

**SAN MIGUEL
COMMUNITY SERVICES DISTRICT**

Independent Auditor's Report
and
Financial Statements

For the Year Ended
June 30, 2011

SAN MIGUEL COMMUNITY SERVICES DISTRICT
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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CROSBY COMPANY, CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report

Board of Directors
San Miguel Community Services District
San Miguel, California

I have audited the accompanying financial statements of the government activities and the business-type activities of the San Miguel Community Services District as of and for the year ended June 30, 2011, which collectively comprise the Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. Generally Accepted Auditing Standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, payroll tax withholding calculations for the District's employee CalPERS program are in question. Management has requested a legal determination concerning any additional payroll tax liabilities that might be due at June 30, 2011 and is awaiting a definitive written confirmation from CalPERS concerning these ambiguities before any liabilities, if any, can be calculated and reflected in these financial statements.

In my opinion, except for the effects of such adjustments, if any, as might occur regarding the above legal determination, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental and business-type activities of the San Miguel Community Services District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, management has elected not to include a management discussion and analysis. This analysis is not a required part of the basic financial statements but is supplementary information normally required by U.S. generally accepted accounting principles.

The management's budgetary comparison information on page 8 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the San Miguel Community Services District basic financial statements. The combining financial statement schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.



CROSBY COMPANY
Certified Public Accountant

November 17, 2011

SAN MIGUEL COMMUNITY SERVICES DISTRICT

STATEMENT OF NET ASSETS

June 30, 2011

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Totals
Current assets			
Cash and cash equivalents	\$ 370,231	\$ 23,317	\$ 393,548
Accounts receivable		12,803	12,803
Unbilled receivables		130,614	130,614
Interest receivable		545	545
Prepaid expenses	950		950
Total current assets	371,181	167,279	538,460
Non-current assets			
Capital assets:			
Land and construction in progress	76,926	91,836	168,762
Plant and equipment	1,608,010	7,762,156	9,370,166
Less accumulated depreciation	(851,421)	(1,760,010)	(2,611,431)
Total non-current assets	833,515	6,093,982	6,927,497
Other assets			
Note receivable	38,054		38,054
Total other assets	38,054	-	38,054
Total assets	\$ 1,242,750	\$ 6,261,261	\$ 7,504,011
LIABILITIES			
Current liabilities			
Accounts payable	\$ -	\$ 18,033	\$ 18,033
Accrued interest payable	3,318	26,490	29,808
Accrued vacation payable		3,548	3,548
Deposits		7,790	7,790
Current portion of long-term debt	49,269	45,792	95,061
Total current liabilities	52,587	101,653	154,240
Noncurrent liabilities			
Long-term debt	162,166	1,737,838	1,900,004
Total noncurrent liabilities	162,166	1,737,838	1,900,004
Total liabilities	\$ 214,753	\$ 1,839,491	\$ 2,054,244
NET ASSETS			
Invested in capital assets-net of related debt	\$ 622,080	\$ 4,310,352	\$ 4,932,432
Unrestricted	405,917	111,418	517,335
Total net assets	\$ 1,027,997	\$ 4,421,770	\$ 5,449,767

The accompanying notes are an integral part of the financial statements

SAN MIGUEL COMMUNITY SERVICES DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

Program Revenues

Expenses	Charges for Services	Operating Grants and Contributions
\$ 65,160	-	-
308,449	4,058	11,651
373,609	4,058	11,651
384,958	287,897	
522,496	332,891	
	24,837	
907,454	645,625	-
\$ 1,281,063	\$ 649,683	\$ 11,651

Functions/Programs

Primary government:

Governmental activities:

General government
Public safety - fire

Total governmental activities

Business-type activities:

