



**Coastal Animal Services Authority
San Clemente, California**

**Basic Financial Statements and
Independent Auditor's Report**

Year Ended June 30, 2015

**COASTAL ANIMAL
SERVICES AUTHORITY**

SAN CLEMENTE, CALIFORNIA

**BASIC FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

Year Ended June 30, 2015

**Coastal Animal Services Authority
Financial Statements
Year Ended June 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Directors
of the Coastal Animal Services Authority
San Clemente, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Coastal Animal Services Authority (Authority), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority'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 error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the general fund of the Coastal Animal Services Authority, as of June 30, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 6 to the financial statements, in 2014-15, the Authority adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

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 schedule 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 9, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and on compliance.

Van Lant & Fankhaed, LLP

February 9, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Coastal Animal Services Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2015 and June 30, 2014. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements, which begin on page 6.

FINANCIAL HIGHLIGHTS

- The net assets at June 30, 2015 were (\$296,205) and increased by \$74,967 as a result of this year's operations.
- The total revenues from all sources were \$1,444,437.
- The total cost of all Authority programs was \$1,369,470.
- Total governmental fund balance was \$109,576 and the governmental revenues exceeded expenditures by \$3,079.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: 1) Government-wide financial statements; 2) Fund financial statements and 3) Notes to the financial statements. This report contains other supplementary information in addition to the basic financial statements and required information.

Government-wide Financial Statements. The Government-wide Financial Statements are designed to provide readers with a broad overview of the Authority's financial position, in a manner similar to that of a private-sector business. These statements are reported on the full accrual basis of accounting. Thus, revenues and expenses are reported for some items that will not affect cash flows until future periods.

The Government-wide Financial Statements present **Governmental Activities** that are principally supported by revenues from other agencies and license and permit fees.

The Statement of Net Assets presents information on all of the Authority's assets and liabilities; the difference between the two is reported as net assets. Evaluating increases or decreases in net assets over time will serve as a useful indicator of whether the financial position of the Authority is improving or declining.

The Statement of Activities presents information on the net cost of the governmental function (activity) during the fiscal year. This statement also identifies the amount of general revenues needed to fully fund the governmental function.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other governmental agencies, uses fund accounting to demonstrate compliance with finance-related legal requirements. The Authority has only one fund that is presented, which is the general operating fund. This **Governmental Fund** focuses on the short-term inflows and outflows of spendable resources. This fund is reported on the modified accrual basis of accounts, which measures cash and all other financial assets that can readily be converted to cash.

The focus of the Fund Financial Statement is narrower than that of the Government-wide Financial Statements. These Fund Financial Statements require a reconciliation (see pages 9 and 11) to facilitate the comparison between the fund financial statement and the government-wide statements. This reconciliation is required because the government-wide statements are prepared on the full accrual basis of accounting while the fund statements are prepared on the modified accrual basis of accounting.

Notes to the financial statements. The notes provide additional information that is essential to the reader for a full understanding of the data provided in the Government-wide Financial Statements.

Other information. The schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual are provided in the Required Supplemental Information section, immediately following the Notes section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following summaries of net position and of changes in net position are presented for the fiscal years ended June 30, 2015 and June 30, 2014.

	Governmental Activities Net Position (in thousands)	
	FY 2015	FY 2014
Cash and other assets	\$ 0.1	\$ 0.2
Capital assets, net	0.5	0.5
Total assets	0.7	0.7
Current liabilities	0.0	0.1
Long-term liabilities	1.0	0.2
Total liabilities	1.0	0.3
Net Position:		
Net investment in capital assets	0.5	0.5
Unrestricted	(0.8)	(0.1)
Total Net Position	(\$0.3)	\$ 0.4

The Authority's liabilities exceeded assets by \$296,205 at June 30, 2015. At June 30, 2014, assets exceeded liabilities by \$404,427. The Authority's net position decreased by \$700,632 during the current fiscal year.

