

DE LUZ COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2016



**DE LUZ COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2016**

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Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
De Luz Community Services District
41606 Date Street, Suite 205
Murrieta, California 92562

Report on Financial Statements

We have audited the accompanying financial statements of the De Luz Community Services District, which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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 and the State Controller's minimum audit 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 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 risks 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.

To the Board of Directors
De Luz Community Services District

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the De Luz Community Services District as of June 30, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of Plan's proportionate share of the net pension liability and the schedules of plan contributions be presented to supplement the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Leaf & Cole LLP

San Diego, California
November 17, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of De Luz Community Service District (District) provides an overview of the District's financial activities for the year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which begin on page 8.

Financial Statements

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The District's financial statements include four components:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements

The statement of net position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position may be displayed in three categories:

- Net investment in capital assets
- Restricted Net Position
- Unrestricted Net Position

The statement of net position provides the basis for computing rate of return, evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenues, expenses and changes in net position presents information which shows how the District's net position changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net position measures the success of the District's operations over the past year and determines whether the District has recovered its costs through benefit fees and other charges.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement may report cash activity in four categories:

- Operating
- Investing
- Capital financing
- Noncapital financing

This statement differs from the statement of revenues, expenses and changes in net position because the statement accounts only for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

- The District's net position increased \$643,236 to \$18,012,331 for the year ended June 30, 2016.
- The District's total revenues increased from \$2,446,128 for the year ended June 30, 2015 to \$2,449,365 for the year ended June 30, 2016.
- The District's total expenses decreased from \$1,968,757 for the year ended June 30, 2015 to \$1,806,129 for the year ended June 30, 2016. The decrease in general contract and P.O. work accounts for the majority of the decrease.

Financial Analysis of the District

Net Position

The following is a summary of the District's statements of net position at June 30:

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>
<u>Assets:</u>			
Current and other assets	\$ 5,658,518	\$ 5,079,380	\$ 579,138
Capital assets	13,779,244	13,909,943	(130,699)
Total Assets	<u>19,437,762</u>	<u>18,989,323</u>	<u>448,439</u>
<u>Deferred Outflows of Resources</u>	<u>209,619</u>	<u>92,905</u>	<u>116,714</u>
<u>Liabilities:</u>			
Current liabilities	114,625	94,417	20,208
Noncurrent liabilities	1,435,560	1,435,204	356
Total Liabilities	<u>1,550,185</u>	<u>1,529,621</u>	<u>20,564</u>
<u>Deferred Inflows of Resources</u>	<u>84,865</u>	<u>183,512</u>	<u>(98,647)</u>
<u>Net Position:</u>			
Net investment in capital assets	13,423,664	13,523,019	(99,355)
Unrestricted	4,588,667	3,846,076	742,591
Total Net Position	<u>\$ 18,012,331</u>	<u>\$ 17,369,095</u>	<u>\$ 643,236</u>

As noted in the financial highlights above, net position increased by \$643,236 from fiscal year 2015 to 2016. Net investment in capital assets decreased \$99,355 in fiscal year 2016. This decrease is the result of depreciation expense exceeding the District's investment in capital assets in fiscal year 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues, Expenses and Changes in Net Position

The following is a summary of the District's revenues, expenses and changes in net position for the years ended June 30:

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>
Operating revenues	\$ 2,431,615	\$ 2,436,711	\$ (5,096)
Nonoperating revenues	17,750	9,417	8,333
Total Revenues	<u>2,449,365</u>	<u>2,446,128</u>	<u>3,237</u>
Depreciation expense	648,083	645,469	2,614
Other operating expenses	1,062,830	1,288,256	(225,426)
Nonoperating expense	95,216	35,032	60,184
Total Expenses	<u>1,806,129</u>	<u>1,968,757</u>	<u>(162,628)</u>
Change in Net Position	643,236	477,371	165,865
Net Position at Beginning of Year	<u>17,369,095</u>	<u>16,891,724</u>	<u>477,371</u>
Net Position at End of Year	<u>\$ 18,012,331</u>	<u>\$ 17,369,095</u>	<u>\$ 643,236</u>