Sanitary
Water
Refuse

Total business-type activities

Total primary government

Net (Expense) Revenue and Change in Net Assets Primary Government

Governmental Activities	Business-type Activities	Totals
\$ (65,160)		\$ (65,160)
(292,740)		(292,740)
(357,900)		(357,900)
	\$ (97,061)	(97,061)
	(189,605)	(189,605)
	24,837	24,837
	(261,829)	(261,829)
(357,900)	(261,829)	(619,729)
293,012	90,672	383,684
4,123	-	4,123
2,457	66	2,523
12,004	-	12,004
311,596	90,738	402,334
(46,304)	(171,091)	(217,395)
1,074,301	4,592,861	5,667,162
\$ 1,027,997	\$ 4,421,770	\$ 5,449,767

General revenues:

Taxes:

Property taxes, levied for general purposes
Assessments and connection fees
Investment income
Miscellaneous income

Total general revenues, investment and transfers

Change in net assets

Net assets - beginning

Net assets - ending

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

SAN MIGUEL COMMUNITY SERVICES DISTRICT

BALANCE SHEET Governmental Funds June 30, 2011

ASSETS

Cash and cash equivalents
Prepaid expense
Note receivable

Total assets

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable

Total liabilities

Fund balances:

Nonspendable

Assigned

Total fund balances

Total liabilities and fund balances

General Fund
\$ 370,231
950
38,054
\$ 409,235
-
950
408,285
\$ 409,235
\$ 409,235

SAN MIGUEL COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
 June 30, 2011

Total fund balances - government funds	\$ 409,235
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Land and construction in progress	76,926
Plant and equipment	1,608,010
Less: accumulated depreciation	(851,421)
Total capital assets, net of depreciation	<u>833,515</u>
<p>Long-term liabilities and accrued interest payable have not been included in governmental funds activity:</p>	
Contracts payable	(211,435)
Accrued interest payable	(3,318)
Total liabilities	<u>(214,753)</u>
Net assets of governmental activities	\$ 1,027,997

SAN MIGUEL COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

Governmental Funds

For the Year Ended June 30, 2011

	General Fund
Revenues:	
Property taxes	\$ 293,012
Service charges and fees	4,058
Public facilities fees and assessments	4,123
Grant income	11,651
Investment income	2,457
Miscellaneous income	12,004
Total revenues	327,305
Expenditures:	
Administration	58,428
Fire department	169,004
Street lighting	33,875
Capital outlay	74,092
Debt service	
Principal	50,932
Interest	8,292
Total expenditures	394,623
Excess of revenue over (under) expenditures	(67,318)
Fund balance at beginning of year	476,553
Fund balance at end of year	\$ 409,235

The accompanying notes are an integral part of the financial statements

SAN MIGUEL COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Net Change in Governmental Fund Balances

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and expensed as depreciation expense. This is the amount of additional capital assets included in the current year statement of net assets.

In the statement of activities the cost of capital outlay is allocated over their useful lives and reported as depreciation expense.

Contract payable proceeds provide current financial resources to government funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net asset. This is the amount by which proceeds exceeded repayments.

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

	\$ (67,318)
	74,092
	(104,658)
	50,932
	648
Change in Net Assets of Governmental Activities	\$ (46,304)

SAN MIGUEL COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Budget and Actual - Governmental Funds
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 390,000	\$ 390,000	\$ 293,012	\$ (96,988)
Service charges and fees	10,000	10,000	4,058	(5,942)
Public facilities fees and assessments	4,350	4,350	4,123	(227)
Grant income	20,000	20,000	11,651	(8,349)
Investment income	10,000	10,000	2,457	(7,543)
Miscellaneous income	12,000	12,000	12,004	4
Total revenues	446,350	446,350	327,305	(119,045)
Expenditures:				
Administration	93,150	93,150	58,428	34,722
Fire department	181,200	181,200	169,004	12,196
Street lighting	50,000	50,000	33,875	16,125
Capital outlay	72,000	72,000	74,092	(2,092)
Debt service				
Principal	50,000	50,000	50,932	(932)
Interest			8,292	(8,292)
Total expenditures	446,350	446,350	394,623	51,727
Excess of revenues over (under) expenditures before transfers	\$ -	\$ -	(67,318)	\$ (67,318)
Fund balance at beginning of year			476,553	
Fund balance at end of year			\$ 409,235	