Governmental Activities Summary of Activities (in thousands)		
	FY 2015	FY 2014
Revenues:		
Program revenues:		
Charges for services	\$ 0.3	\$ 0.3
Other	1.1	1.1
General revenue:		
Miscellaneous	0.1	0.1
Total revenue	1.5	1.5
Expenses:		
Community Services	1.4	1.3
Total expenses	1.4	1.3
Change in net assets	0.1	0.2
Net assets – beginning of year	0.4	0.2
Prior Period Adjustment	(0.8)	-
Net assets – end of year	(\$0.3)	\$0.4

The condensed summary of activities shows that revenues remained stable, with contributions from the City of San Clemente and City of Dana Point remaining constant. Expenses increased slightly due to payroll costs. Net assets decreased as a result of a prior period adjustment for pension activity related to GASB 68, which required the accrual of pension related assets and liabilities.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Authority's governmental funds is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balances may serve as a useful measure of an entity's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Authority's governmental funds reported a fund balance of \$109,576.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The amount of the capital assets net of depreciation at June 30, 2015 was \$501,826, due to the depreciation of the cattery in the current fiscal year. Further information is located in the footnotes (Note 3), Capital Assets.

Long-term Liabilities. The Authority has compensated absences and claims payable outstanding. The amount of the long term liabilities at June 30, 2015 was \$24,232. The amount due within one year is \$4,362. The Claims Payable balance at June 30, 2015 is estimated at \$109,856, this decreased from the prior year due to a payment on past claims. Further information is located in the footnotes: Compensated Absences (Note 4) and Claims Activity (Note 5).

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Assistant City Manager, 100 Ave. Presidio, San Clemente, CA 92672.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Coastal Animal Services Authority
Statement of Net Position
June 30, 2015

	Governmental Activities
ASSETS	
Current Assets:	
Cash	\$ 123,640
Accounts Receivable	50,474
Total Current Assets	174,114
Noncurrent Assets:	
Capital Assets, Net	501,826
Total Noncurrent Assets	501,826
Total Assets	675,940
DEFERRED OUTFLOWS OF RESOURCES	
Pension Actuarial Amounts	63,040
LIABILITIES	
Current Liabilities:	
Accounts Payable	11,657
Accrued Wages	16,043
Due to Other Agencies	34,246
Pension Payable	2,592
Compensated Absences	4,362
Total Current Liabilities	68,900
Noncurrent Liabilities:	
Compensated Absences	19,870
Net Pension Liability	836,559
Claims Payable	109,856
Total Noncurrent Liabilities	966,285
Total Liabilities	1,035,185
NET POSITION	
Invested in Capital Assets	501,826
Unrestricted	(798,031)
Total Net Position	\$ (296,205)

The accompanying notes are an integral part of this statement.

**Coastal Animal Services Authority
Statement of Activities
Year Ended June 30, 2015**

Functions/Programs	Program Revenues			Total	Governmental Activities Net (Expenses) Revenues
Expenses	Charges for Services	Operating Grants and Contributions	Total		Governmental Activities
Governmental Activities:					
Community Services	\$ 1,369,470	\$ 288,949	\$ 1,035,212	\$ 1,324,161	\$ (45,309)
Total Governmental Activities	\$ 1,369,470	\$ 288,949	\$ 1,035,212	\$ 1,324,161	(45,309)
General Revenues:					
Miscellaneous					120,276
Total General Revenues					120,276
Change in Net Position					74,967
Net Position - Beginning					404,427
Prior Period Adjustment					(775,599)
Net Position - Ending					\$ (296,205)

The accompanying notes are an integral part of this statement.

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

**Coastal Animal Services Authority
Balance Sheet
Governmental Fund
June 30, 2015**

	<u>General Fund</u>
ASSETS	
Cash	\$ 123,640
Accounts Receivable	50,474
	<hr/>
Total Assets	<u>\$ 174,114</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	\$ 11,657
Accrued Wages	16,043
Due to Other Agencies	34,246
Pension Payable	2,592
	<hr/>
Total Liabilities	<u>64,538</u>
 Fund Balances:	
Unassigned	109,576
	<hr/>
Total Fund Balances	<u>109,576</u>
	 <hr/>
Total Liabilities and Fund Balances	<u>\$ 174,114</u>

The accompanying notes are an integral part of this statement.

Coastal Animal Services Authority
Reconciliation of the Governmental Fund Balance Sheet to the
Government-Wide Statement of Net Position
June 30, 2015

Fund balances - total governmental fund	\$	109,576
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources. Therefore, they are not reported in the fund financial statements.		501,826
Amounts for deferred inflows and outflows related to the Net Pension Liability are not reported in the funds.		
Pension Actuarial Amounts - Outflows		63,040
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.		
Compensated absences		(24,232)
Net Pension Liability		(836,559)
Claims payable		(109,856)
		(109,856)
Net Position of Governmental Activities	\$	(296,205)

The accompanying notes are an integral part of this statement.

