

KEYES COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2014

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Robert A. Hawks, Jr., CPA

• think **BOLDLY** • plan **CAREFULLY** • execute **PRECISELY** •

INDEPENDENT AUDITOR'S REPORT

Governing Board
Keyes Community Services District
Keyes, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Keyes Community Services District as of and for the year ended June 30, 2014, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major and non-major fund of the District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof 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 and budgetary comparison information on pages 5 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Certified Public Accountant

February 25, 2015

KEYES COMMUNITY SERVICES DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2014

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements, and required supplementary information.

This discussion and analysis of the financial performance of the Keyes Community Services District (“KCS D”) provides an overview of the District’s financial activities for the fiscal year ended June 30, 2014. It is management’s view of the District’s financial condition. It should be read in conjunction with the Independent Auditor’s Report, the basic financial statements and the accompanying notes to those financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are District-wide financial statements that provide both short-term and long-term information about the District’s overall financial status. Because these statements include all District funds, it should be noted that certain inter-fund and other types of transactions that net to zero have been eliminated so that District-wide revenues and expenditures are not artificially inflated.
- The remaining statements are fund-level financial statements that focus on individual parts of the District, reporting the District’s operations in more detail than the District-wide statements.

These two kinds of statements report the District’s net position and changes in it. Net Position is the difference between assets and liabilities, which is one way to measure the District’s financial health, or financial position. Generally, over time, increases or decreases in the District’s net position is one indicator of whether its financial health is improving or deteriorating.

The financial statements also include notes that explain some of the information in the statements. These notes are considered to be an integral part of the financial statements and should be considered with them when looking at the District’s financial picture.

The financial statements would be followed by a section of required supplementary information but the District has no additional required supplementary information.

In the District-wide financial statements the District’s activities are shown as Governmental Activities and Proprietary Activities. The District has two funds that are classified as Business-type or fiduciary activities,

which are called Proprietary Activities. The fund financial statements provide more detailed information about the District’s most significant funds, including the two Business-type activities—but not the District as a whole.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District completed the current year with its funds reporting a *combined* fund balance of approximately \$5.8 million, an increase of approximately 14% over last year’s ending fund balance. The increase in combined fund balance was the result of a net income from the business-type operations and an excess of revenues over expenditures in the governmental fund.

Table 1 – Ending Fund Balances

Fund	Ending Balance	
	06/30/13	06/30/14
Governmental Activities	\$ 74,995	\$ 82,036
Proprietary Activities	\$ 5,032,771	\$ 5,749,362
Total Fund Balances	\$ 5,107,766	\$ 5,831,398

There were no project construction and acquisition expenditures during the year ended June 30, 2014. Operating costs, expenses, and expenditures were \$1,447,112 and debt service payments were \$347,792. The annual service fees, tax levy collections and interest earnings during the year were more than enough to cover the capital expenditures, operating costs, debt service payments and administrative costs during the year.

Net Position. The Statement of Net Position is shown in Table 2 and net position represents the portion of total assets actually owned free and clear by the District. The District’s primary assets are infrastructure including pipelines and related facilities. The District has a positive Net Position value for the year ending June 30, 2014 of \$5.8 million. This figure represents the amount the District would own if all operations were ceased at June 30, 2014, and all receivables were collected and payables paid.

Changes in Net Position. Revenues are generated by an annual tax levy, service charges and related fees, and interest on investments. Expenses and expenditures include administration, debt service, operation of the infrastructure facilities, and delivery of services.

As shown in Table 3, the District’s total net position value increased by \$0.723 million, or 14%, over the prior year.

The increase in Long-Term Liabilities reflects the net result of new borrowing and paying down of debt .

Activities. Total revenues for the year ended June 30, 2014 were \$2,246,356. Table 4 displays total Program and General revenues by major source, total program expenses by function, and total expenses.

Table 2 – Statement of Net Position

		6/30/2014
ASSETS		
Cash and Investments		\$ 2,474,413
Accounts Receivable		218,764
Prepaid Expenses		17,880
Easements		32,290
Capital Assets (Net of Accumulated Depreciation):		<u>4,813,012</u>
	Total Assets	<u>\$ 7,556,359</u>
LIABILITIES		
	Current Liabilities	
	Accounts Payable and Other Liabilities	\$ 80,164
	Compensated Absences	40,631
	Customer Deposits	73,661
	Accrued Interest	1,027
	Long-Term Liabilities:	
	Due Within One Year	245,558
	Due In More Than One Year	<u>1,283,920</u>
	Total Liabilities	<u>1,724,961</u>
NET POSITION		
	Invested in Capital Assets	
	Net of Related Debt	3,557,833
	Restricted For	
	Bond Payment	966,000
	Street Lighting	82,036
	Assigned	<u>1,225,529</u>
	Total Net Assets	<u>5,831,398</u>
	Total Liabilities and Net Assets	<u>\$ 7,556,359</u>

Table 3 – Change in Net Position

	6/30/2014	6/30/2013	Change
ASSETS			
Cash and Investments	\$ 2,474,413	\$ 1,352,735	\$ 1,121,678
Accounts Receivable	218,764	177,969	40,795
Prepaid Expenses	17,880	17,880	-
Easements	32,290	32,290	-
Capital Assets (Net of Accumulated Depreciation):	<u>4,813,012</u>	<u>4,538,163</u>	<u>274,849</u>
Total Assets	<u>\$ 7,556,359</u>	<u>\$ 6,119,037</u>	<u>\$ 1,437,322</u>
LIABILITIES			
Current Liabilities			
Accounts Payable and Other Liabilities	\$ 80,164	\$ 107,276	\$ (27,112)
Compensated Absences	40,631	29,640	10,991
Customer Deposits	73,661	68,417	5,244
Accrued Interest	1,027	1,347	(320)
Long-Term Liabilities:			
Due Within One Year	245,558	168,491	77,067
Due In More Than One Year	<u>1,283,920</u>	<u>636,100</u>	<u>647,820</u>
Total Liabilities	<u>1,724,961</u>	<u>1,011,271</u>	<u>713,690</u>
NET POSITION			
Invested in Capital Assets			
Net of Related Debt	3,557,833	4,104,675	(546,842)
Restricted For			
Bond Payment	966,000	12,933	953,067
Street Lighting	82,036	74,995	7,041
Assigned	<u>1,225,529</u>	<u>915,163</u>	<u>310,366</u>
Total Net Assets	<u>5,831,398</u>	<u>5,107,766</u>	<u>723,632</u>
Total Liabilities and Net Assets	<u>\$ 7,556,359</u>	<u>\$ 6,119,037</u>	<u>\$ 1,437,322</u>

