GRANADA COMMUNITY SERVICES DISTRICT

MANAGEMENT REPORT

FOR THE YEAR ENDED JUNE 30, 2016

GRANADA COMMUNITY SERVICES DISTRICT

Management Report
For the Year Ended June 30, 2016

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FECHTER
& COMPANY
Certified Public Accountants

Craig R. Fechter, CPA, MST
Scott A. German, CPA

Board of Directors of the
Granada Community Services District
Granada, California

In planning and performing our audit of the financial statements of the Granada Community Services District for the year ended June 30, 2016, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing any changes you may make. We thank the District's staff for its cooperation on this audit.

Fechter & Company,
Certified Public Accountants

Fechter & Company, CPAs

June 13, 2017
Sacramento, California

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The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 8, 2016, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the District financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Internal Control Related Matters

In any smaller entity, whether private enterprise or a governmental agency, the lack of segregation of duties can present potential issues in regards to the perpetuation and concealment of fraud. Even with a perfect segregation of duties frauds can be perpetuated and concealed. The District can perform some specific control procedures to help reduce the risk of fraud, however. Some of the controls would include:

- Having someone independent of the bank reconciliation function review the bank statements on a monthly basis. At this District it would mean someone independent of the accounting function reviewing the county reports and multitude of bank accounts and bank reconciliations.
- Examining a budget to actual report on a frequent basis.
- Comparing the financial statements on a detailed level to the prior year on a frequent basis.

- Requiring someone independent of the payroll process review payroll on a bi-weekly basis, checking for accuracy of pay rates, paid time off recorded, etc.
- Verifying that a second person is approving all disbursement activity and that an individual independent of the accounting function is signing checks and asking questions about invoices presented for payment.
- Frequently displaying "professional skepticism" when considering staff responses on District finances.

California Government Code Section 12422.5 requires the State Controller's office to develop internal control guidelines applicable to each local agency by January 1, 2015. The intent of the legislation is to assist local agencies in establishing a system of internal control to safeguard assets and prevent and detect financial errors and fraud. To this end, the State Controller's Office has produced a draft of control guidelines for local Agencies. As the District contemplates changes to its system of internal control, we advise in utilizing these guidelines when developing internal procedures to assist with your internal control processes.

The State Controller's office has defined internal controls into five components that work together in an integrated framework. Their guidelines were adopted from the definitions and descriptions contained in *Internal Control – Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The components are:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring Activities

The objective of *control environment* is the set of standards, processes, and structures that provided the basis for carrying out internal control across the entity. The governing board and management establish the "tone at the top" regarding the importance of internal control, including expected standards of conduct which then cascade down through the various levels of the organization and have a strong effect on the overall system of internal control.

A District's *Risk Assessment* process includes how management identifies risks (including fraud risk) relevant to the preparation and fair presentation of the financial statements in accordance with the District's applicable financial reporting framework. In addition, this would also involve areas of business and operational risk which could potentially affect the District's finances on a go-forward basis.

The District's risk assessment process is an extremely important activity the board and management should undertake. Every organization, public or private, faces business risks on a day to day basis. Identifying those risks and then acting on them in a timely manner may prevent future problems from becoming completely unmanageable.

Management should consistently attempt to identify risks that exist and then present those risks to the board for action. It is impossible for us to identify every potential risk that exists but either way, management and the board should proactively attempt to identify risks that could adversely affect the District's operations.

Control Activities are in reference to establishing policies and procedures that achieve management directives and respond to identified risks in the internal control system. These are specific procedures designed to perform a secondary review of internal processes that will allow for segregation of duties and a management level review of processed transactions.

Information and Communication are the District's methods of identifying what information is relevant to present to management and the board to assist the District in making the correct decisions. It also is in reference to the District's internal processes of gathering and summarizing that information.

Monitoring involves evaluating the effectiveness of controls on an on-going basis and taking remedial actions when necessary when identified by the other control procedures in place. On-going monitoring activities often are built into the normal recurring activities of a local government and include regular management and supervisory activities.

There is no catch-all for finding all instances of fraud within any entity, whether public or private. One of the key factors in helping prevent fraud is to encourage ethical behavior at all levels of the organization, i.e., "tone at the top". Another key would be to note instances of abnormal behavior of finance or accounting staff when questioned about District financial matters.