A closer examination of the sources of changes in net position reveals that the District's operating revenues decreased by \$5,096 in fiscal year 2016 as a result of decreased development mitigation fees. Nonoperating revenues increased by \$8,333 in fiscal year 2016. Operating expenses, exclusive of depreciation, decreased \$225,426 in fiscal year 2016 due to less general contract and P.O. work, asphalt restoration activity and repairs on existing roads. Nonoperating costs increased \$60,184 in fiscal year 2016 as a result of a increased loss on disposal of capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

Capital assets consist of the following at June 30:

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>
<u>Capital Assets Being Depreciated:</u>			
Roads	\$ 21,869,614	\$ 21,714,513	\$ 155,101
Culverts	3,144,129	3,076,720	67,409
Building	549,204	549,204	-
Construction equipment	202,526	202,526	-
Dips	180,383	180,383	-
Signs	161,079	161,079	-
Transportation equipment	130,740	119,142	11,598
Guard rails	101,697	101,697	-
Office furniture	31,766	31,766	-
Other assets	28,410	28,410	-
Total Capital Assets Being Depreciated	26,399,548	26,165,440	234,108
Less: Accumulated depreciation	(12,620,304)	(12,255,497)	(364,807)
Net Capital Assets Being Depreciated	13,779,244	13,909,943	(130,699)
Net Capital Assets	\$ 13,779,244	\$ 13,909,943	\$ (130,699)

The net additions of capital assets being depreciated for fiscal year 2016 totaled \$234,108. Capital asset additions consisted of road and culvert additions including the Via Vaquero, Los Palmeras and Carancho.

Capital Lease Obligation

The following is a summary of the District's capital lease obligation at June 30:

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>
Capital lease obligation	\$ 355,580	\$ 386,924	\$ (31,344)

The District reduced its capital lease obligation by \$31,344 during the year ended June 30, 2016. No new debt has been issued. Details of the capital lease obligation can be found in Note 6 to the financial statements.

Economic Factors and Next Year's Budget

The District's Board of Directors and management consider many factors when setting the fiscal year budget. In a comparison of the 2017 and 2016 budgets, operating revenues and expenses remain relatively similar. The District anticipates future cost savings being achieved by reductions in benefit packages offered to new hires.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it changes. If you have questions about this report or need additional financial information, contact the De Luz Community Services District at 41606 Date Street, Suite 205, Murrieta, California 92562-7090 or call (951) 696-0060.

**DE LUZ COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016**

ASSETS

Current Assets: (Notes 1 and 2)

Cash and cash equivalents	\$ 5,205,976
Benefit fees receivable	180,670
Franchise fee receivable	50,414
Accrued interest receivable	5,937
Prepaid expenses	23,332
Total Current Assets	5,466,329

Noncurrent Assets:

Restricted Assets: (Notes 1, 2 and 3)

Cash and cash equivalents	192,189
Total Restricted Assets	192,189

Capital Assets: (Notes 1, 4 and 6)

Depreciable, net of accumulated depreciation	13,779,244
Total Capital Assets	13,779,244

Total Noncurrent Assets	13,971,433
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TOTAL ASSETS	\$ 19,437,762
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DEFERRED OUTFLOWS OF RESOURCES: (Notes 1 and 9)

Deferred outflows related to contributions	101,045
Deferred outflows related to pensions	108,574
Total Deferred Outflows of Resources	209,619

(Continued)

The accompanying notes are an integral part of the financial statements.

**DE LUZ COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2016**

LIABILITIES

Current Liabilities: (Notes 1, 5 and 6)

Accounts payable	\$ 63,018
Accrued payroll	18,371
Current portion of capital lease obligation	33,236
Total Current Liabilities	114,625

Noncurrent Liabilities:

Liabilities Payable From Restricted Assets: (Notes 1, 3, 5, 7 and 8)

Due to Assessment District 90-1	105,780
Deposits	86,409
Total Liabilities Payable From Restricted Assets	192,189

Other Noncurrent Liabilities: (Notes 1, 5 and 6)

Net pension liability	877,312
Compensated absences	43,715
Capital lease obligation	322,344
Total Other Noncurrent Liabilities	1,243,371

Total Noncurrent Liabilities	1,435,560
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Total Liabilities	1,550,185
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DEFERRED INFLOWS OF RESOURCES (Notes 1 and 9)

Deferred inflows related to pensions	84,865
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Commitments and Contingencies (Notes 9 and 10)

NET POSITION:

Net investment in capital assets	13,423,664
Unrestricted	4,588,667
Total Net Position	\$ 18,012,331

The accompanying notes are an integral part of the financial statements.