Table 4 – Statement of Activities

Functions/Programs	Expenses	Program Revenues
		Fines, Fees and Charges For Services
Primary Government:		
Governmental Activities:		
Street Lighting	\$ (58,933)	\$ 63,245
Total Governmental Activities	<u>(58,933)</u>	<u>63,245</u>
Business-Type Activities:		
Water Services	(638,903)	950,172
Sewer Services	<u>(824,888)</u>	<u>992,706</u>
Total Business-Type Activities	<u>(1,463,791)</u>	<u>1,942,878</u>
Total Primary Government	<u>\$ (1,522,724)</u>	<u>\$ 2,006,123</u>
General Revenues:		
Property Taxes		\$ 4,934
Miscellaneous		221,806
Investment Earnings		<u>13,493</u>
Total General Revenues		<u>240,233</u>
Change In Net Position		<u>\$ 723,632</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District's funds are divided into two categories for financial statement representation purposes – major funds and non-major funds. The major funds are the Proprietary Activities Funds. The non-major fund is the Governmental Activities Fund, which finances streetlight service.

Each of the District's funds realized an increase in Net Position for the year, as a result of recent increases in assessments, rates and fees.

As shown in Table 5, the District's Governmental Activities fund budget variance was significant. Even though the anticipated revenue came in slightly over budget, the expenditures in this account were exceeded because of the amount of yearly street light installation deferred from the prior year. This action resulted in an excess of Revenues over Expenditures of less than the budgeted amount.

Table 5 – Street Light Fund Budget Analysis

	Budgeted Amounts			Variance With Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Street Light Fee	\$ 58,500	\$ 58,500	\$ 63,245	\$ 4,745
Investment Earnings	130	130	275	145
Total Revenues	58,630	58,630	63,520	4,890
Expenditures				
Salaries and Benefits	-	-	-	-
Supplies and Services	47,300	47,300	58,933	11,633
Total Expenditures	47,300	47,300	58,933	11,633
Excess (Deficiency) of Revenues				
Over Expenditures	\$ 11,330	\$ 11,330	\$ 4,587	\$ (6,743)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Following is a summary of fixed assets and Work-In-Process (WIP):

Capital Assets at June 30, 2014				
	Water	Sewer	Totals	
			2014	2013
Land	\$ 23,074	\$ 25,060	\$ 48,134	\$ 48,134
Depreciable Assets	1,984,590	4,983,321	6,967,911	6,967,910
Less: Accumulated Depreciation	(1,309,548)	(2,069,577)	(3,379,125)	(3,181,754)
Totals	\$ 698,116	\$ 2,938,804	\$ 3,636,920	\$ 3,834,290
Major work-in-progress including additions are:				
First Drinking Water	\$ 1,100,739	\$ -	\$ 1,100,739	\$ 633,306
Lift Station	-	75,353	75,353	70,567
Totals	\$ 1,100,739	\$ 75,353	\$ 1,176,092	\$ 703,873

Long-Term Debt

Keyes Community Service District signed an agreement with the City of Turlock for 50% ownership of a sewer pipeline located on Tegner Road. For this percentage of the pipeline the District is obligated to pay \$1,071,564. Annual payments of \$107,156 were set to begin on July 1, 2008 and extend for ten years. The principal balance due at year-end was \$321,469. Interest expense during the year ended June 30, 2014 was \$1,027.

On July 1, 2013, Keyes Community Services District entered into a loan agreement with the Bank of Nevada in the amount of \$1,250,000.00 for the purpose, among others, of acquiring property, designing and constructing improvements to the water system and to finance and refinance the acquisition and construction of such facilities through the execution of secured limited obligation notes. Principal payments of \$45,000 plus accrued interest are due on July 1 and January 1 each year. The balance is due in full in January 2016. Interest expense during the year ended June 30, 2014 was \$15,652.

FACTORS BEARING ON THE DISTRICT'S FINANCIAL FUTURE

The housing market and the economy in the surrounding area and in California have experienced a significant downturn, resulting in fewer new service connections. In spite of the bad economy, the District has seen steady revenues and a slight decline in receivables. This is mostly due to a water and sewer rate study completed in 2011. Rate increases went into effect beginning in July 2011. A new subdivision was recently approved by Stanislaus county and may impact future connections and revenues.

The construction design, plans and specifications for the Arsenic Mitigation Project have been completed and are under current review for approval and acceptance by the State of California. The acquisition of the property for construction of these water system improvements will be completed in early 2015. Significant construction cost expenditures will occur following land acquisition.

At the time these financial statements were prepared and audited, the District was not aware of any other circumstances that could significantly affect its financial health in the future.

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 money it receives. If you have questions about this report or need additional financial information, contact the staff or the board of directors at: Keyes Community Services District, 5601 7th Street, Keyes, CA 95328 – (209) 668-8341.

KEYES COMMUNITY SERVICE DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2014

	Primary Government		Total
	Governmental Activities	Proprietary Activities	2014
ASSETS			
Cash and Investments	\$ 80,126	\$ 2,394,287	\$ 2,474,413
Accounts Receivable	1,910	216,854	218,764
Prepaid Expenses	-	17,880	17,880
Easements	-	32,290	32,290
Capital Assets (Net of Accumulated Depreciation):			
Land	-	48,133	48,133
Construction in Progress	-	1,176,092	1,176,092
Buildings and Improvements	-	3,262	3,262
Equipment and Vehicles	-	124,030	124,030
Infrastructure	-	3,461,495	3,461,495
Total Assets	<u>\$ 82,036</u>	<u>\$ 7,474,323</u>	<u>\$ 7,556,359</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ -	\$ 44,263	\$ 44,263
Compensated Absences	-	20,298	20,298
Payroll Liabilities	-	40,631	40,631
Customer Deposits	-	73,661	73,661
Accrued Interest	-	1,027	1,027
Other Current Liabilities	-	15,603	15,603
Current Portion of Long-Term Debt	-	245,558	245,558
Total Current Liabilities	-	441,041	441,041
Long-Term Debt	-	1,283,920	1,283,920
Total Liabilities	-	1,724,961	1,724,961
NET POSITION			
Invested in Capital Assets			
Net of Related Debt	-	3,557,833	3,557,833
Restricted For			
Bond Payment	-	966,000	966,000
Street Lighting	82,036	-	82,036
Unrestricted	-	1,225,529	1,225,529
Total Net Position	<u>82,036</u>	<u>5,749,362</u>	<u>5,831,398</u>
Total Liabilities and Net Position	<u>\$ 82,036</u>	<u>\$ 7,474,323</u>	<u>\$ 7,556,359</u>