The District should remember that they have outside resources available in the case of fraud – they are able to contact District auditor, their attorney, or county auditor-controller should anyone feel there is a chance of fraud or abuse.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Capital asset lives and depreciation expense
- Actuarial study to determine the District's annual required pension contribution
- Actuarial study to determine the District's net pension liability

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of financial statements. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process. The following audit adjustments, made by us on an annual basis, indicates matters that could have a significant effect on the District's financial reporting process:

- Posting current year depreciation expense and capitalizing fixed asset purchases
- Posting year-end accounts payable
- Posting entries to true-up year-end debt balances
- Recording adjustments to agree the financial statements to prior year balances

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

GRANADA COMMUNITY SERVICES DISTRICT

Required Communication
For the Year Ended June 30, 2016

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

The only significant difficulty in performing this year's audit was the recalculation of the amounts due from the Assessment District to the Community Services District and the related audit procedures. This was a time consuming calculation that the District had put together. In order to audit this, we examined the original board resolutions which established the balances due and discussed the matter with District counsel.

GRANADA COMMUNITY SERVICES DISTRICT
Basic Financial Statements and Supplemental Information With Independent Auditor's Report Thereon

Years Ended
June 30, 2016 and 2015

GRANADA COMMUNITY SERVICES DISTRICT

Basic Financial Statements and Supplemental Information

Years Ended June 30, 2016 and 2015

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FECHTER & COMPANY
Certified Public Accountants

Craig R. Fechter, CPA, MST
Scott A. German, CPA

INDEPENDENT AUDITORS' REPORT

Governing Board
Granada Community Services District
El Granada, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Granada Community Services District (the District) as of June 30, 2016 and 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

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El Granada, CA

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Granada Community Services District as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other information

The information identified in the accompanying table of contents as Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Fechter & Company
Certified Public Accountants

Fechter & Company, CPAs

Sacramento, California
June 13, 2017

This section of the Granada Community Services District's (District) annual report presents management's discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the District's financial statements which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management discussion and analysis report, the independent auditors' report, and the basic financial statements of the District. The basic financial statements also include notes that explain in more detail some of the information in the financial statements.

BASIC FINANCIAL STATEMENTS

The District's financial statements include the statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows, and the statements of fiduciary net position. These statements are prepared in a manner similar to commercial enterprises. The purpose of the statement of net position is to report all assets and liabilities of the District as of the date of the statement. The difference between the assets and liabilities is net position, which represents the portion of total assets not encumbered by debt. Assets and liabilities are reported at historical purchase cost, except for investments, which are reported at fair market value in accordance with accounting pronouncements. Long-term infrastructure assets such as pump stations and sewer lines are reduced by depreciation based upon the expected remaining life of the underlying asset. The District records assets on its books when it takes ownership and liabilities when it incurs the obligation to pay, whether or not it has actually been billed.

Proprietary Funds

The District uses an Enterprise Fund to account for its sewer service. The proprietary fund financial statements include statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows. These statements are accounted for on an economic resources measurement focus using the accrual basis of accounting similar to commercial enterprises.

Sewer service is provided through the service area of the District, except for the area designated as rural. The basic unit of charge used to calculate sewer service and connection fees is called an Equivalent Residential Unit (ERU), which equates to an estimated 221 gallons per day of wastewater flow. All single family homes are charged 1 ERU as their sewer service charge. Commercial properties are charged a sewer service fee based upon a formula which takes into account their water usage for the year, as well as a strength of wastewater component. The charge per ERU for fiscal year ending June 30, 2016 was $402, which is the same as the prior year. Sewer service charges are used to fund the ongoing operations of the District, including administration, operations, treatment, collections, and depreciation set aside costs.

Fiduciary Funds

The District uses an Agency Fund to account for resources held for the benefit of parties outside the government. Statements of fiduciary net position are included in the District's basic financial statements and are accounted for on an economic resources measurement focus using the accrual basis of accounting.

The Assessment District was formed and funded in 1996 for the purpose of providing the District's share of funds for the expansion of the Sewer Authority Mid-Coastside (SAM) Wastewater Treatment Plant. It was created under the Municipal Improvement Act of 1913 and the Improvement Bond Act of 1915 in combination with the Integrated Financing District Act. A total of $8.1 million in bonds were originally issued, backed by an assessment on 1,618 parcels. The bonds were refinanced in 2003 at a lower interest rate. Due to the pay-down of principal and pre-payments from some assessed parcels, $6.1 million in bonds were issued backed by assessments on 1,355 parcels.