The accompanying notes are an integral part of the financial statements

SAN MIGUEL COMMUNITY SERVICES DISTRICT

STATEMENT OF NET ASSETS

Proprietary Funds

June 30, 2011

ASSETS

Current assets:

Cash and cash equivalents
 Accounts receivable
 Unbilled receivables
 Interest receivable

\$	23,317
	12,803
	130,614
	545

Total current assets

167,279

Noncurrent assets:

Capital assets:

Land and construction in progress
 Plant and equipment
 Less: accumulated depreciation

91,836
7,762,156
(1,760,010)

Total noncurrent assets

6,093,982

Total assets

\$ 6,261,261

LIABILITIES

Current liabilities:

Accounts payable
 Accrued interest payable
 Accrued vacation payable
 Deposits

\$	18,033
	26,490
	3,548
	7,790

Total current liabilities

55,861

Noncurrent liabilities:

Notes payable
 Bonds payable

558,224
1,225,406

Total noncurrent liabilities

1,783,630

Total liabilities

1,839,491

NET ASSETS

Invested in capital assets-net of related debt
 Unrestricted

4,310,352
111,418

Total net assets

\$ 4,421,770

The accompanying notes are an integral part of the financial statements

SAN MIGUEL COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Proprietary Funds
For the Year Ended June 30, 2011

Operating revenues:	
Utility sales	\$ 644,056
Service charges and fees	1,569
Total revenues	645,625
Operating expenses:	
Salaries and wages	197,792
Payroll taxes and benefits	71,393
Contract labor	5,260
Workers compensation	16,304
Maintenance and repairs	54,790
Miscellaneous	3,826
Office supplies and expense	6,422
Professional services	6,177
Operating supplies	34,729
Permits and fees	24,889
Communications	7,198
Employee travel and training	996
Utilities	82,035
General and administrative overhead	126,668
Depreciation	198,341
Total expenses	836,820
Net operating loss	(191,195)
Non-operating revenues (expenses):	
Property taxes	90,672
Investment income	66
Interest expense	(70,634)
Total non-operating revenues (expenses)	20,104
Change in net assets	(171,091)
Net assets at beginning of year	4,592,861
Net assets at end of year	\$ 4,421,770

The accompanying notes are an integral part of the financial statements

SAN MIGUEL COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS

Proprietary Funds

For the Year Ended June 30, 2011

Cash flows from operating activities:	
Cash received from operating revenue	\$ 654,816
Payment of employees	(238,098)
Other payments	(495,012)
Net cash used by operating activities	(78,294)
Cash flows from non-capital financing activities:	
Property taxes	90,672
Net cash provided by non-capital financing activities	90,672
Cash flows from capital and related financing activities:	
Purchases of capital assets	(17,530)
Principal paid on capital debt	(44,330)
Interest paid on capital debt	(70,634)
Net cash used by capital and related financing activities	(132,494)
Cash flows from Investing activities:	
Interest on investments	66
Net cash provided by investing activities	66
Net change in cash	(120,050)
Cash and cash equivalents-beginning	143,367
Cash and cash equivalents-end	\$ 23,317
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (191,195)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	198,341
Net changes in assets and liabilities:	
Accounts receivable	9,191
Unbilled receivables	(20,643)
Accounts payable	(34,137)
Interest payable	455
Vacations payable	(40,306)
Net cash used by operating activities	\$ (78,294)

SAN MIGUEL COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1: REPORTING ENTITY

The San Miguel Community Services District (District) is a multi-purpose special district established on February 1, 2000, by the consolidation of the San Miguel Fire Protection District, which was established in 1941, the Water Works District #1, and the San Miguel Lighting District. The San Miguel Sanitation District was dissolved in April 2001 and incorporated into the San Miguel Community Services District. The District is a political subdivision of the State of California and operates under a Board of Directors - Manager form of government. The District provides fire protection, street lighting, water, wastewater, solid waste, and general administrative services.