See Accompanying Notes to Basic Financial Statements

KEYES COMMUNITY SERVICE DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues Fines, Fees and Charges For Services	Net (Expense) Revenue and Changes In Net Assets Primary Government		
			Governmental Activities	Proprietary Activities	District Total
Primary Government:					
Governmental Activities:					
Street Lighting	\$ (58,933)	\$ 63,245	\$ 4,312	\$ -	\$ 4,312
Total Governmental Activities	<u>(58,933)</u>	<u>63,245</u>	<u>4,312</u>	<u>-</u>	<u>4,312</u>
Business-Type Activities:					
Water Services	(638,903)	950,172	-	311,269	311,269
Sewer Services	<u>(824,888)</u>	<u>992,706</u>	<u>-</u>	<u>167,818</u>	<u>167,818</u>
Total Business-Type Activities	<u>(1,463,791)</u>	<u>1,942,878</u>	<u>-</u>	<u>479,087</u>	<u>479,087</u>
Total Primary Government	<u>\$ (1,522,724)</u>	<u>\$ 2,006,123</u>	<u>\$ 4,312</u>	<u>\$ 479,087</u>	<u>\$ 483,399</u>
General Revenues:					
Property Taxes			\$ -	\$ 4,934	\$ 4,934
Miscellaneous			2,454	219,352	221,806
Investment Earnings			<u>275</u>	<u>13,218</u>	<u>13,493</u>
Total General Revenues			<u>2,729</u>	<u>237,504</u>	<u>240,233</u>
Change In Net Position			7,041	716,591	723,632
Net Position - Beginning			<u>74,995</u>	<u>5,032,771</u>	<u>5,107,766</u>
Net Position - Ending			<u>\$ 82,036</u>	<u>\$ 5,749,362</u>	<u>\$ 5,831,398</u>

See Accompanying Notes To Basic Financial Statements

KEYES COMMUNITY SERVICE DISTRICT
NONMAJOR GOVERNMENTAL FUND
BALANCE SHEETS
JUNE 30, 2014

	<u>Street Lighting Fund</u>
Assets	
Cash and Investments	\$ -
Accounts Receivable	1,910
Restricted Assets	
Cash and Investments	80,126
Due From Other Funds	<u>-</u>
Total Assets	<u>\$ 82,036</u>
Liabilities	
Accounts Payable	<u>\$ -</u>
Total Liabilities	<u>-</u>
Fund Balances	
Nonspendable	-
Restricted - Street Light Assessments	82,036
Committed	-
Assigned	-
Unassigned	<u>-</u>
Total Fund Balances	<u>82,036</u>
Total Liabilities and Fund Balances	<u>\$ 82,036</u>

See Accompanying Notes to Basic Financial Statements

KEYES COMMUNITY SERVICE DISTRICT
NONMAJOR GOVERNMENTAL FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FOR THE YEAR ENDED JUNE 30, 2014

		<u>Street Lighting</u>
Revenues		
Street Light Special Assessment	\$	63,245
Intergovernmental		2,454
Investment Earnings		<u>275</u>
Total Revenues		<u>65,974</u>
 Expenditures		
Supplies and Servies		<u>58,933</u>
 Net Change In Fund Balances		
Excess (Deficiency) of Revenues		
Over Expenditures		<u>7,041</u>
Fund Balance - Beginning		<u>74,995</u>
Fund Balance - Ending	\$	<u>82,036</u>

KEYES COMMUNITY SERVICE DISTRICT
STREET LIGHTING FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance With Final Budget Over (Under)
	Original	Final		
Revenues				
Street Light Fee	\$ 58,500	\$ 58,500	\$ 63,245	\$ 4,745
Investment Earnings	130	130	275	145
Total Revenues	<u>58,630</u>	<u>58,630</u>	<u>63,520</u>	<u>4,890</u>
Expenditures				
Salaries and Benefits	-	-	-	-
Supplies and Services	47,300	47,300	58,933	11,633
Total Expenditures	<u>47,300</u>	<u>47,300</u>	<u>58,933</u>	<u>11,633</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>11,330</u>	<u>11,330</u>	<u>4,587</u>	<u>(6,743)</u>
Net Change In Fund Balances	11,330	11,330	4,587	(6,743)
Fund Balance - Beginning	<u>74,995</u>	<u>74,995</u>	<u>74,995</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 86,325</u>	<u>\$ 86,325</u>	<u>\$ 79,582</u>	<u>\$ (6,743)</u>

See Accompanying Notes to Basic Financial Statements

KEYES COMMUNITY SERVICE DISTRICT
 PROPRIETARY FUNDS
 STATEMENTS OF NET POSITION
 JUNE 30, 2014

	Business-Type Activities-Enterprise Funds				Total
	Sewer		Water		
	Operating Fund	Capital Improvement Fund	Operating Fund	Capital Improvement Fund	
					2014
Assets					
Current Assets					
Cash and Investments	\$ 454,573	\$ 169,020	\$ 1,770,694	\$ -	\$ 2,394,287
Accounts Receivable	102,520	-	114,334	-	216,854
Prepaid Expenses	8,940	-	8,940	-	17,880
Total Current Assets	<u>566,033</u>	<u>169,020</u>	<u>1,893,968</u>	<u>-</u>	<u>2,629,021</u>
Fixed Assets					
Construction in Progress	75,353	-	1,100,739	-	1,176,092
Easement	32,290	-	-	-	32,290
Fixed Assets	5,008,381	-	2,007,664	-	7,016,045
Accumulated Depreciation	<u>(2,069,577)</u>	<u>-</u>	<u>(1,309,548)</u>	<u>-</u>	<u>(3,379,125)</u>
Total Fixed Assets	<u>3,046,447</u>	<u>-</u>	<u>1,798,855</u>	<u>-</u>	<u>4,845,302</u>
Total Assets	<u>\$ 3,612,480</u>	<u>\$ 169,020</u>	<u>\$ 3,692,823</u>	<u>\$ -</u>	<u>\$ 7,474,323</u>
Liabilities					
Current Liabilities					
Accounts Payable	\$ 33,086	\$ -	\$ 11,177	\$ -	\$ 44,263
Compensated Absences	10,149	-	10,149	-	20,298
Payroll Liabilities	3,609	-	37,022	-	40,631
Customer Deposits	-	-	73,661	-	73,661
Accrued Interest	1,027	-	-	-	1,027
Other Current Liabilities	69	-	15,534	-	15,603
Current Portion of Long-Term Debt	<u>107,156</u>	<u>-</u>	<u>90,000</u>	<u>48,402</u>	<u>245,558</u>
Total Current Liabilities	<u>155,096</u>	<u>-</u>	<u>237,543</u>	<u>48,402</u>	<u>441,041</u>
Net Long-Term Debt	<u>214,313</u>	<u>-</u>	<u>876,000</u>	<u>193,607</u>	<u>1,283,920</u>
Total Liabilities	<u>369,409</u>	<u>-</u>	<u>1,113,543</u>	<u>242,009</u>	<u>1,724,961</u>
Net Position					
Invested in Capital Assets					
Net of Related Debt	2,724,978	-	832,855	-	3,557,833
Restricted	-	-	966,000	-	966,000
Assigned	<u>518,093</u>	<u>169,020</u>	<u>780,425</u>	<u>(242,009)</u>	<u>1,225,529</u>
Total Net Position	<u>3,243,071</u>	<u>169,020</u>	<u>2,579,280</u>	<u>(242,009)</u>	<u>5,749,362</u>
Total Liabilities and Net Position	<u>\$ 3,612,480</u>	<u>\$ 169,020</u>	<u>\$ 3,692,823</u>	<u>\$ -</u>	<u>\$ 7,474,323</u>