STATEMENT OF NET POSITION

The total assets of the District decreased $168,740 at June 30, 2016. Current assets increased from $3,854,345 to $4,726,584. The District uses its cash reserve as a set aside for short and long term replacement of capital assets. The item titled "Due from County of San Mateo" represents receivables due from the County. The District utilizes the County's property tax roll to collect its annual sewer service charges. The County collects these charges on the property tax bills sent to tax payers, and then sends monthly payments to the District based upon payments received.

OPERATING REVENUES AND EXPENSES

A summary of the District's statements of revenues, expenses and changes in net position is presented below, along with any changes management considers significant from the previous year.

OPERATING REVENUES	2016	2015	Increase (Decrease)
Sewer service charges	$1,236,459	$1,287,905	$(51,446)

- The increase is relatively consistent with the prior year figures.

OPERATING EXPENSES			
SAM Sewer collection and treatment	$955,327	$962,755	$(7,428)

- These are the costs paid to the Sewer Authority Midcoastside Joint Powers Authority to manage and operate the treatment plant, as well as provide sewer cleaning, inspection, and maintenance services on a contract basis for the GSD sewer system. SAM's administration and treatment costs increased over the prior year, while collections costs remained relatively unchanged.

• Administrative and general expenses	$858,703	$837,922	$20,781

NON OPERATING REVENUES			
Property taxes	$864,769	$809,818	$54,951

- Slight increase from prior year due to increased assessments and a larger ERAF refund.

Interest income	$19,254	$8,390	$10,864

- Interest income increased due to an increase in interest rates for the LAIF fund.

BUDGETARY PROCESS

The District budget is presented to the Board of Directors for their comments each year at the regular May District Board Meeting, and is approved at the June meeting. The budget is basically comprised of two functions: administration, which comprises the general office work, permitting, management, legal, and financial aspects of the business; and sewer operations, which represents the District's share of the costs for the SAM wastewater treatment plant operations and maintenance, as well as the costs for maintaining the District's pipeline and pump station system. The SAM treatment, collection and administrative budget accounts for approximately $1,251,000 of the District's $1,865,000 annual operational expenditures, or 67% of the total budget. Capital projects are budgeted along with the operations budget.

CAPITAL ASSETS

The District's capital assets are comprised of its sewer lines, pump stations, force mains, and its share of the SAM Wastewater Treatment Plant (29.5%). The District currently operates and maintains 1 pump station and 34 miles of sewer pipeline. The annual depreciation calculation is based upon the estimated useful life of the assets. Actual repairs, upgrades, or replacements to capital assets are based upon review of the assets' physical conditions as well as the expected useful life of the asset.

LONG-TERM DEBT

The District's only long-term debt was issued as a Certificate of Participation (COP) for $1,145,000 in 1996, and was refinanced as a bank loan in 2002 at a lower interest rate. The COP was used to pay for cost overruns associated with the SAM Wastewater Treatment Plant Expansion that year. More information on this item is included in Note 8 to the basic financial statements.

ECONOMIC FACTORS AFFECTING CURRENT FINANCIAL POSITION

The economic conditions continue to improve from the economic downturn from 2008 and the assessed value of properties has been slowly increasing. The improving conditions could have some impact on the District's finances, due to increased property tax revenues. There are no other known or expected economic factors which should affect the District's financial position in the near future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the Granada Community Services District at (650) 726-7093.