**DE LUZ COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

Operating Revenues:

Benefit fees	\$ 2,335,656
Franchise fees	50,414
Development mitigation fees	21,715
Miscellaneous income	16,575
Permit income	7,045
Bid package income	210
Total Operating Revenue	2,431,615

Operating Expenses:

Depreciation	648,083
General and administrative	589,913
Sheriff expense	223,784
In-house road maintenance	164,892
General contract and P.O. work	84,241
Total Operating Expenses	1,710,913

Operating Income	720,702
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Nonoperating Revenues (Expenses):

Interest income	17,750
Interest expense	(22,598)
Loss on disposal of capital assets	(72,618)
Total Nonoperating Revenues (Expenses)	(77,466)

Change in Net Position	643,236
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Net Position at Beginning of Year	17,369,095
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NET POSITION AT END OF YEAR	\$ 18,012,331
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The accompanying notes are an integral part of the financial statements.

**DE LUZ COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

Cash Flows From Operating Activities:

Cash received from customers	\$ 2,425,967
Cash payments to suppliers for goods and services	(636,882)
Cash payments to employees for services	(486,628)
Net Cash Provided by Operating Activities	<u>1,302,457</u>

Cash Flows From Capital and Related Financing Activities:

Acquisition and construction of capital assets	(626,346)
Proceeds from sale of capital assets	36,344
Payments on capital lease obligation	(31,344)
Interest paid on capital lease obligation	(22,598)
Payment on due to Assessment District 90-1, net	(101,865)
Receipt of deposits, net	800
Net Cash Used in Capital and Related Financing Activities	<u>(745,009)</u>

Cash Flows From Investing Activities:

Interest income	<u>14,487</u>
Net Cash Provided by Investing Activities	<u>14,487</u>

Net Increase in Cash and Cash Equivalents	571,935
Cash and Cash Equivalents at Beginning of Year	<u>4,826,230</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,398,165</u>

Cash and Cash Equivalents:

Financial Statement Classification:

Cash and cash equivalents	\$ 5,205,976
Restricted cash and cash equivalents	192,189
Total Cash and Cash Equivalents	<u>\$ 5,398,165</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

**DE LUZ COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities:

Operating income	\$ 720,702
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	648,083
(Increase) Decrease in:	
Benefit fees receivable	(12,631)
Francise fees receivable	501
Prepaid expenses	1,708
Restricted benefit fees receivable	6,482
Deferred outflows related to contributions	(9,469)
Deferred outflows related to pensions	(107,245)
Increase (Decrease) in:	
Accounts payable	2,509
Accrued payroll	(95)
Net pension liability	151,106
Compensated absences	(547)
Deferred inflows related to pensions	(98,647)
Net Cash Provided by Operating Activities	<u>\$ 1,302,457</u>

The accompanying notes are an integral part of the financial statements.

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 1 - Organization and Significant Accounting Policies:

Organization

The De Luz Community Services District (formerly Santa Rosa Community Services District) was created as a Community Services District in 1978 by the Local Agency Formation Commission pursuant to Government Code Section 61000, and is governed by an elected five member board. The District was organized for the purpose of providing street improvements and maintenance, refuse disposal, and supplementary police protection within its geographical boundaries.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Cod. Sec. 2100 "Defining the Financial Reporting Entity." The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has no component units.

Significant Accounting Policies

A summary of the District's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Method of Accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, the statement of net position and the statement of revenues, expenses and changes in net position have been prepared using the economic resources measurement focus and the accrual basis of accounting.

The District has not elected to apply the option allowed in GASB Cod. Sec. P80. 103 "Proprietary Fund Accounting and Financial Reporting" and as a consequence will continue to apply GASB Statements and Interpretations.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The District recognizes revenues from benefit and other fees when they are earned. Operating activities generally result from providing services and producing and delivering goods. As such, the District considers benefit and other fees to be operating revenues.

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Investments

Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all benefit fees and franchise fees receivable were fully collectible; therefore no allowance for doubtful benefit fees and franchise fees receivable was recorded at June 30, 2016.