See Accompanying Notes to Basic Financial Statements

KEYES COMMUNITY SERVICE DISTRICT
 PROPRIETARY FUNDS
 STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities-Enterprise Funds				
	Sewer		Water		Total Enterprise Funds
	Operating Fund	Capital Improvement Fund	Operating Fund	Capital Improvement Fund	
Operating Revenues					
Service Charges	\$ 992,706	\$ -	\$ 910,704	\$ -	\$ 1,903,410
Property Taxes	-	-	4,934	-	4,934
Late Charges	-	-	39,468	-	39,468
Miscellaneous	225	-	106,627	-	106,852
Total Operating Revenues	<u>992,931</u>	<u>-</u>	<u>1,061,733</u>	<u>-</u>	<u>2,054,664</u>
Operating Expenses					
Salaries and Benefits	249,473	-	252,456	-	501,929
Supplies and Services	414,924	20,499	308,157	4,233	747,813
Depreciation	138,965	-	58,405	-	197,370
Total Operating Expenses	<u>803,362</u>	<u>20,499</u>	<u>619,018</u>	<u>4,233</u>	<u>1,447,112</u>
Operating Income (Loss)	<u>189,569</u>	<u>(20,499)</u>	<u>442,715</u>	<u>(4,233)</u>	<u>607,552</u>
Nonoperating Revenues (Expenses)					
Investment Earnings	5,193	-	7,730	295	13,218
Connection Fees	-	45,000	-	67,500	112,500
Interest Expense	(1,027)	-	(15,652)	-	(16,679)
Total Nonoperating Revenues (Expenses)	<u>4,166</u>	<u>45,000</u>	<u>(7,922)</u>	<u>67,795</u>	<u>109,039</u>
Net Income (Loss)	193,735	24,501	434,793	63,562	716,591
Operating Transfer In	-	-	-	38,184	38,184
Operating Transfer Out	-	-	(38,184)	-	(38,184)
Total Operating Transfers	<u>-</u>	<u>-</u>	<u>(38,184)</u>	<u>38,184</u>	<u>-</u>
Change in Net Position	193,735	24,501	396,609	101,746	716,591
Net Position					
Net Position - Beginning	3,049,336	144,519	2,182,671	(343,755)	5,032,771
Total Net Position - Ending	<u>\$ 3,243,071</u>	<u>\$ 169,020</u>	<u>\$ 2,579,280</u>	<u>\$ (242,009)</u>	<u>\$ 5,749,362</u>

See Accompanying Notes to Basic Financial Statements

KEYES COMMUNITY SERVICE DISTRICT
 PROPRIETARY FUNDS
 STATEMENTS OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities-Enterprise Funds				Total Enterprise Funds
	Sewer		Water		
	Operating Fund	Capital Improvement Fund	Operating Fund	Capital Improvement Fund	
Cash Flows From Operating Activities					
Receipts From Customers	\$ 977,474	\$ -	\$ 1,041,579	\$ -	\$ 2,019,053
Payments to Suppliers	(409,632)	(20,499)	(347,256)	(9,175)	(786,562)
Payments to Employees	(250,535)	-	(228,766)	-	(479,301)
Net Cash Provided By (Used In) Operating Activities	<u>317,307</u>	<u>(20,499)</u>	<u>465,557</u>	<u>(9,175)</u>	<u>753,190</u>
Cash Flows From Financing Activities					
Connection Fees and Other	-	45,000	-	67,500	112,500
Transfers from (to) other funds	-	-	(38,184)	38,184	-
Work In Progress	(4,787)	-	(467,432)	-	(472,219)
Principal Payments on Long Term Debt	(131,376)	-	(102,933)	(96,804)	(331,113)
Proceeds of Long Term Debt Issuance	-	-	1,056,000	-	1,056,000
Interest Paid	(1,347)	-	(15,652)	-	(16,999)
Net Cash Provided By (Used In) Financing Activities	<u>(137,510)</u>	<u>45,000</u>	<u>431,799</u>	<u>8,880</u>	<u>348,169</u>
Cash Flows From Investing Activities					
Interest Received	5,193	-	7,730	295	13,218
Net Cash Provided By (Used In) Investing Activities	<u>5,193</u>	<u>-</u>	<u>7,730</u>	<u>295</u>	<u>13,218</u>
Net Increase (Decrease) In Cash	184,990	24,501	905,086	-	1,114,577
Cash and Investments At Beginning of Year	<u>269,583</u>	<u>144,519</u>	<u>865,608</u>	<u>-</u>	<u>1,279,710</u>
Cash and Investments At End of Year	<u>\$ 454,573</u>	<u>\$ 169,020</u>	<u>\$ 1,770,694</u>	<u>\$ -</u>	<u>\$ 2,394,287</u>

See Accompanying Notes to Basic Financial Statements

KEYES COMMUNITY SERVICE DISTRICT
 PROPRIETARY FUNDS
 STATEMENTS OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities-Enterprise Funds				
	Sewer		Water		Total Enterprise Funds
	Operating Fund	Capital Improvement Fund	Operating Fund	Capital Improvement Fund	
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities					
Net Operating Income (Loss)	\$ 189,569	\$ (20,499)	\$ 442,715	\$ (4,233)	\$ 607,552
Non-Cash Items Included in Net Income					
Depreciation	138,965	-	58,405	-	197,370
(Increase) Decrease In Accounts Receivable	(15,457)	-	(25,398)	-	(40,855)
(Increase) Decrease In Prepaid Expenses	-	-	-	-	-
Increase (Decrease) In Accounts Payable	5,292	-	(45,914)	(4,942)	(45,564)
Increase (Decrease) In Compensated Absences	(4,671)	-	(4,671)	-	(9,342)
Increase (Decrease) In Payroll Liabilities	3,609	-	28,361	-	31,970
Increase (Decrease) In Customer Deposits	-	-	5,244	-	5,244
Increase (Decrease) In Other Liabilities	-	-	6,815	-	6,815
Net Cash Provided By (Used In) Operating Activities	<u>\$ 317,307</u>	<u>\$ (20,499)</u>	<u>\$ 465,557</u>	<u>\$ (9,175)</u>	<u>\$ 753,190</u>

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of the Keyes Community Service District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Significant accounting policies are described below:

A. Reporting Entity

The Keyes Community Services District was incorporated in December 1972. The District provides the following services: Street Lighting, Water and Wastewater Treatment.