GRANADA COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016 and 2015

ASSETS	2016	2015
Current Assets:		
Cash and investments	$ 4,654,204	$ 3,689,927
Due from County of San Mateo	59,167	57,386
Interest receivable	6,113	572
Prepaid expenses and other assets	7,100	106,460
Total current assets	4,726,584	3,854,345
Capital assets, net of accumulated depreciation	6,141,015	5,773,601
Non-current assets:		
Investment in Sewer Authority Mid-Coastside	3,769,159	3,895,049
Advance to assessment district to fund bond reserve account	494,890	494,890
Advance to assessment district for supplemental funding	412,542	1,057,542
Advance to assessment district to fund noncontingent assessment acquisition	600,866	1,240,866
Advance to Montara Sanitary District, net of allowance	-	-
Total non-current assets	5,277,457	6,688,347
TOTAL ASSETS	$ 16,145,056	$ 16,316,293
DEFERRED OUTFLOWS OF RESOURCES (NOTE 12)	$ 36,192	$ 33,695
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued liabilities	$ 92,472	$ 18,520
Interest payable	1,546	3,012
Current portion of long-term debt	95,000	90,000
Deposits held for others	18,119	13,405
Due to assessment District	8,371	-
Total current liabilities	215,508	124,937
Note payable, net of current portion	-	95,000
Net pension liability (Note 12)	152,020	166,360
TOTAL LIABILITIES	$ 367,528	$ 386,297
DEFERRD INFLOWS OF RESOURCES (NOTE 12)	$ 23,310	$ 16,803
NET POSITION		
Invested in capital assets, net	6,141,015	5,773,601
Unrestricted	9,649,395	10,173,287
TOTAL NET POSITION	$ 15,790,410	$ 15,946,888

The accompanying notes are an integral part of these financial statements

GRANADA COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED
June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Sewer service charges	$ 1,236,459	$ 1,287,905
Total operating revenues	1,236,459	1,287,905
Operating expenses:		
SAM Sewage collection and treatment	955,327	962,755
Depreciation	252,218	252,218
Administration and general	858,703	837,922
General collection and treatment operations	201,251	52,747
Total operating expenses	2,267,499	2,105,642
Operating (loss)	(1,031,040)	(817,737)
Non-operating revenues and (expenses):		
Property tax revenue	864,769	809,818
Interest income	19,254	8,390
Equity (loss)	(125,890)	(233,892)
Interest expense	(5,465)	(9,826)
Other revenues	70,193	69,213
Capital contributions (connection fees)	51,700	72,850
Total non-operating revenues and (expenses)	874,561	716,553
Change in net position	(156,479)	(101,184)
Beginning net position	15,946,889	16,809,958
Prior period adjustment (Note 14)	-	(761,886)
Ending net position	$ 15,790,410	$ 15,946,888

The accompanying notes are an integral part of these financial statements

GRANADA COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED
JUNE 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from customers	$ 1,239,392	$ 1,286,073
Payments to suppliers and employees	(1,852,299)	(1,885,963)
Net cash used by operating activities	(612,907)	(599,890)
Cash Flows from non-capital financing activities:		
Receipts from property taxes and other operating income	864,769	809,818
Net cash provided by non-capital financing activities	864,769	809,818
Cash flows from capital and related financing activities:		
Connection fees collected	51,700	72,850
Payments on long-term debt	(90,000)	(86,000)
Interest paid	(6,931)	(11,287)
Other revenues	70,193	69,213
Assessment district repayments	1,293,372	-
Capital contributions to SAM	-	(91,816)
Net cash (used in) provided by capital and related financing activities	1,318,334	(47,040)
Cash flows from investing activities:		
Fixed asset additions	(619,633)	-
Interest income	13,713	11,078
Net cash provided by investing activities	(605,920)	11,078
Net increase in cash and cash equivalents	964,276	173,966
Cash and cash equivalents, beginning of year	3,689,927	3,515,961
Cash and cash equivalents, end of year	$ 4,654,203	$ 3,689,927
Reconciliation of operating (loss) to net cash (used) by operating activities:	$ (1,031,040)	$ (817,737)
Adjustments to reconcile operating income (loss) to net cash (used) by operating activities:		
Depreciation	252,218	252,218
(Increase) decrease in accounts receivable	(1,781)	(6,792)
Increase (decrease) in accounts payable and accrued liabilities	78,666	(21,502)
Increase (decrease) in prepaid expenses	99,360	(18,603)
Change in net pension liabilities	(10,330)	12,526
Net cash (used) by operating activities	$ (612,907)	$ (599,890)

The accompanying notes are an integral part of these financial statements

GRANADA COMMUNITY SERVICES DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

ASSETS	2016	2015
Cash and cash equivalents	$ 148,689	$ 163,912
Due from County of San Mateo	10,119	-
Due from other funds	8,371	-
Investments	2,552,551	3,555,109
Total Assets	$ 2,719,730	$ 3,719,021
LIABILITIES		
Due to other funds	$ -	$ -
Deposits held for others	1,211,432	653,807
Advance from District to fund bond reserve account	494,890	494,890
Advance from District to fund supplemental funding	412,542	1,057,542
Advance from District to fund noncontingent assessment acquisition	600,866	1,512,782
Total Liabilities	$ 2,719,730	$ 3,719,021