There are no component units included in this report which meet the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity as amended by GASB Statement No. 39.

Management has elected not to include a management discussion and analysis, which is not a required part of the basic financial statements but is supplementary information normally required by U.S. generally accepted accounting principles.

During an independent reconciliation of the District's payroll tax withholding policies, it was determined that the District may have received conflicting information concerning the required CalPERS/Social Security/Medicare employee payroll tax withholding requirements. Management has requested and is awaiting a definitive written confirmation from CalPERS concerning these ambiguities before any liabilities, if any, can be calculated and reflected in these financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting, Measurement Focus, and Financial Statements Presentation

The basic financial statements of SMCS D are composed of the following:

- Government-Wide and Fund Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements

Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These Statements include separate columns for the governmental activities and business-type activities of the primary government (including its blended component units), as well as its discreetly presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of SMCS D.

SAN MIGUEL COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting, Measurement Focus, and Financial Statements Presentation (continued)

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statement. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains losses, assets, and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement number 33.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Fund Financial Statements

The underlying accounting system of SMCSO is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental and enterprise funds.

Governmental Funds

In the fund financial statements, governmental funds are presented using the modified – accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

SAN MIGUEL COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting, Measurement Focus, and Financial Statements Presentation (continued)

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

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts. Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the fiscal year that resources were expended, rather than as capital assets. The proceeds of long-term debt are recorded as an other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenditures/expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

SMCSD reports the following major governmental fund:

General Fund: is the primary operating fund of SMCSD. It is used to account for all financial resources except those required to be accounted for in another fund.

SMCSD reports the following major proprietary funds:

Water Fund: accounts for the activities of SMCSD's water operations.

Wastewater Fund: accounts for activities of SMCCSD's sewer operations.

Solid Waste Fund: accounts for the activities of SMCSD's solid waste operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation.

SAN MIGUEL COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting, Measurement Focus, and Financial Statements Presentation (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with proprietary funds' principal ongoing operations. The principal operating revenues of the Water and Wastewater Funds are charges to customers. Operating expenses for the Water and Wastewater Funds include non-capital expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Estimates

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

Encumbrances

Encumbrance accounting is used for the General Fund. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances are no longer reported as a separate fund balance category on the balance sheet. Encumbrances do not lapse at the close of the fiscal year but are carried forward until liquidated.

Concentrations

The District will provide water services to customers located in the County of San Luis Obispo. Consequently, its ability to collect amounts due from customers may be affected by economic fluctuations, within this region and within the State of California as a whole.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments including money market accounts to be cash and cash equivalents.

Accounts Receivable

District water and sewer charges are billed bimonthly. Management has determined that an allowance for doubtful accounts is zero because of the District's credit policies and prior collection experience.

SAN MIGUEL COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid expenses.

Note Receivable

A note receivable, totaling \$43,464, was recorded for amounts owed to the District from a former employee. At June 30, 2011 the outstanding balance of this note was \$38,054.

Property, Plant and Equipment

General capital assets generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are valued at historical cost or estimated historical cost, if actual costs are not available. Donated fixed assets are stated at their fair market value on the date donated. The District currently maintains a capitalization threshold of \$5,000 and the cost of normal maintenance and repairs that do not add to the value of the net asset or materially extend the asset's life are not. Depreciation recorded over the useful life of the asset using the straight-line method.

Compensated Absences

The accrual for vacation time earned but not taken by staff employees was calculated based on actual vacation days and applied to the individual employees' hourly rate.

Property Taxes

The County of San Luis Obispo bills and collects property taxes for the District. The County charges the District for these services. Tax revenues are recognized by the District in the year levied.