Coastal Animal Services Authority
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
Year Ended June 30, 2015

	<u>General Fund</u>
REVENUES	
Charges for Services	\$ 288,949
Intergovernmental	1,031,260
Donations	3,952
Miscellaneous	<u>120,276</u>
Total Revenues	<u>1,444,437</u>
EXPENDITURES	
Community Services	<u>1,441,358</u>
Total Expenditures	<u>1,441,358</u>
Net Change in Fund Balances	3,079
Fund Balance, Beginning of Year	<u>106,497</u>
Fund Balance, End of Year	<u><u>\$ 109,576</u></u>

The accompanying notes are an integral part of this statement.

Coastal Animal Services Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balance of Governmental Fund to the Statement of Activities
Year Ended June 30, 2015

Net change in fund balances - governmental fund	\$	3,079
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of \$10,678 exceeded capital outlay of \$-0- in the current period.		(10,678)
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 (net change).		
Pension Actuarial Amounts - Outflows		63,040
Compensated absences		15,342
Net Pension Liability		(60,960)
Claims and judgments		65,144
		65,144
Change in net position of governmental activities	\$	74,967

The accompanying notes are an integral part of this statement.

**Coastal Animal Services Authority
Notes to Financial Statements
Year Ended June 30, 2015**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Coastal Animal Services Authority (Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Nature of Business and Reporting Entity

On October 3, 1995, the South Orange County Animal Services Authority was created by a Joint Exercise of Powers Agreement (JPA) for the purpose of providing and operating an animal sheltering facility located within the City of San Clemente, California (City). The City and the City of Dana Point are members of the Authority. Members of the Board of Directors consist of one voting member and an alternate appointed by the governing body of each member entity. Annually, the Board adopts a budget and determines the cost of services and rate schedule associated with the facility. The Authority commenced operations on January 1, 1996. On June 4, 1996, the South Orange County Animal Services Authority name was changed to Coastal Animal Services Authority.

B. Basis of Accounting and Measurement Focus

The accounts of the Authority are organized on the basis of funds, each of which is considered 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 balance, revenues, and expenditures, 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. The accounting records of the Authority are recorded in the General Fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Since the Authority is not required to account for activity in another fund, all activity of the Authority is recorded in the General Fund.

Government-wide Financial Statements

The Authority's government-wide financial statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These financial statements present summaries of activities for the Authority.

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. 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.

**Coastal Animal Services Authority
Notes to Financial Statements
Year Ended June 30, 2015**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 expenses that are clearly identifiable with a specific program, project, function or segment. Program revenues of the Authority include: 1) 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) 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.

The government-wide financial statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for all governmental funds. All governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. Expenditures are recorded in the accounting period in which the related fund liability is incurred. The Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

Charges for services, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and therefore have been recognized as revenues within the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received.

The Authority reports a single governmental fund – the general fund.

Coastal Animal Services Authority
Notes to Financial Statements
Year Ended June 30, 2015

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Cash and Investments

The Authority's cash and investments consist of cash and investments pooled with the City along with petty cash.

D. Capital Assets

Capital assets consist of machinery and equipment which is stated at historical cost, net of accumulated depreciation, except for the portions acquired by contribution, which are recorded at fair value at the time received. The Authority utilizes a capitalization threshold of \$5,000. Depreciation is recorded using the straight-line method. Estimated useful life of 15 years is used in computing depreciation of machinery and equipment, and 10-50 years for buildings and improvements.

E. Long-Term Obligations

In the Government-wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. The fund financial statements do not present long-term debt.

Compensated Absences

Employees are permitted to accumulate earned but unused vacation, sick and compensatory time. The balance of unpaid vacation and compensatory time at June 30, 2015 is recorded as a long-term liability on the Government-wide Statement of Net Assets.

F. Net Position

In the Government-Wide Financial Statements, net position is classified as follows:

Invested in Capital Assets - This amount consists of capital assets net of accumulated depreciation.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position - This amount represents net position that does not meet the definition of *Invested in Capital Assets* or *Restricted Net Position*.

Coastal Animal Services Authority
Notes to Financial Statements
Year Ended June 30, 2015

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

G. Fund Balance

In the Fund Financial Statements, the general fund reports unassigned fund balance, a category that is used for balances that have no restrictions placed on them.