The District operates under a Board of Directors form of government. The Board of Directors consists of five members elected at large for overlapping four year terms. The District appoints a District Attorney.

Oversight responsibility, the ability to conduct independent financial affairs, issue debt instruments, approve budgets, sign contracts, levy taxes, and otherwise influence operations, and account for fiscal matters, is exercised by the District's governing board. Accordingly, the District is considered to be a separate reporting entity for financial reporting purposes and the accompanying financial statements reflect only the assets, liabilities, fund balances, revenues and expenditures of the District.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of Net Position and the statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) operating revenues as charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) nonoperating revenues as grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements (note the District has no fiduciary funds). Major individual governmental funds are reported as separate columns in the fund financial statements.

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

B. Government-wide and fund financial statements (continued)

Implementation of New Accounting Pronouncements

For the fiscal year ended June 30, 2014, the Agency was required to adopt GASB Statement No. 63 (GASB 63), Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The objective of GASB 63 is to provide guidance to include two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are required to be reported in a Statement of Net Position in a separate section following assets. Similarly, amounts reported as deferred inflows of resources are required to be reported in a Statement of Net Position in a separate section following liabilities. In addition, the totals of these two new classifications should be added to the total for assets and liabilities, respectively.

Under GASB 63, a government may not report any items as deferred outflows or deferred inflows of resources unless specifically required by a GASB pronouncement. The District did not have any deferred inflows or outflows of resources at June 30, 2014. The adoption of GASB 63 resulted in a retroactive change in the term "net assets" being changed to "net position" throughout the financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes and interest are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the District and are recognized as revenue at that time.

The District reports the following nonmajor governmental fund:

The **Street Light fund** accounts for the activities of the district's street light service.

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The District reports the following proprietary funds:

The major **Water Operating Fund** accounts for the activities of the District's water service.

The major **Water Capital Improvement Fund** accounts for the fixed asset financing and purchasing activities of the District's water service.

The major **Sewer Operating Fund** accounts for the activities of the District's wastewater (sewer) service.

The nonmajor **Sewer Capital Improvement Fund** accounts for the fixed asset financing and purchasing activities of the District's wastewater (sewer) service.

D. Assets, Liabilities, Net Position or Equity

1. Cash and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the District. The District follows the practice of pooling the cash from all funds for investment purposes. Investments consist primarily of passbook savings and Stanislaus County Treasurer's Pool public deposits. All investments are stated at cost, which approximates market value.

California State statute authorizes the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

3. Property Taxes

Property taxes are levied on the first day of March by the County assessor, and are payable to the County Tax Collector in two installments.

The first installment is due November 1st, and becomes delinquent December 10th; the second installment is due February 1st, and becomes delinquent April 10th. Taxes become a lien on the property on March 1st, and on the date of transfer of title, and the date of new construction.

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

3. Property Taxes (continued)

The minimum property value which is taxed is \$2,000; however, tax bills are prepared for properties valued at less than \$2,000 if there is a special assessment to be collected.

Article 13A of the California Constitution states, "The maximum amount of any ad valorem tax on real property shall not exceed one percent (1%) of the full cash value of such property. The one percent tax is to be collected by the counties and apportioned according to law to the districts within the counties."

The District has elected under state law (Teeter) to receive all of the annual property assessments in three installments as follows:

December	55%
April	40%
June	<u>5%</u>
	<u>100%</u>

4. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2014 are recorded as prepaid items.

5. Restricted Assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

6. Capital Assets

Capital assets, which include property, plant, and equipment are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$1,000 for property, plant, and equipment. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is recorded in the Proprietary Funds in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service life using the straight-line method.

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

7. Compensated Absences

District employees earn vacation leave, accrued holiday and compensation time. It may be either taken or accumulated until paid upon termination or retirement. Sick leave may be accumulated without limitation, but upon retirement, an employee will be paid for a maximum of 200 hours of any unused sick leave. Sick leave is not paid if an employee quits or is terminated. In accordance with generally accepted accounting principles, an accrual for compensated absences is reflected in the accompanying general purpose financial statements.

8. Long-term Debt

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

9. Net Position & Fund Equity

In the government-wide financial statements and proprietary fund financial statements, Net Position are reported in three categories: Net Position invested in capital assets, net of related debt; restricted Net Position and assigned Net Position. Restricted Net Position represent Net Position restricted by parties outside the District (such as creditors, grantors, contributors, laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The District's restricted Net Position are temporarily restricted (ultimately expendable assets). All other Net Position are considered assigned for District operations.

The District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The categories are defined as *restricted*, *committed*, *assigned*, and *unassigned* based on the relative strength of the constraints that control how specific amounts can be spent. In the fund financial statements, the District's governmental funds report the following classifications of fund balances:

Restricted fund balance – amounts that can be spent only for specific purposes because of restrictions from external sources (creditors, laws of other governments etc.) or constitutional provisions or enabling legislation. The District has a balance in the water proprietary fund that is restricted by debt covenants, and the fund balance in the governmental activities fund is restricted for street lighting.

Assigned fund balance – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The District's board is the highest level of decision making authority for the District and is authorized to assign amounts to a specific purpose. The District's proprietary fund balances are assigned to be used for continued operations of the respective services.

It is the District's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available; and to first apply committed, then assigned, then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

10. 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 these estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for all governmental activities funds. All annual appropriations lapse at fiscal year end.

Prior to June 30th, the proposed budget is presented to the Board of Directors for review. The Board of Directors holds public hearings and may add to, subtract from or change appropriations.

B. Risk Management:

Risk exposures that may exist in connection with activities of the District, are addressed by the district's risk management policy. The District's risk management policy includes implementation of safety policies and procedures. As a part of the District's risk management policy, commercial insurance policies are purchased to cover substantially all expected losses from most types of routine risks of loss such as those due to torts; asset theft or damage; employee injuries; and natural disasters; accordingly, the District does not incur a significant self-insured retention.