SAN MIGUEL COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

Fund Balances

Fund balance can now be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-spendable fund balance – amounts that are not in a spendable form are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned fund balance – amounts that have no specific restrictions, commitments or assignments.

If restricted and unrestricted assets are available for the same purpose, the restricted assets will be used before unrestricted assets.

Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by external restrictions by creditors, grantors, laws or regulations of other governments.

SAN MIGUEL COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2011

NOTE 3: CASH AND CASH EQUIVALENTS

The District follows the practice of pooling cash, cash equivalents and investments of all funds.

Interest income earned on pooled cash, cash equivalents and investments is allocated to the various funds based on the cash balances. Interest income from cash, cash equivalents and investments with fiscal agents is credited directly to the related fund.

The values of cash and investments at June 30, 2011 are summarized as follows:

Demand deposits	\$	146,498
Cash and investments with:		
County of San Luis Obispo		12,144
Local Agency Investment Fund (LAIF)		234,906
 Total cash and investments	 \$	 <u>393,548</u>

The California Government Code requires California banks and savings and loan associations to secure a district's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a district's deposits. California law also allows financial institutions to secure district deposits by pledging first trust deed mortgage notes having a value of 150% of a district's total deposits. The District may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). Effective October 3, 2008, the FDIC limit was temporarily increased to \$250,000 until December 31, 2013.

Credit Risk, Carrying Amount, and Market Value

Cash is classified in three categories of credit risk as follows:

- Category 1 - insured or collateralized with securities held by the entity or by its agent in the entity's name;
- Category 2 - collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name; and
- Category 3 - uncollateralized.

Investments in pools managed by other governments/(LAIF) or in mutual funds are not required to be categorized.

At June 30, 2011, the carrying amount of the District's cash deposits was \$146,498. The bank's balance was \$147,841. This difference is due to the normal deposits in transit and outstanding checks. District cash deposits by category as of June 30, 2011, are as follows:

		Category			Bank	Carrying
	<u>1</u>	<u>2</u>	<u>3</u>		<u>Balance</u>	<u>Amount</u>
Bank accounts	\$ <u>147,841</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$	<u>147,841</u>	\$ <u>146,498</u>

SAN MIGUEL COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2011

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

A summary of fixed assets by major classifications is as follows:

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Reclassify/ Deletions</u>	<u>Balance June 30, 2011</u>
Governmental activities:				
Non-depreciable capital assets				
Land	\$ 76,926	\$ -	\$ -	\$ 76,926
Depreciable capital assets				
Buildings and improvements	476,995			476,995
Equipment	<u>1,056,923</u>	<u>74,092</u>		<u>1,131,015</u>
Total depreciable capital assets	1,533,918	74,092		1,608,010
Less accumulated depreciation	<u>(746,763)</u>	<u>(104,658)</u>		<u>(851,421)</u>
Net depreciable capital assets	<u>787,155</u>	<u>(30,566)</u>		<u>756,589</u>
Net capital assets	<u>\$ 864,081</u>	<u>\$ (30,566)</u>	<u>\$ -</u>	<u>\$ 833,515</u>
Business-type activities:				
Non-depreciable capital assets				
Land	\$ 61,774	\$ -	\$ -	\$ 61,774
Construction in progress	<u>3,063,018</u>	<u>17,530</u>	<u>(3,050,486)</u>	<u>30,062</u>
Total non-depreciable capital Assets	<u>3,124,792</u>	<u>17,530</u>	<u>(3,050,486)</u>	<u>91,836</u>
Depreciable capital assets				
Buildings and improvements	4,457,323	3,050,486		7,507,809
Equipment	<u>254,347</u>			<u>254,347</u>
Total depreciable capital assets	4,711,670	3,050,486		7,762,156
Less accumulated depreciation	<u>(1,561,669)</u>	<u>(198,341)</u>		<u>(1,760,010)</u>
Net depreciable capital assets	<u>3,150,001</u>	<u>2,852,145</u>		<u>6,002,146</u>
Net capital assets	<u>\$ 6,274,793</u>	<u>\$ 2,869,675</u>	<u>\$ (3,050,486)</u>	<u>\$ 6,093,982</u>

Depreciation expense for all funds was \$302,999 for the year ended June 30, 2011.

