

SUNSET BEACH SANITARY DISTRICT
BASIC FINANCIAL STATEMENTS
WITH REPORT ON AUDIT BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
JUNE 30, 2015

SUNSET BEACH SANITARY DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Sunset Beach Sanitary District
Sunset Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activity and general fund of the Sunset Beach Sanitary District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Auditing Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and general fund of the District as of June 30, 2015 and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matter

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements is not affected by this missing information.

White Nelson Dick Evans LLP

Irvine, California
May 12, 2016

BASIC FINANCIAL STATEMENTS

SUNSET BEACH SANITARY DISTRICT
GOVERNMENTAL FUND BALANCE SHEET
AND STATEMENT OF NET POSITION

June 30, 2015

	General Fund	Adjustments	Statement of Net Position
ASSETS			
CURRENT ASSETS:			
Cash and investments	\$ 1,141,344	\$ -	\$ 1,141,344
Property taxes receivable, net	21,560	-	21,560
Interest receivable	226	-	226
Prepaid items	6,089	-	6,089
TOTAL CURRENT ASSETS	<u>1,169,219</u>	<u>-</u>	<u>1,169,219</u>
CAPITAL ASSETS:			
Sewer transmission and treatment capacity rights	-	1,754,389	1,754,389
Construction in progress	-	19,481	19,481
Property, plant and equipment, net of \$834,442 accumulated depreciation	<u>-</u>	<u>1,792,617</u>	<u>1,792,617</u>
TOTAL CAPITAL ASSETS	<u>-</u>	<u>3,566,487</u>	<u>3,566,487</u>
TOTAL ASSETS	<u><u>\$ 1,169,219</u></u>	<u><u>\$ 3,566,487</u></u>	<u><u>4,735,706</u></u>
LIABILITIES AND FUND BALANCE/NET POSITION			
CURRENT LIABILITIES:			
Accounts payable	\$ 297,348	\$ -	297,348
Wages payable	7,968	-	7,968
Due to other governmental agencies	629	-	629
Due to City of Huntington Beach	<u>-</u>	<u>80,000</u>	<u>80,000</u>
TOTAL CURRENT LIABILITIES	<u>305,945</u>	<u>80,000</u>	<u>385,945</u>
TOTAL LIABILITIES	<u>305,945</u>	<u>80,000</u>	<u>385,945</u>
FUND BALANCE/NET POSITION:			
Fund balance:			
Nonspendable:			
Prepaid items	6,089	(6,089)	
Assigned:			
Capital improvements	50,000	(50,000)	
Unassigned	<u>807,185</u>	<u>(807,185)</u>	
TOTAL FUND BALANCE	<u>863,274</u>	<u>(863,274)</u>	
Net position:			
Net investment in capital assets		3,486,487	3,486,487
Unrestricted		<u>863,274</u>	<u>863,274</u>
TOTAL NET POSITION		<u>4,349,761</u>	<u>\$ 4,349,761</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 1,169,219</u></u>	<u><u>\$ 3,566,487</u></u>	

See accompanying notes to basic financial statements.