B. Risk Management (Continued):

The District believes its exposure to risks of loss due to business interruption and errors or omissions is fully provided for with purchased insurance.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Cash and Investments

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 2,474,413
Total cash and investments	<u>\$ 2,474,413</u>

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

A. Cash and Investments (continued)

Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	\$ 1,000
Deposit with financial institution	182,895
Investments in Stanislaus County Treasurer's Pool	<u>2,290,518</u>
Total cash and investments	<u>\$ 2,474,413</u>

The District maintains its cash and investment in the Stanislaus County Treasurer's Pool for the purpose of increasing interest income through investment activities. This pool, which is available for use by all funds, is displayed on the statement of Net Position/balance sheet as "cash and investments". The Stanislaus County Treasurer's Pool generally limits participation in the pool to those agencies and districts required to participate by legal provisions of the California State Government Code for those agencies and districts.

The share of each fund in the Stanislaus County Treasurer's Pool is separately accounted for and interest is apportioned quarterly based on the relationship of the fund's average daily cash balance to the total of the pooled cash and investments.

The Stanislaus County Treasurer's Pool is not SEC-registered, but is invested in accordance with California State Government Code section 53600 et. seq. California State Government Code requires the formation of an Investment Oversight Committee, which is charged with overseeing activity in the pool for compliance to policy and code requirements. To this end, the Oversight Committee reviews the monthly investment report prior to presentation to the Board of Supervisors and causes an audit of investments to occur annually.

In addition to the restrictions and guidelines of the Government Code, cash and investments with the County Treasurer are invested pursuant to investment policy guidelines established by the County Treasurer and accepted by the Board of Supervisors. The objectives of the policy are, in order of priority, legality of investments, safety of principal, liquidity and yield.

Interest Rate Risk – This is the risk of loss due to the fair value of an investment falling due to rising interest rates. The County's policy for interest rate risk for The Stanislaus County Treasurer's Pool, are to allow investments to be sold prior to maturity at a loss if such sale will allow investment in a higher yield vehicle and any loss upon sale can be more than compensated by additional interest earning within a six month period. Of the County's \$1.0 billion portfolio, over 69% of the investments have a maturity of 6 months or less. No investment has maturity greater than 4 years.

Credit Risk – This is the risk of loss due to credit quality rating of investments in debt securities as described by nationally recognized rating agencies. Stanislaus County Treasurer's Pool is permitted to hold investments of issuers with a short-term rating of "A-1" and a minimum long-term rating of "A" by two of the top nationally recognized statistical rating organizations (rating agencies). Additionally, the County is permitted to invest in U.S. Treasuries, Government Sponsored Enterprises (Agencies), the State's Local Agency Investment Fund and collateralized certificates of deposit that are un-rated.

KEYES COMMUNITY SERVICE DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

A. Cash and Investments (continued)

Concentration of Credit Risk – This is the risk of loss due to a large concentration of investments in any one issuer. Investments issued or explicitly guaranteed by the U.S. Government and investments in the mutual funds, external investment pool and other pooled investments are not considered at risk.

In the Stanislaus County Treasurer’s Pool, over 52% of the County’s investments, including collateral on repurchase agreements, were in the U.S. Government or Government Sponsored Enterprises (Agencies). Of the 48.0% of the portfolio invested in other types of investments, no investment in a single issuer exceeds 5%.

Custodial Risk – This is the risk of loss due to uninsured or uncollateralized deposits.

In the Stanislaus County Treasurer’s Pool, all negotiable instruments are held by the County’s custodian or a third party in the County’s name. The County did not participate in securities lending.

B. Accounts Receivable

Receivables at June 30, 2014 for the District’s individual major funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows. All receivable are expected to be collected within one year.

	<u>Street Lights</u>	<u>Total</u>	
Governmental Activities:			
Utility Assessment	<u>1,910</u>	<u>1,910</u>	
Total	<u><u>1,910</u></u>	<u><u>1,910</u></u>	
Business-Type Activities:	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Utility Billing	<u>114,334</u>	<u>102,520</u>	<u>216,854</u>
	<u><u>114,334</u></u>	<u><u>102,520</u></u>	<u><u>216,854</u></u>

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

C. Accounts Payable and Other Liabilities

Payables at June 30, 2014 for the District's individual major funds in the aggregate are as follows:

Business-Type Activities	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Vendors/Developers	\$ 11,177	\$ 33,086	\$ 44,263
Salaries and Benefits	47,171	13,758	60,929
Accrued Interest	-0-	1,027	1,027
Customer Deposits	<u>73,661</u>	<u>-0-</u>	<u>73,661</u>
Total Payables and Other	<u>\$ 132,009</u>	<u>\$ 47,871</u>	<u>\$ 179,880</u>

D. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

Business-Type Activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 48,133	\$ -0-	\$ -0-	\$ 48,133
Construction in progress	<u>703,873</u>	<u>472,219</u>	<u>-0-</u>	<u>1,176,092</u>
Total capital assets not being depreciated	<u>752,006</u>	<u>472,219</u>	<u>-0-</u>	<u>1,224,225</u>
Capital assets being depreciated:				
Loan Fees	8,227	-0-	-0-	8,227
System	6,238,244	-0-	-0-	6,238,244
Equipment and Vehicles	643,764	-0-	-0-	643,764
Building and Improvements	<u>77,677</u>	<u>-0-</u>	<u>-0-</u>	<u>77,677</u>
Total capital assets being depreciated:	<u>6,967,912</u>	<u>-0-</u>	<u>-0-</u>	<u>6,967,912</u>
Less accumulated depreciation for:				
Loan Fees	(7,854)	(373)	-0-	(8,227)
System	(2,601,309)	(175,439)	-0-	(2,776,748)
Equipment and Vehicles	(498,357)	(21,377)	-0-	(519,734)
Building and Improvements	<u>(74,235)</u>	<u>(181)</u>	<u>-0-</u>	<u>(74,416)</u>
Total accumulated depreciation	<u>(3,181,755)</u>	<u>(197,370)</u>	<u>-0-</u>	<u>(3,379,125)</u>
Net capital assets being depreciated	<u>3,786,157</u>	<u>(197,370)</u>	<u>-0-</u>	<u>3,588,787</u>
Total net capital assets – business Type activities	<u>\$ 4,538,163</u>	<u>\$ 274,849</u>	<u>\$ -0-</u>	<u>\$ 4,813,012</u>

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

D. Capital Assets (continued)

Depreciation was charged to functions/programs of the primary government as follows:

Business-Type Activities:

Water	\$ 58,405
Sewer	<u>138,965</u>
Total Depreciation expense – business-type activities	<u>\$ 197,370</u>

E. Long-Term Debt

The District is authorized to issue bonds in the total amount of \$1,250,000 to pay the costs of land acquisition, engineering, and construction of a water treatment facility for arsenic removal (Arsenic Mitigation Project). As of June 30, 2014, the District has issued \$1,056,000 of bonds. The bonds are payable from general revenues of the Water enterprise fund.