Taxes and Assessments

The District's assessments are billed by the County of Riverside (County) to property owners. The District's property tax calendar for the fiscal year ended June 30, 2016 was as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment - November 1 Second Installment - February 1
Delinquent Date:	First Installment - December 10 Second Installment - April 10

The County collects the taxes from the property owners and remits the funds to the District periodically during the year. The District has an arrangement with the County whereby the County remits taxes which are delinquent as of each June 30 to the District in exchange for the right to retain the delinquent taxes, penalties, and interest when these amounts are subsequently collected.

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Capital Assets

Capital assets purchased or acquired with a cost exceeding \$5,000 and an estimated useful life of more than one year are reported at historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is calculated on the straight-line method over the following estimated useful lives:

	<u>Useful Life</u>
Roads	40 years
Culverts	45 years
Building	40 years
Construction equipment	7 years
Dips	20 years
Signs	20 years
Transportation equipment	5 years
Guard rails	20 years
Office furniture	7 years
Other assets	7 years

Depreciation aggregated \$648,083 for the year ended June 30, 2016.

Interest

The District incurs interest charges on noncurrent liabilities. No interest was capitalized as a cost of construction for the year ended June 30, 2016.

Classification of Liabilities

Certain liabilities which are currently payable have been classified as noncurrent because they will be funded from restricted assets.

Compensated Absences

Accumulated and unpaid vacation totaling \$43,715 is accrued when incurred and included in noncurrent liabilities at June 30, 2016.

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are defined as a consumption of net assets by the District that is applicable to a future period and an acquisition of net assets by the District that is applicable to a future reporting period respectively. Deferred outflows of resources and deferred inflows of resources related to pensions are more fully described in Note 9.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays an annual premium for commercial insurance covering bodily injury, property damage, personal injury, non-owned and hired automobile liability, owned automobile liability-combined single limit, and public official's errors and omissions with a \$5 million limit per occurrence and annual aggregate limit and a \$1,000 deductible. In addition, the District carries commercial insurance for other risks of loss such as fire damage liability and uninsured motorist with a \$1 million limit and a \$1,000 deductible. The District also carries coverage for employment practices liability with a \$5 million limit and a \$10,000 deductible. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows related to pensions, and pension expense, information about the fiduciary net pension and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at the CalPERS website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Measurement Period	June 30, 2014 to June 30, 2015

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

The District's statements of financial position include the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in the California Local Agency Investment Fund (LAIF) are considered Level 2 assets and are reported at the fair value of the underlying assets as provided LAIF.

Economic Dependency

Benefit fees are derived exclusively from property owners who reside within the District's boundaries.

Cash and Cash Equivalents

For purposes of the statement of cash flows the District considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 17, 2016, the date the financial statements were available to be issued.

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 2 - Cash and Investments:

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provision of the California Government Code or the District's investment policy:

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

The District's Investment Policy is more restrictive than the California Government Code in the following ways:

- No investment of funds of the District shall be permitted in repurchase or reverse repurchase agreements presently permitted by Government Code Section 53601(i) and 53635(i), or financial futures or financial option contracts presently permitted by Government Code Section 53601.
- All investments shall mature not later than 365 days from the date of investment.

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 2 - Cash and Investments: (Continued)

Investments Authorized by the California Government Code and the District's Investment Policy (Continued)

Cash and investments held by the District were comprised of the following at June 30, 2016:

	<u>Maturity in 1 Year or Less</u>
Cash on hand	\$ 300
California Local Agency Investment Fund (LAIF)	4,838,574
Deposits with financial institutions	559,291
Total Cash and Equivalents	\$ 5,398,165
 Financial Statement Classification:	
Current:	
Cash and cash equivalents	\$ 5,205,976
Restricted:	
Cash and cash equivalents	192,189
Total Cash and Equivalents	\$ 5,398,165

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. The District manages its exposure to interest rate risk is by investing only in cash deposits with financial institutions and the California Local Agency Investment Fund in order to provide the liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided in the previous table that shows the distribution of the District's investments by maturity at June 30, 2016.

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. Presented below is the actual rating as of the year end for each investment type.

<u>Investment</u>	<u>Rating as of Year End Standard & Poor's</u>
California Local Agency Investment Fund (LAIF)	Not Rated

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 2 - Cash and Investments: (Continued)

Concentration of Credit Risk

Concentration of credit is the risk of loss attributed to the magnitude to the District's investment in a single issue.