SAN MIGUEL COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 5: LONG-TERM DEBT

Capital Lease Payable:

The District entered into a capital lease agreement on March 10, 2010 with First Bankers Corporation for the purchase of a fire engine. The terms of the lease were for five annual payments of \$59,224, commencing November 1, 2010, with an interest rate of 4.7%, due November 1, 2014. At June 30, 2011, the contract payable principal balance outstanding was \$211,435. The required note principal and interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 49,269	\$ 9,955	\$ 59,224
2013	51,588	7,636	59,224
2014	54,017	5,207	59,224
2015	56,561	2,663	59,224
Totals	\$ 211,435	\$ 25,461	\$ 236,896

Note Payable:

State of California note payable totaling \$969,969 was issued on October, 1994, with an interest rate at 2.955%, due April, 2025. At June 30, 2011, the note payable principal balance outstanding was \$558,224. The required note principal and interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 32,682	\$ 16,289	\$ 48,971
2013	33,719	15,252	48,971
2014	34,692	14,279	48,971
2015	35,725	13,247	48,972
2016	36,763	12,209	48,972
2017-2021	201,051	43,805	244,856
2022-2025	183,592	12,428	196,020
Totals	\$ 558,224	\$ 127,509	\$ 685,733

SAN MIGUEL COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2011

NOTE 5: LONG-TERM DEBT (continued)

Certificate of Participation Bonds

United States Department of Agriculture Certificate of Participation Bonds totaling \$1,250,000 were issued on August, 2008, with an interest rate at 4.375%, due August, 2048. At June 30, 2011, the bonds principal balance outstanding was \$1,225,406. The required bond principal and interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	13,110	53,325	66,435
2013	13,684	52,739	66,423
2014	14,282	52,127	66,409
2015	14,907	51,488	66,395
2016	15,559	50,822	66,381
2017-2021	88,622	243,047	331,669
2022-2026	109,779	221,426	331,205
2027-2031	135,989	194,642	330,631
2032-2036	168,456	161,465	329,921
2037-2041	208,675	120,368	329,043
2042-2046	258,495	69,457	327,952
2047-2049	183,848	12,295	196,143
Totals	\$ 1,225,406	\$ 1,283,201	\$ 2,508,607

Changes in long-term liabilities

The following is a summary of long-term liabilities activity for the fiscal year ended June 30, 2011:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Current
Governmental activities:					
Contract payable	\$ 262,367	\$ -	\$ 50,932	\$ 211,435	\$ 49,269
	<u>\$ 262,367</u>	<u>\$ -</u>	<u>\$ 50,932</u>	<u>\$ 211,435</u>	<u>\$ 49,269</u>
Business-type activities:					
Notes payable	\$ 589,994	\$ -	\$ 31,770	\$ 558,224	\$ 32,682
Bonds payable	1,237,966		12,560	1,225,406	13,110
	<u>1,827,960</u>	<u>-</u>	<u>44,330</u>	<u>1,783,630</u>	<u>45,792</u>
Long-term liabilities	<u>\$ 1,827,960</u>	<u>\$ -</u>	<u>\$ 44,330</u>	<u>\$ 1,783,630</u>	<u>\$ 45,792</u>

SAN MIGUEL COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 6: PENSION PLAN

The San Miguel Community Services District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustment, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District resolutions. Copies of CalPERS' annual financial report may be obtained from their Executive Office (400 P Street, Sacramento, CA 95814).