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority currently has no items that qualify for reporting in this category, except for deferred outflows relating to pensions resulting from the implementation of GASB Statement No. 68.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority currently has no items that qualify for reporting in this category.

I. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g. restricted grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the statement of net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position.

J. Fund Balance Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources (total fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**Coastal Animal Services Authority
Notes to Financial Statements
Year Ended June 30, 2015**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

K. Use of Estimates

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

L. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's pension plan and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the City of San Clemente. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2) CASH AND INVESTMENTS

The Authority's cash and investments consist of cash and investments pooled with the City and cash and investments held by fiscal agents. At June 30, 2015, the Authority had the following:

Petty Cash	\$ 200
Equity in City Cash and Investment Pool	<u>123,440</u>
Total Cash	<u>\$ 123,640</u>

The Authority currently does not maintain any other deposits or investments.

Equity in the Cash and Investment Pool of the City of San Clemente

The Authority has equity in the cash and investment pool managed by the City of San Clemente. The Authority is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of San Clemente. The Authority has not adopted an investment policy separate from that of the City of San Clemente. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

**Coastal Animal Services Authority
Notes to Financial Statements
Year Ended June 30, 2015**

3) CAPITAL ASSETS

The Authority's capital assets consisted of the following at June 30, 2015:

	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and Improvements	\$ 533,859	\$ -	\$ -	\$ 533,859
Machinery and Equipment	97,000	-	-	97,000
Less Accumulated Depreciation	<u>(118,355)</u>	<u>(10,678)</u>	<u>-</u>	<u>(129,033)</u>
Capital Assets, Net	<u>\$ 512,504</u>	<u>\$ (10,678)</u>	<u>\$ -</u>	<u>\$ 501,826</u>

Depreciation expense for the depreciable capital assets was \$10,678 for the year ended June 30, 2015.

4) COMPENSATED ABSENCES

The Authority's compensated absences consisted of the following at June 30, 2015:

	Beginning Balance	Additions	Deletions	Ending Balance	Classification	
					Due Within One Year	Due in More Than One Year
Compensated Absences	<u>\$ 39,574</u>	<u>\$ 19,385</u>	<u>\$ 34,727</u>	<u>\$ 24,232</u>	<u>\$ 4,362</u>	<u>\$ 19,870</u>

5) SELF INSURANCE

A. Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The Authority is a member of the California Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is composed of 121 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Insurance Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The Insurance Authority's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

Coastal Animal Services Authority
Notes to Financial Statements
Year Ended June 30, 2015

5) SELF INSURANCE - Continued

B. Self-Insurance Programs of the Authority

General Liability - Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Costs are allocated to members by the following methods within each of the four layers of coverage: (1) the first \$30,000 of each occurrence is charged directly to the member's primary deposit; (2) costs from \$30,000 to \$750,000 and the loss development reserves associated with losses up to \$750,000 are pooled based on the member's share of losses under \$30,000; (3) losses from \$750,000 to \$5,000,000 and the associated loss development reserves are pooled based on payroll; (4a) costs of covered claims from \$5,000,000 to \$10,000,000 are paid under reinsurance policies and are subject to a \$2,500,000 annual aggregate deductible; (4b) costs of covered claims from

\$10,000,000 to \$50,000,000 are covered through excess insurance policies; (4c) costs of covered claims for subsidence losses are paid by excess insurance with a sub-limit of \$25,000,000 per occurrence per member. This \$25,000,000 subsidence sub-limit is composed of \$10,000,000 in reinsurance and \$15,000,000 in excess insurance. The excess insurance layer has a \$15,000,000 not to exceed annual aggregate amount. The costs associate with 4a, 4b, and 4c are estimated using actuarial models and pre-funded as part of the primary and retrospective deposits.

The overall policy limit for each member including all layers of coverage is \$50,000,000 per occurrence.

Workers' Compensation - The Authority also participates in the workers' compensation pool administered by the Insurance Authority. Each member pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Costs are allocated to members by the following methods within each of the four layers of coverage: (1) the first \$50,000 of each loss is charged directly to the member's primary deposit; (2) losses from \$50,000 to \$100,000 and the loss development reserve associated with losses up to \$100,000 are pooled based on the member's share of losses under \$50,000; (3) losses from \$100,000 to \$2,000,000 and the loss development reserves associated with those losses are pooled based on payroll; (4) losses from \$2,000,000 up to statutory limits are paid under an excess insurance policy. Protection is provided per statutory liability under California Workers' Compensation law.