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The District holds no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments at June 30, 2016.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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 counter-party (e.g., broker-dealer) the District 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 and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the 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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2016, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. At June 30, 2016, no District investments were held by the same broker-dealer (counterparty) that was used by the District to buy the securities.

Investment in State Investment Pool

The District is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by California Government Code 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.

The statement of cash flows has been prepared by considering all investments purchased with a maturity of three months or less to be cash equivalents. The following is a detail at June 30, 2016:

California Local Agency Investment Fund (LAIF)	\$ 4,838,574
Deposits with financial institutions	559,291
Cash on hand	300
Total	<u>\$ 5,398,165</u>

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 3 - Restricted Assets:

Restricted assets were provided by, and are to be used for, the following at June 30, 2016:

<u>Funding Source</u>	<u>Use</u>	
Deposits	Deposits	\$ 86,409
Bond proceeds and interest earned	Redemption fund (AD 90-1)	54,257
Bond proceeds and interest earned	Reserve fund (AD 90-1)	51,523
		<u>\$ 192,189</u>

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as necessary.

Note 4 - Capital Assets:

Capital assets consist of the following at June 30:

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2016</u>
Capital Assets Being Depreciated:				
Roads	21,714,513	503,692	(348,591)	21,869,614
Culverts	3,076,720	83,884	(16,475)	3,144,129
Building	549,204	-	-	549,204
Construction equipment	202,526	-	-	202,526
Dips	180,383	-	-	180,383
Signs	161,079	-	-	161,079
Transportation equipment	119,142	38,770	(27,172)	130,740
Guard rails	101,697	-	-	101,697
Office furniture	31,766	-	-	31,766
Other assets	28,410	-	-	28,410
Total Capital Assets Being Depreciated	<u>26,165,440</u>	<u>626,346</u>	<u>(392,238)</u>	<u>26,399,548</u>
Less Accumulated Depreciation For:				
Roads	(10,038,146)	(544,802)	244,277	(10,338,671)
Culverts	(1,364,948)	(69,596)	11,826	(1,422,718)
Building	(81,048)	(13,730)	-	(94,778)
Construction equipment	(201,015)	(336)	-	(201,351)
Dips	(159,215)	(2,198)	-	(161,413)
Signs	(161,079)	-	-	(161,079)
Transportation equipment	(113,613)	(11,345)	27,173	(97,785)
Guard rails	(87,100)	(1,284)	-	(88,384)
Office furniture	(26,732)	(2,246)	-	(28,978)
Other assets	(22,601)	(2,546)	-	(25,147)
Total Accumulated Depreciation	<u>(12,255,497)</u>	<u>(648,083)</u>	<u>283,276</u>	<u>(12,620,304)</u>
Net Capital Assets Being Depreciated	<u>13,909,943</u>	<u>(21,737)</u>	<u>(108,962)</u>	<u>13,779,244</u>
Net Capital Assets	<u>\$ 13,909,943</u>	<u>\$ (21,737)</u>	<u>\$ (108,962)</u>	<u>\$ 13,779,244</u>

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 5 - Noncurrent Liabilities:

Noncurrent liabilities consist of the following at June 30:

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>	Due Within <u>One Year</u>
Due to Assessment District 90-1 (Note 7)	\$ 207,645	\$ -	\$ (101,865)	\$ 105,780	\$ -
Deposits (Note 8)	85,609	800	-	86,409	-
Net pension liability (Note 9)	726,206	151,106	-	877,312	-
Compensated absences (Note 1)	44,262	33,809	(34,356)	43,715	-
Capital lease obligation (Note 6)	386,924	-	(31,344)	355,580	33,236
	<u>\$ 1,450,646</u>	<u>\$ 185,715</u>	<u>\$ (167,565)</u>	<u>\$ 1,468,796</u>	<u>\$ 33,236</u>

Note 6 - Capital Lease Obligation:

In January 2010, the District acquired a building for use as its corporate offices using the proceeds of a site lease dated October 21, 2009, between Municipal Finance Corporation as lessee and the District as lessor. The District as lessee is leasing the building back from Municipal Finance Corporation under the terms of a capital lease obligation of the same date. The capital lease obligation calls for semi-annual payments of \$26,953 commencing on July 7, 2010, and maturing January 7, 2025. Municipal Finance Corporation has assigned all of its rights, title and interest in this capital lease obligation to City National Bank. For financial reporting purposes, minimum lease payments relating to the building have been capitalized and included in capital assets on the statement of net position. The building under capital lease has a cost of \$549,204, net of accumulated depreciation of \$94,778 at June 30, 2016. The following is a schedule of the related future minimum lease payments under the capital lease obligation:

<u>Years Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 33,236	\$ 20,670	\$ 53,906
2018	35,243	18,663	53,906
2019	37,371	16,535	53,906
2020	39,627	14,279	53,906
2021	42,021	11,885	53,906
2022 - 2025	168,082	20,588	188,670
Total	<u>\$ 355,580</u>	<u>\$ 102,620</u>	<u>\$ 458,200</u>

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 7 - Due to Assessment District 90-1:

The District has participated in the issuance of bonds aggregating \$1,479,156 for Assessment District 90-1 within its boundaries of which \$95,000 is outstanding at June 30, 2016. The bonds are not secured by the general taxing power of the District, the County of Riverside, the State of California, or any of its political subdivisions. Interest on and principal of the bonds are payable solely from monies in the corresponding reserve and redemption funds held by the District, and are secured by unpaid assessments which represent fixed liens on the properties assessed. The District has no liability for the bonds, contingent or otherwise. The following is a detail of amounts due to Assessment District 90-1 at June 30, 2016:

Redemption fund	\$ 54,257
Reserve fund	51,523
Total Due to Assessment District 90-1	\$ 105,780

Note 8 - Deposits:

Deposits consist of amounts collected from property owners and developers for inspections as well as funding future improvements. Deposits consist of the following at June 30, 2016:

Permits	\$ 46,000
Deposits for future improvements	20,409
Utilities	20,000
Total Deposits	\$ 86,409

Note 9 - Defined Benefit Pension Plan:

General Information About the Pension Plan

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

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 9 - Defined Benefit Pension Plan: (Continued)

General Information About the Pension Plans (Continued)

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Miscellaneous</u>
	<u>Prior to</u>
	<u>January 1, 2012</u>
Benefit formula	2.5% @ 55
Benefit vesting schedule	5 years service
Benefit payments	Monthly for life
Retirement age	50 - 55
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%
Required employee contribution rates	8%
Required employer contribution rates	9.067%

Contribution Description - Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial process. The Plans actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (measurement date), the active employee contribution rate is for employees hired prior to January 1, 2012 is 8.0% of annual payroll with the District paying 2% of that amount, and the employer's contribution rate is 9.067% of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any employer paid member contributions or situations where members are paying a portion of the employer contribution.

The District's contribution to the Plan for the year ended June 30, 2016 were as follows:

Contributions - Employer	\$ <u>101,045</u>
Contributions - Employee (Paid by Employer)	\$ <u>24,021</u>

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 9 - Defined Benefit Pension Plan: (Continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability determined in the June 30, 2014 actuarial valuation. The June 30, 2015 total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

Change of Assumptions

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

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed that the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section.

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 9 - Defined Benefit Pension Plan: (Continued)

Discount Rate (Continued)

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

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

The table below reflects long-term expected real rate of return by asset class.

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11 + ²</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

¹ An expected inflation of 2.5% used for this period.

² An expected inflation of 3.0% used for this period.

Allocation of Net Pension Liability and Pension Expense to Individual Employers

The following table shows the District's proportionate share of the net pension liability over the measurement period.

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u> (a)	<u>Plan Fiduciary Net Pension</u> (b)	<u>Net Pension Liability</u> (c) = (a) - (b)
Balance at June 30, 2014	\$ 3,199,097	\$ 2,472,891	\$ 726,206
Balance at June 20, 2015	3,239,246	2,361,934	877,312
Net Changes During 2014 - 2015	\$ 40,149	\$ (110,957)	\$ 151,106

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 9 - Defined Benefit Pension Plan: (Continued)

Allocation of Net Pension Liability and Pension Expense to Individual Employers (Continued)

The net pension liability of the plan is measured as of June 30, 2015, and the total pension liability for the plan used to calculate the net pension liabilities was determined by an actuarial valuation of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the plan as of June 30, 2014 and 2015 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2014	0.029383%
Proportion - June 30, 2015	0.023749%
Change - Increase (Decrease)	(0.005634%)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

	<u>Discount Rate -1% (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>Discount Rate +1% (8.65%)</u>
Plan's Net Pension Liability	\$ 1,318,454	\$ 877,312	\$ 513,098