SUNSET BEACH SANITARY DISTRICT

GOVERNMENTAL FUND STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES

For the year ended June 30, 2015

	General Fund	Adjustments	Statement of Activities
EXPENDITURES / PROGRAM EXPENSES:			
Sanitation services:			
Salaries and employee benefits	\$ 119,353	\$ -	\$ 119,353
Equipment and facilities, maintenance and repair	111,502	(54,535)	56,967
Insurance	7,307	-	7,307
Miscellaneous	5,816	-	5,816
Office expense	547	-	547
Professional and specialized services	53,739	-	53,739
Publication of legal notice	663	-	663
Refuse disposal	238,267	-	238,267
Rents and leases	11,675	-	11,675
Engineering and construction	892,575	(890,274)	2,301
Principal paid on liability due to City of Huntington Beach	80,000	(80,000)	-
Telephone	4,061	-	4,061
Transportation and travel	6,313	-	6,313
Utilities	268,041	-	268,041
Depreciation	-	108,824	108,824
TOTAL EXPENDITURES / PROGRAM EXPENSES	<u>1,799,859</u>	<u>(915,985)</u>	<u>883,874</u>
PROGRAM REVENUES:			
Sanitation services	<u>441,630</u>	<u>-</u>	<u>441,630</u>
NET PROGRAM ACTIVITY	<u>(1,358,229)</u>	<u>915,985</u>	<u>(442,244)</u>
GENERAL REVENUES:			
Property taxes	607,562	-	607,562
Penalties and costs	87	-	87
Sanitation permits	14,000	-	14,000
Interest earned	4,760	-	4,760
Other	81,007	(80,924)	83
TOTAL GENERAL REVENUES	<u>707,416</u>	<u>(80,924)</u>	<u>626,492</u>
CHANGE IN FUND BALANCE / NET POSITION BEFORE CAPITAL CONTRIBUTIONS	(650,813)	835,061	184,248
FUND BALANCE - JULY 1, 2014	<u>1,514,087</u>		
FUND BALANCE - JUNE 30, 2015	<u>\$ 863,274</u>		
CAPITAL CONTRIBUTIONS		<u>80,924</u>	<u>80,924</u>
CHANGE IN NET POSITION		<u>\$ 915,985</u>	265,172
NET POSITION - JULY 1, 2014			<u>4,084,589</u>
NET POSITION - JUNE 30, 2015			<u>\$ 4,349,761</u>

See accompanying notes to basic financial statements.

SUNSET BEACH SANITARY DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the year ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Sanitation services	\$ 434,950	\$ 434,950	\$ 441,630	\$ 6,680
Property taxes	548,922	548,922	607,562	58,640
Penalties and costs	-	-	87	87
Sanitation permits	-	-	14,000	14,000
Interest earned	3,000	3,000	4,760	1,760
Other	50,000	50,000	81,007	31,007
TOTAL REVENUES	<u>1,036,872</u>	<u>1,036,872</u>	<u>1,149,046</u>	<u>112,174</u>
EXPENDITURES:				
Salaries and employee benefits	118,355	118,355	119,353	(998)
Equipment and facilities, maintenance and repair	317,000	317,000	111,502	205,498
Insurance	8,500	8,500	7,307	1,193
Miscellaneous	8,300	8,300	5,816	2,484
Office expense	500	500	547	(47)
Professional and specialized services	87,500	87,500	53,739	33,761
Publication of legal notice	3,000	3,000	663	2,337
Refuse disposal	242,000	242,000	238,267	3,733
Rents and leases	11,660	11,660	11,675	(15)
Telephone	4,400	4,400	4,061	339
Transportation and travel	6,000	6,000	6,313	(313)
Utilities	246,035	246,035	268,041	(22,006)
Capital outlay - engineering and construction	1,145,000	1,145,000	892,575	252,425
Principal paid on liability due to City of Huntington Beach	80,000	80,000	80,000	-
TOTAL EXPENDITURES	<u>2,278,250</u>	<u>2,278,250</u>	<u>1,799,859</u>	<u>478,391</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,241,378)</u>	<u>(1,241,378)</u>	<u>(650,813)</u>	<u>590,565</u>
FUND BALANCE - JULY 1, 2014	<u>1,514,087</u>	<u>1,514,087</u>	<u>1,514,087</u>	<u>-</u>
FUND BALANCE - JUNE 30, 2015	<u>\$ 272,709</u>	<u>\$ 272,709</u>	<u>\$ 863,274</u>	<u>\$ 590,565</u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description of Reporting Entity:

The Sunset Beach Sanitary District was organized to operate a sewer system serving the residents of Sunset Beach, Surfside Colony within the City of Seal Beach, and certain lots within the City of Huntington Beach. At June 30, 2015 the District served 229 commercial units and 990 residential sewer units and 1,023 trash units.

B. Financial Statement Presentation:

Local government entities are required to report information on a government-wide basis and on a fund basis (with emphasis placed on major funds of the entity). The government-wide financial statements (i.e. statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. The governmental fund financial statements (i.e. balance sheet and the statement of revenues, expenditures and changes in fund balance) report information on individual funds of the government. A fund is considered to be separate accounting entity with a self-balancing set of accounts.