The accompanying notes are an integral part of these financial statements

Note 1 – Organization and Summary of Significant Accounting Policies

Organization
Granada Community Services District (District) was created in 1958 under the provisions of Section 6400 of the State of California Health and Safety Code. An elected board of directors governs the District and has the power to construct, maintain, and operate facilities for the collection, treatment, and disposal of wastewater and solid waste for the benefit of the lands and inhabitants within the San Mateo County communities of El Granada, Princeton-by-the-Sea, Miramar, and northern Half Moon Bay.

Reporting Entity
The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund balance, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The District's funds consist of the following:

Proprietary Fund Type - Enterprise Fund
The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. All assets and liabilities associated with the Enterprise Fund's activities are included in the statement of net position.

Fiduciary Fund Type - Agency Fund
The Agency Fund (Assessment District) is used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other funds, and/or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. All assets and liabilities associated with the Assessment District's activities are included in the statement of fiduciary net position.

Basis of Accounting
Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Both the Enterprise Fund and the Agency Fund are accounted for on an economic resources measurement focus using the accrual basis of accounting in accordance with generally accepted accounting principles. Under this basis of accounting, revenues are recognized when earned except property taxes which are recognized in the year they are levied and expenses are recognized when the related liability is incurred.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements and the State Controller's

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Minimum Audit Requirements for California Special Districts. The District has elected not to apply GASB statements and interpretations issued subsequent to November 30, 1989.

Risk Management
The District is a member of the California Sanitation Risk Management Authority (CSRMA) which provides general liability coverage. Participation in the CSRMA risk sharing pool provides the District general liability coverage up to $750,000 and excess coverage up to $10 million.

Capital Assets
Capital assets for the Enterprise Fund are recorded at cost to the District for purchases or at an estimated cost when assets are contributed. Depreciation is charged to expense for all capital assets and is computed using the straight-line method over the estimated useful lives of five to 50 years.

Property Tax Revenues and Sewer Service Charges
Property taxes and sewer service charges are billed and collected by the County of San Mateo through the property tax billings. Real property taxes are levied against owners of record. The taxes are due in two installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Property taxes are based on assessed values of real property. A revaluation of all real property must be made upon sale or completion of construction. Amounts due from the County of San Mateo include both property taxes and sewer service charges.

Connection Fees
Connection fees consist of charges to homes and businesses for connecting to the District's sewer system.

Operating Revenues and Expenses
The District's operating revenues are those revenues generated from the primary operation of the District's sewer service. Operating expenses are those expenses that are essential to the primary operation of its sewer system. All other revenues and expenses are reported as non-operating revenues and expenses.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments
Investments in mutual funds and debt instruments are carried at fair value as determined in an active market. Investments in the State of California Local Agency Investment Fund are carried at cost which approximates fair value and are included in cash and cash equivalents in the statements of net position.

Cash and Cash Equivalents
For purposes of the statements of cash flows, the District considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Note 2 – Cash and Cash Equivalents

The District's cash and cash equivalents are held in federally insured deposit accounts with financial institutions and an external investment pool.

External Investment Pool
The District invests in the California State Treasurer's Local Agency Investment Fund (LAIF). LAIF was established in 1977, is regulated by California Government Code Section 16429, and under the day-to-day administration of the State Treasurer. As of June 30, 2015, LAIF had approximately $71 billion in investments.

LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost of best estimate for those securities where market value is not readily available. The District's investments with LAIF at June 30, 2015 included a portion of the pooled funds invested in structured notes and asset-backed securities. These investments are described as follows.

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and / or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, and concentration of credit risk. The following describes those risks.

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 does not have a formal policy regarding interest rate risk.

Note 2 – Cash and Cash Equivalents, continued

Custodial Credit Risk
Custodial credit risk is the risk that the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy regarding custodial credit risk. 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. With respect to investments, custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or investment pools such as LAIF.

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 does not have a formal policy regarding credit risk. LAIF does not receive a rating from a nationally recognized statistical rating organization.

Concentration of Credit Risk
The District has limitations on the amount that can be invested in any one issue beyond that stipulated by the California Government Code.