Employer's Liability losses are pooled among members to \$2,000,000, coverage from \$2,000,000 to \$4,000,000 is purchased as part of an excess insurance policy, and losses from \$4,000,000 to \$10,000,000 are pooled among members.

**Coastal Animal Services Authority
Notes to Financial Statements
Year Ended June 30, 2015**

5) SELF INSURANCE - Continued

C. Purchased Insurance

Property Insurance - The Authority participates in the all-risk property protection program of the Insurance Authority. This insurance protection is underwritten by several insurance companies. Authority property is currently insured according to a schedule of covered property submitted by the Authority to the Insurance Authority. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

D. Adequacy of Protection

During the past three fiscal (claims) year, none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

E. Claims Activity

Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. At June 30, 2015, the amount of these liabilities was \$109,856 and was the Authority's best estimate based on available information.

Beginning Balance	Incurred and Changes in Estimates	Claim Payments	Ending Balance
\$ 175,000	\$ -	\$ 65,144	\$ 109,856

6) PENSION PLANS

General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City of San Clemente Employees' Retirement Plan (CSCERP), a cost-sharing multiple-employer defined benefit pension plan administered by the City of San Clemente. Benefit provisions for the CSCERP are established by State statute and City ordinance/resolution. The CSCERP is reported as a Pension Trust Fund in the City of San Clemente's financial statements. Stand-alone financial statements are not issued for the CSCERP.

Benefits Provided – The CSCERP provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time

**Coastal Animal Services Authority
Notes to Financial Statements
Year Ended June 30, 2015**

6) PENSION PLANS - Continued

employment. Members with 5 years of total service are eligible to retire at age 50 with reduced benefits, or at age 52 for employees hired on or after January 1, 2013 (PEPRA members). The pre-retirement death benefit is as follows: after 5 years of credited service, 1/2 of the 50% contingent annuitant benefit that would have been paid at the later of death and age 50, or, employee contributions with interest, if greater. The post-retirement death benefit is a \$600 lump sum payment. The termination benefits are as follows: refund of employee contributions plus interest; after 5 years of service, 2% of average monthly earnings times credited service as of date of termination, payable at age 55 or reduced for earlier commencement (age 62 for PEPRA Members). Other provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible compensation	larger of (a) or (b)	larger of (a) or (b)
Required employee contribution rates	7% (c)	7.5%
Required employer contribution rates	16.9%	7.73%

(a) 2% of average monthly earnings time credited service

(b) employee contributions with interest

(c) 1.8% paid by employees, 5.2% paid by employer

Contributions – Funding contributions for the CSCERP are determined annually on an actuarial basis as of June 30. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous
Contributions - employer	\$ 94,000

**Coastal Animal Services Authority
Notes to Financial Statements
Year Ended June 30, 2015**

6) PENSION PLANS - Continued

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the Authority reported a liability of \$836,559 for its proportionate share of the net pension liability. The Authority's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2015. The Authority's proportion of the net pension liability was determined based on the contributions allocated to each employer for the 2014-15 fiscal year. The Authority's proportionate share of the net pension liability as of June 30, 2014 and 2015 was as follows:

	Miscellaneous
Proportion - June 30, 2014	8.00%
Proportion - June 30, 2015	8.00%
Change - Increase (Decrease)	0.00%

For the year ended June 30, 2015, the Authority recognized pension expense of approximately \$78,000. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ -
Changes in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	-
Net differences between projected and actual earnings on plan investments	63,040	-
Total	\$ 63,040	\$ -

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

Year Ended June 30,		
2016	\$	15,760
2017		15,760
2018		15,760
2019		15,760
2020		-
Thereafter		-

**Coastal Animal Services Authority
Notes to Financial Statements
Year Ended June 30, 2015**

6) PENSION PLANS - Continued

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation date	June 30, 2014
Measurement date	June 30, 2015
Actuarial cost method	entry-age level %
Actuarial assumptions:	
Discount rate	7.25%
Inflation	3.00%
Payroll increases	(1)
Investment rate of return	7.25%
Mortality	(2)

(1) 3.0% per year plus CalPERS 2013 Experience Study

(2) CalPERS 2013 Experience Study

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a 2013 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.25%, based on crossover test results. This is based on crossover test results with future administrative expenses increasing to 3% per year and future contributions based on the current funding policy. The crossover test results are presented in a detailed report that can be obtained from the City of San Clemente.