Since the Sunset Beach Sanitary District (the District) is engaged in a single governmental activity and it has no component units, the government-wide and governmental fund financial statements have been combined with a reconciliation of the individual line items in a separate column entitled "Adjustments" on the financial statements which accounts for the differences in measurement focus and basis of accounting of these financial statements as described in Notes 1C and 1D. The amounts reported in the "Adjustments" column pertain to the balances and activity of the District's long-term assets and liabilities. The government-wide financial statements are reported in the "Statement of Net Position" and "Statement of Activities" columns. The governmental fund financial statements are reported in the "General Fund" column.

C. Measurement Focus:

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

On the government-wide Statement of Net Position and the Statement of Activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported.

SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Measurement Focus (Continued):

In the governmental fund financial statements, all funds are accounted for on the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

D. Basis of Accounting:

In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the governmental fund financial statements, funds are presented using the modified-accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. The District considers fees for sanitation services, property taxes and investment income to be available if collected within 60 days of the end of the current fiscal period.

SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

D. Basis of Accounting (Continued):

Fees for sanitation services, property taxes, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available when cash is received by the government.

E. New Accounting Pronouncements:

Current Year Standards

GASB 68 - *“Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27”*, required to be implemented in the current fiscal year and did not impact the District.

GASB 69 - *“Government Combinations and Disposals of Government Operations”*, required to be implemented in the current fiscal year and did not impact the District.

GASB 71 - *“Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68”*, required to be implemented in the current fiscal year and did not impact the District.

Pending Accounting Standards

- GASB 72 - *“Fair Value Measurement and Application”*, effective for periods beginning after June 15, 2015.
- GASB 73 - *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”*, effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*, effective for periods beginning after June 15, 2016.
- GASB 75 - *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*, effective for periods beginning after June 15, 2017.

SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. New Accounting Pronouncements (Continued):

Pending Accounting Standards (Continued)

- GASB 76 - *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”*, effective for periods beginning after June 15, 2015.
- GASB Statement 77 - *“Tax Abatement Disclosures”*, effective for periods beginning after December 15, 2015.
- GASB Statement 78 - *“Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans”*, effective for periods beginning after December 15, 2015.
- GASB Statement 79 - *“Certain External Investment Pools and Pool Participants”*, effective for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, those provisions are effective for reporting periods beginning after December 15, 2015.
- GASB Statement 80 - *“Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14”*, effective for periods beginning after June 15, 2016.

F. Investments:

Investments are stated at fair value.

G. Capital Assets:

The capital assets of the District are comprised of capacity rights purchased by the District in sewage treatment and transmission facilities owned by others, as well as fixed assets owned by the District. Capacity rights are carried at cost with no provision for amortization.

Other capital assets owned by the District, which includes sewer improvements, pump stations and equipment, are carried at cost, net of accumulated depreciation. Capital assets are depreciated using the straight-line method and lives used for depreciation are:

Sewer improvements and pump stations	10 - 30 years
Equipment	7 - 10 years

The District’s policy is to capitalize assets purchased with an economic useful life of more than one year and a cost of more than \$1,000.

SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

H. Sanitation Services Revenue:

Sanitation services revenue results from residential and business refuse disposal secured assessments which are collected from the District population by additions to the annual property tax statements.

I. Property Taxes:

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on November 1 and February 1 and become delinquent December 11 and April 11. The County of Orange bills and collects the property taxes and remits them to the District in installments during the year. District property tax revenues are recognized when levied to the extent that they result in current receivables.

J. Lease:

The District accounts for its leased storage space under the operating method of accounting, thus, lease payments are expensed as incurred.

K. Net Position:

In the statement of net position, net position is classified in the following categories:

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation on these assets and related long-term debt used to acquire the assets reduces this category.

Unrestricted Net Position - This category represents the net position of the District that is not restricted for any project or other purpose.