The FDIC insured the bank balances up to $250,000 for each bank, except for non-interest bearing transaction accounts at institutions participating in the FDIC's Temporary Liquidity Guarantee Program, which are provided with unlimited deposit guarantee.

The District’s cash and cash equivalents consist of the following at June 30, 2016:

	Carrying Amount	Depositary Balance
Amounts insured by federal deposit insurance, or collateralized with securities held by the District in its name.	$ 185,968	$ 185,968
Amounts held on deposit with the State of California Local Agency Investment Fund, collateralized by investments registered in the State’s name.	4,468,236	4,468,236
	$ 4,654,204	$ 4,654,204

Note 2 – Cash and Cash Equivalents, continued

The District's cash and cash equivalents are presented as $4,654,204 in the statements of net position and $2,719,730 in the statements of fiduciary net position. The difference between the carrying amount and the depositary balance represents outstanding checks and deposits in transit.

The District's cash and cash equivalents consist of the following at June 30, 2015:

	Carrying Amount	Depositary Balance
Amounts insured by federal deposit insurance, or collateralized with securities held by the District in its name.	$ 100,403	$ 100,403
Amounts held on deposit with the State of California Local Agency Investment Fund, collateralized by investments registered in the State's name.	3,589,524	3,589,524
	$ 3,689,927	$ 3,689,927

The District's cash and cash equivalents are presented as $3,689,927 in the statements of net position and $3,719,021 in the statements of fiduciary net position. The difference between the carrying amount and the depositary balance represents outstanding checks and deposits in transit.

Note 3 – Agency Fund

In 1996, Granada Community Services District established the Assessment District to finance the expansion of the sewage treatment facility owned and maintained by the Sewer Authority Mid-Coastside. Special Assessment Limited Obligation Improvement Bonds were issued through the Assessment District to generate the funds necessary to meet the District's portion of the expansion costs. The Agency Fund is used to account for the debt service transactions of the Assessment District. The District acts as an agent with respect to the collection of special assessments from property owners and the payment of principal and interest to special assessment debt holders. The only investments reported by the District are held in the Agency Fund which consist of mutual funds and debt instruments held by a trustee.

Note 4 – Capital Assets

Changes in capital assets consist of the following for the year ended June 30, 2016:

	June 30, 2015	Additions	Deletions	June 30, 2016
Equipment	$ 22,153	$ -	$ -	$ 22,153
Collection and conveyance facilities	10,520,578	619,632	-	11,140,210
Less accumulated depreciation	(5,645,664)	(252,218)	-	(5,897,882)
	4,897,067	367,414	-	5,264,481
Land	876,534	-	-	876,534
	$ 5,773,601	$ (252,218)	$ -	$ 6,141,015

Depreciation expense for the year-end June 30, 2016 was $252,218.

Changes in capital assets consist of the following for the year ended June 30, 2015:

	June 30, 2014	Additions	Deletions	June 30, 2015
Equipment	$ 22,153	$ -	$ -	$ 22,153
Collection and conveyance facilities	10,520,578	-	-	10,520,578
Less accumulated Depreciation	(5,393,446)	(252,218)	-	(5,645,664)
	5,149,285	(252,218)	-	4,897,067
Land	876,534	-	-	876,534
	$ 6,025,819	$ (252,218)	$ -	$ 5,773,601

Depreciation expense for the year-end June 30, 2015 was $252,218.

Note 5 – Investment in Sewer Authority Mid-Coastside

Sewer Authority Mid-Coastside (Authority) was created by a Joint Exercise of Powers Agreement between the City of Half Moon Bay, the Granada Community Services District, and the Montara Sanitary District. The Authority was established to construct, maintain, and operate facilities for the collection, treatment, and disposal of wastewater for the benefit of the lands and inhabitants within the member agencies' respective boundaries. Audited financial statements of the Authority are available at its office in Half Moon Bay, California.

The following is a summary of financial information of the Authority from its June 30, 2016 and 2015 audited financial statements:

	2016	2015
Total assets	$ 15,875,743	$ 15,875,837
Total liabilities	3,370,087	3,027,728
Net position	$ 12,505,656	$ 12,848,109
Operating revenues	$ 4,344,816	$ 4,208,105
Operating expenses	5,434,514	5,025,858
Operating loss	(1,089,698)	(817,753)
Total non-operating revenues, net	747,245	344,904
Net loss	$ (342,453)	$ (472,849)

Each member's ownership at June 30, 2016 consists of the City of Half Moon Bay 50.5%, Granada Community Services District 29.5%, and Montara Sanitary District 20%.

