
Streets, Street Lights and Open Space	138,900	138,900	130,861	8,039
Public Works	3,000	3,000	2,910	90
Recreation	151,569	151,569	138,612	12,957
Total Expenditures	293,469	293,469	272,383	21,086
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(219,919)	(219,919)	(198,833)	21,086
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	-	145,353	-
Total Other Financing Sources (Uses)	-	-	145,353	145,353
<b>NET CHANGE IN FUND BALANCE</b>	\$ (219,919)	\$ (219,919)	\$ (53,480)	\$ -

# Castroville Community Service District

## Required Supplemental Information

### Budget to Actual - Water Fund

For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
<b><u>OPERATING REVENUES</u></b>				
Water Sales	\$ 811,500	\$ 811,500	\$ 850,671	\$ 39,171
New Service and Connection Fees	10,000	10,000	9,776	(224)
Other Revenues	77,650	77,650	52,578	(25,072)
Total Operating Revenues	899,150	899,150	913,025	13,875
<b><u>OPERATING EXPENSES</u></b>				
General Operation Expenses				
Payroll and Related Expenses	80,956	80,956	80,381	575
Utility Expense	78,000	78,000	81,211	(3,211)
Water and Sewer Line Expenses	14,500	14,500	21,499	(6,999)
General Operations	17,600	17,600	15,123	2,477
Meter Expenses	5,300	5,300	5,113	187
Automobile Expenses	5,500	5,500	3,445	2,055
Well Site Expenses	14,300	14,300	16,351	(2,051)
Hydrant Expenses	6,700	6,700	780	5,920
Administrative Expenses				
Payroll and Related Expenses	201,084	201,084	196,468	4,616
Consulting Expenses	31,593	31,593	14,946	16,647
Office Expenses	35,030	35,030	30,057	4,973
Retirement Plan Contributions	33,218	33,218	34,345	(1,127)
Billing Expenses	22,320	22,320	20,622	1,698
Insurance Expense	12,500	12,500	8,959	3,541
Utility Expenses	4,225	4,225	3,941	284
Bad Debts	1,500	1,500	323	1,177
Total Operating Expenses	564,326	564,326	533,564	30,762
<b><u>NON-OPERATING REVENUES and (EXPENSES)</u></b>				
Interest Revenue	7,000	7,000	7,187	187
Bond Issue Cost Amortization	-	-	(8,241)	(8,241)
Interest on Long-Term Debt	(21,461)	(21,461)	(21,307)	154
Debt Administration Costs	(4,461)	(4,461)	(5,695)	(1,234)
Total Non-operating Revenues (Expenses)	(18,922)	(18,922)	(28,056)	(9,134)
Net Income Before Depreciation (Budgetary Basis)	315,902	315,902	351,405	35,503
<b><u>GAAP RECONCILING ITEMS</u></b>				
Depreciation	(222,410)	(222,410)	(218,180)	4,230
Total GAAP Reconciling Items	(222,410)	(222,410)	(218,180)	4,230
Net Income Before Transfers (GAAP Basis)	93,492	93,492	133,225	39,733
<b><u>TRANSFERS</u></b>				
Transfers In/(Out)	-	-	794,433	794,433
<b><u>CHANGE IN NET ASSETS</u></b>	\$ 315,902	\$ 315,902	\$ 927,658	\$ 834,166

See Auditor's Report

The Accompanying Notes Are An Integral Part of These Financial Statements

**Castroville Community Service District**  
**Required Supplemental Information**  
**Budget to Actual - Sewer Fund**  
**For the Year Ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
<b><u>OPERATING REVENUES</u></b>				
Property Tax and User Fees	\$ 250,640	\$ 250,640	\$ 253,368	\$ 2,728
Connection Fees	12,000	12,000	-	(12,000)
Other Revenues	1,111,598	1,111,598	1,519,459	407,861
Total Operating Revenues	<u>1,374,238</u>	<u>1,374,238</u>	<u>1,772,827</u>	<u>398,589</u>
<b><u>OPERATING EXPENSES</u></b>				
General Operation Expenses				
Payroll and Related Expenses	335,870	335,870	330,894	4,976
General Operations	8,300	8,300	3,988	4,312
Lift Station Expense	25,900	25,900	21,964	3,936
Sewer Line	22,000	22,000	17,683	4,317
Storm drain Expense	17,700	17,700	7,598	10,102
Utility Expense	4,550	4,550	4,249	301
Retirement Plan Contributions	29,000	29,000	31,694	(2,694)
Insurance Expense	12,600	12,600	8,177	4,423
Office Expense	24,705	24,705	18,103	6,602
Consulting Expense	84,593	84,593	44,049	40,544
Automobile Expense	12,940	12,940	11,816	1,124
Bond, Loan and Certificate Expense	1,650	1,650	719	931
Total Operating Expenses	579,808	579,808	500,934	78,874
<b><u>NON-OPERATING REVENUES and (EXPENSES)</u></b>				
Amortization of Organizational Cost	(4,122)	(4,122)	(4,122)	-
Total Non-operating Revenues	<u>(4,122)</u>	<u>(4,122)</u>	<u>(4,122)</u>	<u>-</u>
Net Income Before Depreciation (Budgetary Basis)	790,308	790,308	1,267,771	477,463
<b><u>GAAP RECONCILING ITEMS</u></b>				
Depreciation	(63,437)	(63,437)	(74,286)	(10,849)
Total GAAP Reconciling Items	<u>(63,437)</u>	<u>(63,437)</u>	<u>(74,286)</u>	<u>(10,849)</u>
Net Income Before Transfers (GAAP Basis)	726,871	726,871	1,193,485	466,614
<b><u>TRANSFERS</u></b>				
Transfers In/(Out)	-	-	(939,786)	(939,786)
<b><u>CHANGE IN NET ASSETS</u></b>				
	<u>\$ 726,871</u>	<u>\$ 726,871</u>	<u>\$ 253,699</u>	<u>\$ (473,172)</u>

**Hinricher, Douglas & Porter, LLP**

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Board of Directors and Members  
Castroville Community Service District  
Castroville, California

**Independent Auditors' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters based on an Audit of Financial Statements  
Performed in Accordance With Government Auditing Standards.**

We have audited, 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 Comp Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of Castroville Community Service District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Castroville Community Service District's basic financial statements, and have issued our report thereon dated September 22, 2014.

**Internal Control Over Financial Reporting**

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

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

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

*Compliance and Other Matters*

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

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

*Hinricher, Douglas & Porter*

September 22, 2014