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

L. Fund Balance:

The fund balances reported in the governmental fund balance sheet is classified in the following categories:

Assigned Fund Balance - This classification includes amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Intent is expressed by the Board of Directors to assign amounts to be used for specific purposes.

Unassigned Fund Balance - This classification includes the residual balance for the government's general fund and includes all spendable amounts not contained in other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District's policy is to apply restricted fund balance first.

When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the District's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

M. Budget:

The Board of Directors adopts an annual budget which begins on July 1. Annual appropriations are approved by the Board of Directors prior to the beginning of each year. All appropriations lapse at year-end. The Board of Directors has the legal authority to amend the budget at any time during the fiscal year. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the expenditure line item level.

N. Estimates:

The preparation of basic financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities/and disclosures of contingent assets and liabilities at the date of the basic financial statements, as well as the reported amounts of revenues and expenditures/expenses during the reporting period. Accordingly, actual results could differ from those estimates.

SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments of \$1,141,344 consists of \$67,984 in federally-insured demand accounts, \$567,709 invested in California Local Agency Investment Fund (LAIF), and \$505,651 maintained by the County of Orange that is pooled with other County cash and investments. Interest income is allocated to the District on a quarterly basis by the County and LAIF.

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized by the District's investment policy. The table also identifies certain provisions of the 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>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Investment Fund (LAIF)	N/A	None	None
Orange County Pooled Investment Fund	N/A	None	None
N/A - Not Applicable			

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by investing in the Orange County Pooled Investment Fund and LAIF. Funds invested in the Orange County Pooled Investment Fund and LAIF are highly liquid as deposits and withdrawals can be made at any time without penalty.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the Orange County Pooled Investment Fund and LAIF are not rated.

The District has no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

SUNSET BEACH SANITARY DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2015, the District's deposits with financial institutions are covered by FDIC insurance.

Investment in Orange County Pooled Investment Fund

The District is a voluntary participant in the Orange County Pooled Investment Fund (OCPIF) that is a pooled investment fund program governed by the Orange County Board of Supervisors, and is administered by the Orange County Treasurer and Tax Collector. Investments in OCPIF are highly liquid as deposits and withdrawal can be made at any time without penalty. The District's fair value of its share in the pool is the same value of the pool shares. Information on OCPIF's use of derivative securities in its investment portfolio and OCPIF's and the District's exposure to credit, market, or legal risk is not available.

Investment in Local Agency Investment Fund

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

3. SEWER TRANSMISSION AND TREATMENT CAPACITY RIGHTS:

The District purchased capacity rights in facilities for transmission and treatment of District wastewater and sewage from the City of Huntington Beach on December 23, 1970 at a cost of \$158,812, on July 29, 1986 at a cost of \$327,500, on July 17, 2006 at a cost of \$800,000, and on June 11, 2015 at a cost of \$468,077. The City of Huntington Beach has contracted with County Sanitation District No. 11 of Orange County to provide treatment and disposal facilities for the processing of wastewater and sewage from the District's area.

The District owns certain transmission lines and pumps which are in use but are fully depreciated since they were acquired prior to 1940. No cost or book values for these assets are shown in the accompanying financial statements.

4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance at June 30, 2014	Additions	Deletions	Balance at June 30, 2015
Capital assets, not being depreciated:				
Capacity rights	\$ 1,286,312	\$ 468,077	\$ -	\$ 1,754,389
Construction in progress	<u>379,498</u>	<u>439,138</u>	<u>(799,155)</u>	<u>19,481</u>
Total capital assets, not being depreciated	<u>1,665,810</u>	<u>907,215</u>	<u>(799,155)</u>	<u>1,773,870</u>
Capital assets, being depreciated:				
Sewer improvements and pump stations	1,598,988	799,155	-	2,398,143
Equipment	<u>191,322</u>	<u>37,594</u>	<u>-</u>	<u>228,916</u>
Total capital assets being depreciated	1,790,310	836,749	-	2,627,059
Less accumulated depreciation	<u>(725,618)</u>	<u>(108,824)</u>	<u>-</u>	<u>(834,442)</u>
Total capital assets being depreciated, net	<u>1,064,692</u>	<u>727,925</u>	<u>-</u>	<u>1,792,617</u>
Capital assets, net	<u>\$ 2,730,502</u>	<u>\$ 1,635,140</u>	<u>\$ (799,155)</u>	<u>\$ 3,566,487</u>