The bond debt issued in two draws by the District as of June 30, 2014 is:

	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>
First Draw	07-30-2013	1.96%	01-01-16	\$ 856,000
Second Draw	05-12-2014	1.96%	01-01-16	\$ 200,000

Activity for the fiscal year ended June 30, 2014:

	<u>Outstanding Balance at 06-30-13</u>	<u>Issued During Current Year</u>	<u>Principal Repayments</u>	<u>Outstanding Balance at 06-30-14</u>
Bridge Loan	\$ -	\$ 1,056,000	\$ (90,000)	\$ 966,000
Total of all bonds	<u>\$ -</u>	<u>\$ 1,056,000</u>	<u>\$ (90,000)</u>	<u>966,000</u>
Less: Current Portion				<u>(90,000)</u>
Long-Term Debt				<u>\$ 876,000</u>

KEYES COMMUNITY SERVICE DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

E. Long-Term Debt (Continued)

The Bridge Loan bonds were sold on July 30, 2013 exclusively to Western Alliance Bank in a nonpublic transaction; accordingly, the bonds are not assigned a rating by a public credit rating agency. The Bridge Loan bonds in the aggregate principal amount of \$1,056,000 were issued to provide funds to pay costs of land acquisition, engineering, and construction of public water treatment facilities (Arsenic Mitigation Project). The proceeds were distributed as follows to accounts established with the fiscal agent for purposes of administering the proceeds:

Cost of Issuance Account	\$ 40,187
Project Fund	988,586
Underwriter's Discount	<u>27,227</u>
Proceeds from Bond Issue	1,056,000
Original Issue Discount (Premium)	<u>-0-</u>
Par Amount of Bonds	<u>\$ 1,056,000</u>

Principal and interest on the bonds are due July 1 and January 1 of each year. The July 1, 2014 payment was made early, on June 24, 2014. Future debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Serial Bonds</u>	<u>Term Bonds</u>	<u>Interest</u>	<u>Total</u>
2015	45,000	-	9,467	54,467
2016	<u>45,000</u>	<u>876,000</u>	<u>15,651</u>	<u>936,651</u>
Total	<u>\$ 90,000</u>	<u>\$ 876,000</u>	<u>\$ 25,118</u>	<u>\$ 991,118</u>

The following is a summary of other Water Funds debt transactions including annual redemption requirements for the year ended June 30, 2014:

	<u>Original Issue</u>	<u>Balance 6/30/13</u>	<u>Additions</u>	<u>Maturities</u>	<u>Balance 6/30/14</u>
Arsenic Mitigation Project Key	\$ -0-	\$ 338,813	\$ -0-	\$ 96,804	\$ 242,009
California Department of Water Resources, interest at 3.1488%, interest and principal payable semi-annually, to be paid by Water Enterprise operating revenues	<u>131,250</u>	<u>12,933</u>	<u>-0-</u>	<u>12,933</u>	<u>-0-</u>
	<u>\$ 131,250</u>	<u>\$ 351,746</u>	<u>\$ -0-</u>	<u>\$ 109,737</u>	<u>\$ 242,009</u>

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

E. Long-Term Debt (Continued)

Annual other debt service requirements of the Water Funds are as follows:

Year Ending June 30,	Arsenic Mitigation Loan Principal	Arsenic Mitigation Loan Interest	Total Debt Service
2015	96,804	-0-	96,804
2016	96,804	-0-	96,804
2017	<u>48,401</u>	<u>-0-</u>	<u>48,402</u>
Total	<u>\$ 242,009</u>	<u>\$ -0-</u>	<u>\$ 242,009</u>

The following is a summary of Sewer Funds debt transactions including annual redemption requirements for the year ended June 30, 2014:

Keyes Community Service District signed a reimbursement agreement with the City of Turlock for the District request for construction of a sewer pipeline which provides the District 50% of the capacity located on Tegner Road. For this percentage of pipeline capacity the District is obligated to pay \$1,071,564. Annual payments of \$107,156 plus variable-rate interest began on July 1, 2008 and extend for ten years. The reimbursement balance for the year ended June 30, 2014 was \$321,469.

The annual debt service requirement of the sewer funds are as follows:

Year Ending June 30	Turlock Agreement
2015	\$ 107,156
2016	107,156
2017	<u>107,157</u>
Total	<u>\$ 321,469</u>

The following is a summary of changes in the District's total long-term debt and other long-term liabilities during the year ended June 30, 2014:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Business-type Activities:					
Loans Payable	\$ 351,746	\$ -0-	\$ (109,737)	\$ 242,009	\$ 96,804
Bonds Payable	-0-	1,056,000	(90,000)	966,000	45,000
City of Turlock Agreement	452,845	-0-	(131,376)	321,469	107,156
Compensated Absences	<u>29,640</u>	<u>-0-</u>	<u>(9,342)</u>	<u>20,298</u>	<u>-0-</u>
Long-term liabilities of Business-type activities	<u>\$ 834,231</u>	<u>\$ 1,056,000</u>	<u>\$ (340,455)</u>	<u>\$ 1,549,776</u>	<u>\$ 248,960</u>

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

F. Employee Retirement Systems and Plans

All District full-time employees participate in the Stanislaus County Employees Retirement Association (SCERA), a cost sharing multiple-employer public employee defined benefit pension plan. SCERA provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Copies of SCERA annual financial report may be obtained from the Executive Office – 1100 H Street – Modesto, CA 95354.

For covered employees, the employer and employee contributions vary by individual. For June 30, 2014, the District's annual pension costs of \$46,942 for SCERA were equal to the District's required and actual contributions. The District is required to contribute based on rate schedules issued by SCERA.

The required contribution was determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method. The contribution is determined by the member's age and date of entry into the retirement system and the member's salary level. The actuarial assumptions include (a) 8.0% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5%.

THREE-YEAR TREND INFORMATION FOR SCERA
(dollar amounts in thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/12	19,738	100	0
06/30/13	39,243	100	0
06/30/14	46,942	100	0

KEYES COMMUNITY SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

IV. OTHER DISCLOSURES

A. Concentrations - Wastewater Contract

The District's wastewater disposal is contracted with the City of Turlock. The District is dependent on the City of Turlock's ability to provide wastewater collection services. The District's wastewater disposal fee rates are based on the fees the City of Turlock charges the District for collection services. Uncertainty exists regarding future rate changes by the City of Turlock, and the potential future demands for expansion of Turlock's wastewater collection facilities. The amount of the liability cannot be determined at this time.

B. Interfund Receivables and Payables

There are no outstanding interfund receivables or payables at year-end.