The decreases in the District's equity in the Authority for the year ended June 30, 2016 and 2015 of $125,890 and $767,019, respectively, and are included in the statements of revenues, expenses, and changes in net position.

Total payments made to the Authority for operations, maintenance, collections, and capital for the years ended June 30, 2016 and 2015 were $1,403,580 and $1,346,450, respectively.

Note 6 – Advances to Assessment District

1 As part of the bond issuance financed through the Assessment District, the District was required to make two separate advances to the Agency Fund. In August 1996 the District transferred $600,000 into the Bond Reserve Fund of the Assessment District to be used as a reserve for the payment of future bond interest and principal. During the years ended June 30, 2015 and 2014, no payments were received from the Assessment District. This advance is entitled to interest earnings on the fund balance.

2 The District was also required to advance $700,000 in August of 1996 into the Noncontingent Assessment Fund of the Assessment District. The advance was used to purchase noncontingent assessments for undevelopable parcels within the District. No repayments have been made to date.

Note 6 – Advances to Assessment District, continued

3 Supplemental Funding - The District advanced $1,100,726 to the Assessment District which were the proceeds of an installment obligation of the District in the amount of $1,145,000 payable with interest over a term of 20 years. The aggregate amount reimbursable totals $1,987,542 including interest paid on the note. The amounts due to the District listed above are documented in District ordinance 153 and bond resolutions 2003-008 and 2003-012.

Note 7 – Advance to Montara Sanitary District

Due to financial difficulties experienced by the Montara Sanitary District (MSD) in 1996, they were unable to continue funding their portion of the plant expansion of the Authority. The District advanced $1,085,094 of the plant expansion costs on behalf of MSD. According to the Authority funding agreement, there is no repayment schedule, and reimbursement of the advance will occur only if MSD requires additional capacity in the sewage treatment facility. The future capacity needs of MSD are unknown at this time and thus, due to the lack of a firm repayment schedule and unknown future payment requirements of MSD, the District has recorded an allowance of the full amount of initial debt ($1,085,094) to reflect the uncertainty of future repayment.

The District calculates interest on the advance at a rate of 7.278%. Management has determined that the likelihood of any interest payment is remote; therefore, an allowance has been placed on the full accrued interest balance of approximately $1,312,839 and $1,233,866 at June 30, 2016 and 2015, respectively.

Note 8 – Note Payable

On August 1, 1996 the District financed a portion of the sewage treatment plant expansion with the issuance of a Certificate of Participation in the amount of $1,145,000. The terms of the agreement include annual principal payments beginning September 1, 1997 and continuing until September 1, 2016. Interest is payable semi-annually on March 1 and September 1 of each year and the rate had varied between 4.75% and 6.75%. The District refinanced the Certificate of Participation with a note payable in August of 2002 at a fixed interest rate of 4.95%. The payment terms remained the same as the original agreement.

Principal maturities of the note payable at June 30, 2016 consist of the following:

Year Ending June 30,	Principal	Interest	Total
2017	$ 95,000	$ 2,351	$ 97,351
	$ 95,000	$ 2,351	$ 97,351

Note 9 – Special Assessment Debt

During 1996, the District issued Special Assessment Limited Obligation Improvement Bonds in the amount of $8,188,583 to finance the expansion of the sewage treatment plant owned and operated by the Authority. The Agency Fund is used to account for the debt service transactions. The District refinanced the bonds in September 2004 with an interest rate ranging from 2.25% to 6.125% payable semi-annually. The bond principal is paid annually with a final maturity date of September 2022. At June 30, 2016 and 2015, $3,555,109 and $3,303,781 are outstanding. The District is not obligated to repay this debt, but only acts as an agent for the property owners by collecting assessments, forwarding collections to special assessment debt holders, and initiating foreclosure proceedings.

Note 10 – Operating Lease Commitment

The District leases office space and a copier with monthly rents of $4,100 and $372, respectively, plus additional maintenance costs.

Future minimum lease payments at June 30, 2016 consist of the following:

Year Ending June 30,		
2017	$	54,382
2018		22,307
	$	76,689

Note 11 – Contingent Liabilities

Contingent liabilities of an indeterminable amount include normal recurring pending claims and litigation related to the District's operations. According to outside legal counsel, none of the litigation is expected to have a material effect on the financial statements. Therefore, no provision for losses has been included in these financial statements.