SUNSET BEACH SANITARY DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

5. DUE TO THE CITY OF HUNTINGTON BEACH:

The District entered into an amendment on July 17, 2006 (Amendment No. 1) to supplement an agreement dated April 2, 2001 entitled "Agreement for the Conveyance of Wastewater" between the City of Huntington Beach and Sunset Beach Sanitary District whereby the District was afforded a capacity right in the City's existing and expanded wastewater facilities. The City has entered into a contract "Existing Work" for the construction of certain pump stations and sewer lines at a depth and location which will substantially reduce capital, operation and maintenance costs which the District would otherwise incur provided it remains connected to the City's sewerage system. Under the agreement, \$800,000 is the District's fair share of the "Existing Work" to design, administer and construct the "Existing Work". The District will pay the City an annual payment of \$80,000 (without interest) for ten consecutive years commencing February 1, 2007 and each successive payment will be made on the anniversary of that date. For the period ended June 30, 2015, principal payments totaled \$80,000 which results in an outstanding balance as of June 30, 2015 of \$80,000 under this agreement, due within one year.

6. MINIMUM LEASE PAYMENTS:

The District leases a storage facility under a three-year, non-cancelable operating lease agreement. The lease requires monthly payments of \$926 until the agreement expires on May 31, 2016. Total rental expenditures for the period ended June 30, 2015 is \$11,250. The following is a schedule by fiscal year of future minimum rental payments required under the operating lease agreements:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2016	<u>\$ 10,186</u>

7. JOINT POWERS AUTHORITY:

The District is a member of the Special District Risk Management Authority (Authority).

A. Description of Special District Risk Management Authority:

The Authority is an intergovernmental risk sharing joint powers authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

B. Self-Insurance Programs of the Authority:

At June 30, 2015 the District participated in the self-insurance programs of the Authority as follows:

SUNSET BEACH SANITARY DISTRICT
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7. JOINT POWERS AUTHORITY (CONTINUED):

B. Self-Insurance Programs of the Authority (Continued):

Property Loss: Insured up to replacement cost for scheduled property. \$1,000,000,000 per occurrence, subject to a \$1,000 deductible.

Boiler and Machinery Coverage: Insured up to replacement cost for scheduled property. \$100,000,000 per occurrence, subject to a \$1,000 deductible.

General and Auto Liability: Insured up to \$5,000,000 per occurrence, subject to a \$500 deductible for general liability claims and \$1,000 deductible for auto liability claims.

Public Officials' and Employees' Errors and Omissions and Employment Practices Liability: Insured up to \$5,000,000 per wrongful act with an annual member aggregate. The District is responsible for 50% of the amount in excess of \$10,000 and less than \$50,000. However, if certain criteria is met, this obligation will be waived.

General and Auto Liability, Public Officials' and Employees' Errors and Omissions, and Employment Practices Liability have a combined single limit of \$5,000,000 per occurrence.

Public Officials' Personal Liability: Insured up to \$500,000 per occurrence with an annual aggregate per Board Member, subject to a \$500 deductible.

Employee Dishonesty Coverage: Insured up to \$400,000 per occurrence. Includes public employee dishonesty, forgery or alteration and theft, and disappearance and destruction coverages.

Workers' Compensation Coverage and Employer's Liability Coverage: Insured up to California statutory limits for all work related injuries/illnesses covered by California law and up to \$5,000,000 for employer's liability coverage subject to terms, conditions and exclusions as provided in the Memorandum of Coverage.

During the past three years, the above programs have had no settlements that exceed insurance coverage and there have been no significant reductions in insurance coverage.

8. SUBSEQUENT EVENTS:

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through May 12, 2016, the date the financial statements were available to be issued.