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, actuarial gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investment	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected remaining service lifetime (EARSL) of all members that are provided with pensions (active, inactive, and retired) as of the beginning of the measurement period

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 9 - Defined Benefit Pension Plan: (Continued)

Amortization of Deferred Outflows and Deferred Inflows of Resources (Continued)

The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over a five-year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period, and the remaining Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments at the measurement date is to be amortized over the remaining four-year period. The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments in the schedule of Collective Pension Amounts represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

Deferred outflows of resources and deferred inflows of resources relating to Differences Between Expected and Actual Experience, Changes of Assumptions and employer-specific amounts should be amortized over the EARSLS of members provided with pensions through the Plan. The EARSLS for the Plan for the June 30, 2015 measurement date is 3.8 years, which was obtained by dividing the total service years by the total number of participants (active, inactive, and retired) in the Plan. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the District recognized a pension expense of \$36,790 for the Plan. As of June 30, 2016, the District reports deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 101,045	\$ -
Differences between actual contributions made and proportionate share of contributions	-	1,500
Differences between expected and actual experience	5,869	-
Changes of assumptions	-	55,528
Net difference between projected and actual earnings on pension plan investments	-	27,837
Adjustment due to difference in proportions	102,705	-
Total	<u>\$ 209,619</u>	<u>\$ 84,865</u>

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 9 - Defined Benefit Pension Plan: (Continued)

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (Continued)

The \$101,045 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources in the previous chart will be recognized in future pension expense as follows:

Measurement Period Ended June 30	Deferred Outflows/(Inflows) of Resources
2016	\$ 11,450
2017	11,450
2018	7,768
2019	(6,959)
Total	\$ 23,709

Note 10 - Commitments and Contingencies:

Operating Lease

The District leases a yard to store their equipment. This lease commenced June 1, 2007, and will continue thereafter until terminated by either party upon sixty (60) days written notice to the other party. The lease provides for monthly rental charges of \$600. Rental expense under this lease was \$7,200 for the year ended June 30, 2016.

OPEB

Other than what is provided in the form of pension benefits to its retirees, the District does not pay for additional postemployment benefits.

Note 11 - New Governmental Accounting Standards:

GASB No. 68

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68, "Accounting and Financial Reporting for Pensions". This pronouncement is effective for periods beginning after June 15, 2014. This pronouncement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans, as well as for nonemployer governments that have a legal obligation to contribute to those plans. The effects of this pronouncement on the financial statements of the District resulted in a reduction in net assets at June 30, 2014.

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 11 - New Governmental Accounting Standards: (Continued)

GASB No. 71

In November 2013, The Governmental Accounting Standards Board issue Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68. This pronouncement is effective simultaneously with the implementation of Statement 68. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The effects of this pronouncement on the financial statements of the District are included in the explanation of GASB 68 above.

GASB No. 72

In February 2015, The Governmental Accounting Standards Board issued Statement No. 72, "Fair Value Measurement and Application." This pronouncement provides guidance for determining fair value measurement for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Governments are required to use valuation techniques that are appropriate under the circumstances and for which sufficient data is available to measure fair value. Required disclosures include the level of fair value hierarchy and valuation techniques and should be organized by type of asset or liability. This pronouncement is effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

GASB No. 73

In June 2015, The Governmental Accounting Standards Board issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." This pronouncement establishes requirements for defined benefit pension plans that are not with the scope of Statement No. 68, as well as assets accumulated for purposes of providing those pensions. It establishes requirements for defined contribution pension plans that are not within the scope of Statement No. 68 and amends certain provisions of Statement No. 67. The pronouncement extends the approach to accounting and financial reporting established in Statement 68 to all pensions with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in the notes and required supplementary information by all similarly situated employers and nonemployer contributing entities. The requirements of this statement addressing accounting and financial reporting for employers that are not within the scope of GASB 68 are effective for financial statements for fiscal years beginning after June 15, 2016. All other provisions are effective for periods beginning after June 15, 2015. This pronouncement is not anticipated to have a material effect on the financial statements of the District.