The pension plan's investment policy is established and can be modified by the City. The target asset allocation of the investment portfolio is a 32% to large capitalization equities, 5% to small capitalization equities, 15% to international equities, 20% to Bonds, 3% to Treasury Inflation Protected securities, 5% to a hybrid all asset fund. An investment advisory firm is used to assist with the management and oversight of pension fund investments. Pension investments held and the percentage of the pension investment portfolio at June 30, 2015 follows:

**Coastal Animal Services Authority
Notes to Financial Statements
Year Ended June 30, 2015**

6) PENSION PLANS - Continued

Pension Trust Fund Investments	Percent of Pension Portfolio
<i>Equity Investments</i>	
Dodge & Cox International mutual fund	15%
Russell 1000 Index mutual fund	32%
Russell 2000 Index mutual fund	5%
<i>Fixed Income Investments</i>	
Group annuity contract	20%
PIMCO Total Return Bond mutual fund	20%
US Government Treasury Inflation Bond mutual fund	3%
<i>Hybrid Investments (equity and fixed income)</i>	
PIMCO All Asset Authority mutual fund	5%
Total pension trust investments (fair value)	100%

The expected long-term expected rate of return on pension plan investments is 7.25% is based on best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) developed for each major asset class for the plan assets invested with Great West. This amount was adjusted for a greater than 50th percentile expected return to arrive at the 7.25% assumed expected long term rate of return on assets.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Authority’s proportionate share of the net pension liability for the CSCERP, calculated using the discount rate, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.25%
Net Pension Liability	\$ 1,119,440
Current Discount Rate	7.25%
Net Pension Liability	\$ 836,559
1% Increase	8.25%
Net Pension Liability	\$ 601,440

Pension Plan Fiduciary Net Position – Detailed information about the CSCERP fiduciary net position is available in the City of San Clemente’s separately issued financial statements.

Coastal Animal Services Authority
Notes to Financial Statements
Year Ended June 30, 2015

6) PENSION PLANS - Continued

Payable to the Pension Plan

At June 30, 2015, the Authority reported a payable of \$-0- for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

7) COMMITMENTS AND CONTINGENCIES

The Authority is subject to litigation arising in the normal course of business. In the opinion of the Authority's management, there is no pending litigation that is likely to have a material adverse effect on the financial position of the Authority.

As of June 30, 2015, in the opinion of Authority management, there were no other outstanding matters that would have a significant effect on the financial position of the Authority.

8) PRIOR PERIOD ADJUSTMENT

The \$775,599 decrease to beginning net position in the Statement of Activities resulted from the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This prior period adjustment represents the Authority's net pension liability as of June 30, 2014.

**Coastal Animal Services Authority
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule
For the Year Ended June 30, 2015**

	Original / Final Budget	Actual Amounts	Variance with Final Budget Positive/ (Negative)
REVENUES			
Charges for Services	\$ 293,900	\$ 288,949	\$ (4,951)
Intergovernmental	1,031,260	1,031,260	-
Donations	500	3,952	3,452
Miscellaneous	123,180	120,276	(2,904)
	<u>1,448,840</u>	<u>1,444,437</u>	<u>(4,403)</u>
Total Revenues			
EXPENDITURES			
Current:			
Community Services	1,464,660	1,441,358	23,302
	<u>1,464,660</u>	<u>1,441,358</u>	<u>23,302</u>
Total Expenditures			
	(15,820)	3,079	18,899
Net Change in Fund Balance			
Fund Balance, Beginning of Year	106,497	106,497	-
Fund Balance, End of Year	<u>\$ 90,677</u>	<u>\$ 109,576</u>	<u>\$ 18,899</u>

Budget Reporting

Each year, the Authority's Board adopts a budget which provides for the operation of the Authority. Budgets are prepared on the modified accrual basis of accounting.

**Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Coastal Animal Services Authority
San Clemente, California

We have audited, in accordance with the 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, the financial statements of the governmental activities and the general fund of the Coastal Animal Services Authority (Authority), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Van Lant & Fankhaed, LLP

February 9, 2016



VLF Van Lant &
Fankhanel, LLP
— Certified Public Accountants —