C. Transfers

Interfund transfers for the year ended June 30, 2014 were made for cash management purposes:

D. Litigation in Progress

The District is a plaintiff in a lawsuit naming several corporate parties as defendants, seeking damages related to water contamination. To date, no counter claims have been brought and legal counsel does not anticipate that any will be forthcoming. In counsel's professional opinion, there are no unasserted claims against the District related to or arising out of this matter that are probable of assertion and that, if asserted, would have at least a reasonable possibility of an unfavorable outcome.

The District is a plaintiff in another lawsuit naming one corporate party as defendant, seeking to acquire an interest in real property under the California Eminent Domain Law. The likelihood of an unfavorable outcome cannot be estimated as probable or remote. Since the District would acquire an interest in real property by payment of court ordered just compensation, the acquisition will not be favorable or unfavorable. It is premature to estimate whether an unfavorable damage award for a remainder parcel adjacent to the property to be acquired is probable or remote. It is premature to estimate the amount of any damage award in the event of an unfavorable damage award.

No contingent liabilities have been recognized in these financial statements as a result of either litigation case.

E. Evaluation of Subsequent Events

The District has evaluated subsequent events through February 25, 2015, the date which the financial statements were available to be issued.



Robert A. Hawks, Jr., CPA

• think **BOLDLY** • plan **CAREFULLY** • execute **PRECISELY** •

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governing Board
Keyes Community Services District
Modesto, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Keyes Community Services District, as of and for the year ended June 30, 2014, which collectively comprise the Keyes Community Services District's basic financial statements and have issued our report thereon dated February 25, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The District's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2012-4, 2012-5, 2012-6, and 2014-1 to be a material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2012-2, 2012-3, and 2013-1 to be significant deficiencies.

Compliance

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

This report is intended for the information and use of the governing board, management and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant

February 25, 2015

KEYES COMMUNITY SERVICES DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

STATUS OF PRIOR YEAR FINDINGS

2012-2 BANK RECONCILIATIONS (SIGNIFICANT DEFICIENCY)

FINDING: During the audit, it was noted that the checking account at Wells Fargo Bank is not reconciled, or the reconciliation does not balance.

CURRENT STATUS: Resolved. While the differences noted at June 30, 2012 and June 30, 2013 were immaterial, adjustments to correct the balance could possibly affect revenue and expenses in material amounts. The June 30, 2014 reconciliation was completed without an unreconciled difference.

2012-3 INTERNAL CONTROLS OVER CASH (SIGNIFICANT DEFICIENCY)

FINDING: During the audit it was noted that the internal controls over cash were deficient. Cash for payments received over the counter are primarily, but not solely, received by one employee of the District.

CURRENT STATUS: Partially addressed: internal controls over cash handling have been improved; cash and receivable reports are reviewed regularly by the General Manager. One recent incident of a bank deposit error highlighted a weakness in cash handling; an employee improperly recorded cash versus check receipts and a customer check was later found behind a desk relating to this deposit.

MANAGEMENT RESPONSE: *The staff is going to cross check each other's work. This means that the money will be counted by more than one person and the reports will be looked at by more than one person. Each employee that has use of the Cash Register also has their own access code.*

2012-4 FIXED ASSET MANAGEMENT (MATERIAL WEAKNESS)

FINDING: During the course of the audit, the audit team discovered that the fixed asset schedule was not being maintained by District staff on a regular and consistent basis.

CURRENT STATUS: No fixed asset activity in the current fiscal year, however the schedule was not updated for annual depreciation

KEYES COMMUNITY SERVICES DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

recognition. We recommend that staff review and maintain the schedule on an ongoing basis, and that a physical inventory and inspection of fixed assets be compared to the schedule.

MANAGEMENT RESPONSE: *The Fixed Asset Management duties and responsibilities are being assigned to Managerial Staff.*

2012-5 SEPARATION OF DUTIES REGARDING BANKING (MATERIAL WEAKNESS)

FINDING: During the audit it was noted that several staff members and board members are authorized signers on each bank and county treasury cash account.

CURRENT STATUS: Improvement - some staff members have been removed and the General Manager added as an authorized signer. The staff member responsible for recording the monthly bank account entries and performing the reconciliations is no longer an authorized signer.

MANAGEMENT RESPONSE: *Selected District Personnel are authorized signers of each Bank Account and County Cash Account.*

2012-6 PREPARATION OF FINANCIAL STATEMENTS (MATERIAL WEAKNESS)

FINDING: Management required our assistance to prepare the financial statements.

CURRENT STATUS: Management's responsibility for the financial statements includes preparation of the statements and notes.

RECOMMENDATION: Assistance with financial statement preparation is not uncommon for an entity of this size, but should be considered as the board is exercising its oversight duties with respect to financial reporting.

MANAGEMENT RESPONSE: *Staff will seek training on financial statement preparation when time and funding are available.*

2013-1 INSURANCE LIABILITIES (SIGNIFICANT DEFICIENCY)

FINDING: During the audit, it was noted that the certain employee benefit and insurance liabilities had been miscalculated and over-accumulated

KEYES COMMUNITY SERVICES DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

within the payroll processing and accounting systems. The error has been corrected by staff, but was undetected during the course of the year.

CURRENT STATUS: Staff took measures to correct errors during the year ended June 30, 2014, however, some periodic financial reports provided to management, the board of directors, and others during the year were misstated; expenses and liabilities were overstated. The balances were corrected as of June 30, 2014 and the staff is monitoring the system going forward.

RECOMMENDATION: The District should ensure that accurate financial information is available to management and directors throughout the year. The accuracy, relevance, and timeliness of financial information can have a significant impact on decision making within the organization.

MANAGEMENT RESPONSE: *Monthly Financial Statement will be prepared for the Board Review as well as part of the Agenda Packet, this will eliminate the problem.*

CURRENT YEAR (NEW) FINDINGS

2014-1 BRIDGE LOAN REQUISITION REPORTING (MATERIAL WEAKNESS)

FINDING: During the audit, it was noted that the Bridge Loan reporting spreadsheet entitled "2013 Bridge Loan for Water Filtration Project – Project Cost Detail" did not agree with transaction detail recorded in the General Ledger accounting system.

EFFECT: Periodic financial reports provided to the lender were accompanied by the spreadsheet as well as copies of invoices for eligible Project Costs. While the reporting did not lead to any questioned costs as of June 30, 2014, any errors or inconsistencies could lead to incorrect determination of remaining available funds in the future.

RECOMMENDATION: The District should ensure that accurate financial reporting is available to the lender as required under the loan agreement.

MANAGEMENT RESPONSE: *A trial balance report will be run and cross-checked against the Bridge Loan reporting spreadsheet.*