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The District is required to contribute at an actuarially determined rate of 10.024% for District cost-sharing multiple-employer defined benefit plan, for the June 30, 2008 and 2007 fiscal years. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

The annual CalPERS pension cost, both for employer and employee, for the year ended June 30, 2011 was \$59,861, and was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

Actuarial information concerning this pension plan is now combined with several other local districts and individual district information and three year trend information is no longer individually made available to the San Miguel Community Services District.

SAN MIGUEL COMMUNITY SERVICES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2011

NOTE 7: BUDGETARY DATA

The District requires that all funds be budgeted. The annual budget is prepared by the District Manager and submitted to the District Board for adoption. A budget has been prepared for the governmental funds utilizing the modified accrual basis of accounting and a budget has been prepared for the proprietary funds utilizing the accrual basis of accounting.

A budget analysis for governmental funds is included as supplementary information in the financial statements (page 8). The budget analysis for proprietary funds is as follows:

	<u>Enterprise Funds</u>			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
Operating revenues	\$ 1,023,350	\$ 1,023,350	\$ 645,625	\$ (377,725)
Operating expenses	<u>(1,088,350)</u>	<u>(1,088,350)</u>	<u>(836,820)</u>	<u>251,530</u>
Operating income (loss)	(65,000)	(65,000)	(191,195)	(126,195)
Non-operating revenues	65,000	65,000	90,738	25,738
Non-operating expenses	<u>-</u>	<u>-</u>	<u>(70,634)</u>	<u>(70,634)</u>
Non-operating income (loss)	65,000	65,000	20,104	(44,896)
Net income (loss)	<u>\$ -</u>	<u>\$ -</u>	(171,091)	<u>\$ (171,091)</u>
Net assets at beginning of year			<u>4,592,861</u>	
Net assets at end of year			<u>\$ 4,421,770</u>	

Not included in this schedule are the budgeted and actual amounts for capital improvements because these payments would not change net assets.

SUPPLEMENTAL SCHEDULES

SAN MIGUEL COMMUNITY SERVICES DISTRICT**COMBINING BALANCE SHEET**

General Fund

June 30, 2011

Assets:	<u>Administration</u>	<u>General/Fire Department</u>	<u>Street Lighting</u>	<u>Totals</u>
Cash and cash equivalents	\$ -	\$ 185,389	\$ 184,842	\$ 370,231
Prepaid expenses	950			950
Note receivable	38,054			38,054
Total assets	\$ 39,004	\$ 185,389	\$ 184,842	\$ 409,235
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable				\$ -
Total liabilities	-	-	-	-
Fund balances:				
Unreserved	39,004	185,389	184,842	409,235
Total fund balances	39,004	185,389	184,842	409,235
Total liabilities and fund balances	\$ 39,004	\$ 185,389	\$ 184,842	\$ 409,235

SAN MIGUEL COMMUNITY SERVICES DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

General Fund

For the Year Ended June 30, 2011

	<u>Administration</u>	<u>General/Fire Department</u>	<u>Street Lighting</u>	<u>Totals</u>
Revenues:				
Property taxes		\$ 219,058	\$ 73,954	\$ 293,012
Service charges and fees		4,058		4,058
Public facilities fees and assessments		4,123		4,123
Grant income		11,651		11,651
Investment income	2,457			2,457
Miscellaneous income	2,635	9,369		12,004
Total revenues	5,092	248,259	73,954	327,305
Expenditures:				
Salaries and wages	36,693	66,285	9,553	112,531
Payroll taxes and benefits	11,586	24,143	10,269	45,998
Contract labor	1,695			1,695
Volunteer firefighter stipends		19,351		19,351
Workers compensation	730	8,508	481	9,719
Insurance	37,602	55	47	37,704
Maintenance and repairs	6,690	16,695		23,385
Miscellaneous	2,823	3,314		6,137
Office supplies and expense	5,059	1,841	20	6,920
Supplies	307	15,564		15,871
Professional services and dues	61,739	4,867		66,606
Dues, permits and fees	13,791	1,097		14,888
Communications	775	3,973		4,748
Employee travel and training	328	3,052		3,380
Utilities	5,277	259	13,505	19,041
Capital outlay		74,092		74,092
Debt service				
Principal		50,932		50,932
Interest		8,292		8,292
Administrative overhead		27,143	27,143	54,286
Less: Administrative overhead allocated to other funds	(180,953)			(180,953)
Total expenditures	4,142	329,463	61,018	394,623
Excess of revenues over expenditures before transfers	950	(81,204)	12,936	(67,318)
Fund balance at beginning of year	38,054	266,593	171,906	476,553
Fund balance at end of year	\$ 39,004	\$ 185,389	\$ 184,842	\$ 409,235