Note 12 – Employees' Retirement Plan

<u>Plan Description</u>
The District's defined benefit pension plan, (the "Plan"), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (PERS), a cost sharing multiple-employer plan administered by PERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law.

The District selects optional benefit provisions from the benefit menu by contract with PERS and adopts

Note 12 – Employees' Retirement Plan, continued

those benefits through Board Action. PERS issues a separate annual financial report. Copies of the PERS' annual financial report may be obtained from the PERS Executive Office 400 P Street – Sacramento, California 95814.

Funding Policy

Active plan members in the Plan are required to contribute 7% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The District pays the employee and employer's portion for retirement on "classic" employees. The District does not pay employee contributions for employees covered by PEPRA. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration.

The required employer contribution rates for fiscal years ended June 30, 2016 and 2015 were 21.684% and 24.994%, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS.

At June 30, 2016, the District reported a liability of $152,020 in the Statement of Net Position for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, which was actuarially determined.

For the fiscal year ended June 30, 2016, the District recognized pension expense of $25,862 in its Government-Wide financial statements. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

- Discount Rate/Rate of Return – 7.5%, net of investment expense
- Inflation Rate – 2.75%
- Salary increases – Varies by Entry Age and Service
- COLA Increases – up to 2.75%
- Post-Retirement Mortality – Derived using CalPERS' Membership Data for all Funds

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2014.

Note 12 – Employees' Retirement Plan, continued

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments (7.5%) 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. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	47.0%	5.71%
Global Fixed Income	19.0%	2.43%
Inflation Sensitive	6.0%	3.36%
Private Equity	12.0%	6.95%
Real Estate	11.0%	5.13%
Infrastructure and Forestland	3.0%	5.09%
Liquidity	2.0%	(1.05)%

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund's fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following presents what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease 6.5%	Discount Rate 7.5%	1% Increase 8.5%
District's proportionate share of the net pension plan liability	$ 254,948	$ 152,020	$ 67,041

Detailed information about the pension fund's fiduciary net position is available in the separately issued CalPERS comprehensive annual financial report which may be obtained by contacting CalPERS.

Note 12 – Employees' Retirement Plan, continued

Pursuant to GASB Statement No. 63, the District recognized deferred outflows of resources in the government-wide and proprietary fund statements. These items are a consumption of net position by the District that is applicable to a future reporting period.

The District has one item that is reportable on the Government-wide Statement of Net Position as Deferred Outflows of Resources which is related to pensions. The total is $36,192.

The District also recognized deferral inflows of resources in the government-wide financial statements. This is an acquisition of net position by the District that is applicable to a future reporting period. The District has one item related to pensions that is captured as a deferred inflow of resources. The total at year-end was $23,310.

Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds will therefore include deferred inflows of resources for amounts that have been earned but are not available to finance expenditures in the current period.

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

The $36,192 was reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year-end June 30, 2016.

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

Year Ending June 30,	Amount
2016	$ 11,693
2017	11,693
2018	10,627
2019	(10,703)
Total	$ 23,310

Note 13 – Reclassifications

The financial statements may not be comparable with previous years as the District may have classified certain expense line items differently from the previous years.

Note 14 – Subsequent Events

The District has evaluated subsequent events through June 13, 2017, which is the date the basic financial statements were available to be issued.

Granada Community Services District – Schedule of the District's proportionate share of the Net Pension Liability:

Last 10 Fiscal Years*:

	FY 2015	FY 2016
District's proportion of the net pension liability	Varies by plan	Varies by plan
District's proportionate share of the net pension liability	$ 166,360	$ 152,020
District's covered employee payroll	107,294	110,200
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	155.05%	137.94%
Plan Fiduciary net position as a percentage of the total pension liability	48.16%	54.52%

*Amounts presented above were determined as of 6/30. Additional years will be presented as they become available.

CALPERS - Schedule of District contributions

Last 10 Fiscal Years*:

	FY 2015	FY 2016
Actuarially determined contribution	$ 26,207	$ 36,192
Total actual contributions	(26,207)	(36,192)
Contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll	$ 107,294	$ 110,200
Contributions as a percentage of covered employee payroll	24.43%	32.84%