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 11 - New Governmental Accounting Standards: (Continued)

GASB No. 74

In June 2015, the Governmental Accounting Standards Board issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans." This pronouncement improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This pronouncement replaces Statement No. 42 and Statement No. 57. It also includes requirements for defined contributions OPEB plans that replace the requirements for those OPEB plans in Statement No.25, Statement No. 43 and Statement No. 50. This pronouncement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This pronouncement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 75

In June 2015, the Government Accounting Standards Board issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension". This pronouncement replaces the requirements of Statement No. 45, and Statement No. 57. Statement No 74 establishes new accounting and financial reporting requirements for OPEB plans. This pronouncement addresses accounting and financial report for OPEB that is provided to the employees of state and local governmental employers. It also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For define benefit OPEB, this pronouncement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This pronouncement also addresses note disclosure and required supplementary information about defined benefit OPEB. This Statement is effective for financial statements for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 76

In June 2015, the Government Accounting Standards Board issued Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments". The objective of this pronouncement is to identify in the context of the current governmental financial reporting environment the hierarchy of generally accepted accounting principles (GAAP). This pronouncement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This pronouncement supersedes Statement No. 55. The requirement of this pronouncement are effective for financial statements for period beginning after June 15, 2015 and should be applied retroactively. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 11 - New Governmental Accounting Standards: (Continued)

GASB No. 77

In August 2015, the Governmental Accounting Standards Board issued Statement No. 77, "Tax Abatement Disclosures". This pronouncement requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. This pronouncement requires governments that enter into tax abatement agreements to disclose brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients, the gross dollar amount of taxes abated during period and commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 78

In December 2015, the Governmental Accounting Standards Board issued Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plan". This pronouncement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that is not a state or local government pension plan, that is used to provide defined benefit pensions both to employees of state or local governmental employers and to employers, and that has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Pronouncement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Pronouncement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 79

In December 2015, the Governmental Accounting Standards Board issued Statement No. 79, "Certain External Investment Pools and Pool Participants". This pronouncement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This pronouncement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. The requirement of this pronouncement are effective for reporting periods beginning after June 15, 2015 except for certain provisions on portfolio quality, custodial credit risk, and shadowing pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

**DE LUZ COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 11 - New Governmental Accounting Standards: (Continued)

GASB No. 80

In January 2016, the Government Accounting Standards Board issued Statement No. 80, "Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14". This pronouncement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units including in the financial reporting entity pursuant to the provision of Statement No. 39. The requirements of this pronouncement are effective for reporting period beginning after June 15, 2016. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 81

In March 2016, the Governmental Accounting Standards Board issued Statement No. 81, "Irrevocable Split-Interest Agreements". This Pronouncement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Pronouncement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Pronouncement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Pronouncement are effective for financial statements for period beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 82

In March 2016, the Governmental Accounting Standards Board issued Statement No. 82, "Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73". This Pronouncement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Pronouncement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The requirements of this Pronouncement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**DE LUZ COMMUNITY SERVICES DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

**SCHEDULES OF PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN YEARS ***

	<u>Measurement Date June 30, 2015</u>	<u>Measurement Date June 30, 2014</u>
Proportion of the Collective Net Pension Liability	0.023749%	0.029383%
Proportionate Share of the Collective Net Pension Liability	877,312	726,206
Covered-Employee Payroll	392,147	398,462
Proportionate Share of the Collective Net Pension Liability as Percentage of Covered-Employee Payroll	223.72%	182.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.92%	77.30%

Notes to Schedule:

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (aka Golden Handshakes).

Changes in Assumptions - The discount rate was changes from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

*Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

**DE LUZ COMMUNITY SERVICES DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

**SCHEDULES OF PLAN CONTRIBUTIONS
LAST TEN YEARS ***

	<u>Fiscal Year 2015 - 2016</u>	<u>Fiscal Year 2014 - 2015</u>
Actuarial Determined Contribution	\$ 101,045	\$ 91,576
Contributions in Relation to the Actuarially Determined Contribution	101,045	91,576
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
 Covered Payroll	 <u>\$ 400,074</u>	 <u>\$ 392,147</u>
 Contributions as a Percentage of Covered-Employee Payroll	 25.26%	 23.35%

Notes to Schedule:

Fiscal Year End	June 30, 2016	June 30, 2015
Valuation Date	June 30, 2013	June 30, 2012

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
Asset Valuation Method	Market Value	Market Value
Discount Rate	7.65%	7.50%
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25%

*Fiscal year 2015 was the first year of implementation; therefore, only two years are shown.