See Auditor's report

SAN MIGUEL COMMUNITY SERVICES DISTRICT

COMBINING STATEMENT OF NET ASSETS

Enterprise Funds

June 30, 2011

ASSETS	Sanitary Fund	Water Fund	Refuse	Totals
Cash and cash equivalents (overdraft)	\$ (473,888)	\$ 400,483	\$ 96,722	\$ 23,317
Accounts receivable		12,803		12,803
Unbilled receivables	48,195	82,419		130,614
Interest receivable		545		545
Plant and equipment	1,874,250	5,887,906		7,762,156
Land and construction in progress	42,545	49,291		91,836
Less: accumulated depreciation	(750,601)	(1,009,409)		(1,760,010)
Total assets	\$ 740,501	\$ 5,424,038	\$ 96,722	\$ 6,261,261

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 18,033			\$ 18,033
Accrued interest payable		26,490		26,490
Accrued vacation payable		3,548		3,548
Deposits		7,790		7,790
Notes payable		558,224		558,224
Bonds payable		1,225,406		1,225,406
Total current liabilities	-	1,839,491	-	1,839,491

Net assets:

Invested in capital assets - net of related debt	1,166,194	3,144,158	-	4,310,352
Unrestricted	(425,693)	440,389	96,722	111,418
Total net assets	740,501	3,584,547	96,722	4,421,770
Total liabilities and net assets	\$ 740,501	\$ 5,424,038	\$ 96,722	\$ 6,261,261

SAN MIGUEL COMMUNITY SERVICES DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Enterprise Funds

For the Year Ended June 30, 2011

	Sanitary Fund	Water Fund	Refuse	Totals
Operating revenues:				
Utility sales	\$ 287,897	\$ 331,322	\$ 24,837	\$ 644,056
Service charges and fees		1,569		1,569
Total revenues	287,897	332,891	24,837	645,625
Operating expenses:				
Salaries and wages	96,273	101,519		197,792
Payroll taxes and benefits	35,263	36,130		71,393
Contract labor	2,776	2,484		5,260
Workers compensation	5,444	10,860		16,304
Maintenance and repairs	35,331	19,459		54,790
Miscellaneous	377	3,449		3,826
Office supplies and expense	3,217	3,205		6,422
Professional services	2,357	3,820		6,177
Operating supplies	7,849	26,880		34,729
Permits and fees	19,335	5,554		24,889
Communications	3,596	3,602		7,198
Employee travel and training	459	537		996
Utilities	55,438	26,597		82,035
General and administrative overhead	63,334	63,334		126,668
Depreciation	53,909	144,432		198,341
Total expenses	384,958	451,862	-	836,820
Operating income (loss)	(97,061)	(118,971)	24,837	(191,195)
Non-operating revenues (expenses):				
Property taxes	42,611	48,061		90,672
Investment income		66		66
Interest expense		(70,634)		(70,634)
Total non-operating revenues (expenses)	42,611	(22,507)	-	20,104
Change in net assets	(54,450)	(141,478)	24,837	(171,091)
Net assets at beginning of year	794,951	3,726,025	71,885	4,592,861
Net assets at end of year	\$ 740,501	\$ 3,584,547	\$ 96,722	\$ 4,421,770

See Auditor's report