

# Cypress Recreation and Park District

Cypress, California

*Basic Financial Statements  
and Independent Auditors' Report*

*For the fiscal year ended June 30, 2014*



**Cypress Recreation and Park District**  
**Basic Financial Statements**  
**For the fiscal year ended June 30, 2014**

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**Cypress Recreation and Park District**  
**Basic Financial Statements**  
**For the fiscal year ended June 30, 2014**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
of the Cypress Recreation and Park District  
Cypress, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cypress Recreation and Park District (the District), a component unit of the City of Cypress, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' 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 auditors consider internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Report on 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, listed in the table of contents as required supplementary information, 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 management's discussion and analysis 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison schedule and related note have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements of the District or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule and related note are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2014 on our consideration of the District'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 District's internal control over financial reporting and compliance.

*White Nelson Dick Evans LLP*

Irvine, California  
December 23, 2014

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**CYPRESS RECREATION AND PARK DISTRICT**  
**Management's Discussion and Analysis**  
**June 30, 2014**

The discussion and analysis of the Cypress Recreation and Park District's (District's) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements, as well as the prior year's report ending June 30, 2013, to enhance their understanding of the District's financial performance.

The financial section of this report has been prepared to show the results of the financial administration, financial condition, and operations of the District. The combined financial statements in this report have been audited by the firm of White Nelson Diehl Evans LLP, whose opinion is included.

**BASIS OF ACCOUNTING AND FUND GROUPINGS**

The government-wide financial statements are presented on an "*economic resources*" measurement focus and, accordingly, all of the District's assets and liabilities, including capital assets and long-term liabilities, are reflected in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. The government-wide financial statements also are structured to reflect the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The governmental fund financial statements are presented on a spending or "*current financial resources*" measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in fund balances. The governmental fund statements are also presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to pay for expenditures of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to other long-term liabilities, are recorded only when payment is due. The District maintains funds in accordance with generally accepted accounting principles set forth by the GASB and other rule-making entities.

The District maintains two internal service funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for its central services and employee benefits. Because these services benefit governmental functions, they have been included within governmental activities in the government-wide financial statements.

The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for each of the two internal service funds are provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found immediately following the basic governmental fund financial statements.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs.

See independent auditors' report.

**CYPRESS RECREATION AND PARK DISTRICT**  
**Management's Discussion and Analysis**  
**June 30, 2014**

The fiduciary fund financial statements can be found immediately following the basic proprietary fund financial statements.

**FINANCIAL DISCUSSION**

In the governmental fund financial statements, the District reported an excess of revenues over expenditures and other financing uses of \$741,149. At the end of the current fiscal year, the nonspendable fund balance of the District was \$11,234, the restricted fund balance was \$812,863 (compared to \$814,288 at the beginning of the year), the assigned fund balance was \$7,860,993 (compared to \$7,160,993 at the beginning of the year) while total fund balance was \$8,920,148 (compared to \$8,178,999 at the beginning of the year). The total fund balance that is not restricted (comprised of assigned and unassigned fund balance amounts) represents 162.2 percent (compared with 126.8 percent from the previous year) of the fund's total current expenditures. Since the bulk of the District's operations are funded with annual property tax revenues, a portion of the assigned fund balance is needed to meet cash flow shortages between property tax receipts. The majority of the remaining assigned fund balance amounts are available to fund potential contingency needs of the District and future facility and park infrastructure improvement projects.

For the fiscal year ended June 30, 2014, the District's balance of cash and cash equivalents were \$9,024,153, an increase of \$798,139 from the prior fiscal year. Total receivables at the end of the fiscal year were \$82,838, which is a small decrease from the prior year total of \$89,789.

Summary of Changes in Fund Balances  
 General Fund  
 For the fiscal year ended June 30, 2014 and 2013

	2014	2013	Change
<b>Revenues</b>			
Taxes:			
Property	\$ 4,224,593	\$ 5,076,115	\$ (851,522)
From use of property	143,787	169,490	(25,703)
From other agencies	96,475	82,683	13,792
Charges for services	1,263,496	1,174,885	88,611
Other	4,552	7,390	(2,838)
Total Revenues	<u>5,732,903</u>	<u>6,510,563</u>	<u>(777,660)</u>
<b>Expenditures</b>			
Recreation	4,452,117	4,206,911	245,206
Capital outlay	153,712	21,800	131,912
Capital contribution to the City	385,925	1,571,671	(1,185,746)
Total Expenditures	<u>4,991,754</u>	<u>5,800,382</u>	<u>(808,628)</u>
Excess of revenues over expenditures	741,149	710,181	30,968
<b>Increase in fund balance</b>	<u>\$ 741,149</u>	<u>\$ 710,181</u>	<u>\$ 30,968</u>

See independent auditors' report.

## CYPRESS RECREATION AND PARK DISTRICT

### Management's Discussion and Analysis

June 30, 2014

Total Recreation and Park District revenues for the fiscal year ended June 30, 2014 increased by \$777,660 from the prior year. Individual components of this change are highlighted as follows:

- Property tax revenues, the District's largest revenue source, decreased by \$851,522 primarily due to two "one-time" payments in the prior year. In the prior year, the District received both an allocation of property tax monies previously held by the Redevelopment Agency (Agency) at the time of dissolution and received repayment of property tax monies that were borrowed by the State in the fiscal year ended June 30, 2010.
- Despite higher average cash balances being held by the District during the year, investment income (classified as revenue from use of property) declined due to receiving a "one-time" interest payment in the prior year on the aforementioned borrowed monies by the State.
- Charges for services increased due to receiving a total of \$288,000 in park development fees in the current fiscal year compared to \$232,000 during the fiscal year ended June 30, 2013. These development fees tend to fluctuate year to year based on housing activity within the City.

Notable changes in expenditures during the year ended June 30, 2014 follow:

- Recreation expenditures increased by \$245,206 (5.8 percent) largely due to higher contract class and senior citizen program costs (which are partially offset by revenue increases), a contribution to youth baseball for the construction of a snack bar at Oak Knoll Park, and additional maintenance costs associated with irrigating the District's park sites and athletic fields.
- Over the past several years, capital outlay expenditures have been budgeted and incurred in accordance with the results of the infrastructure needs analysis approved by the City Council. While capital expenditures increased to \$153,712 in the last year, a significant amount of budgeted projects were not completed by fiscal year end. It is expected that the previously budgeted capital improvements will be carried over and expended in the upcoming fiscal year(s).

Capital contributions to the City totaled a net outflow \$385,925, which related solely to the District transferring to the City the additional property tax amounts received during the year that were previously apportioned to the Agency. As part of the dissolution, the State disallowed loans from the City to the Agency. Since the proceeds of these loans had been used to pay for several recreation projects (including the construction of the Senior Center and the remodel of the Community Center), the City Council established a policy that the District would repay the City for these improvements by transferring any former Agency property tax revenues that the District receives. The amount transferred represents all former Agency property tax apportionments that the District had received during the fiscal year ended June 30, 2014.

#### District General Fund Budgetary Highlights

The District's budgetary highlights for the fiscal year ended June 30, 2014 were comprised primarily of a two issues. Net increases between the original appropriations budget and the final amended budget totaled \$2,062,925. The majority of the increase (\$1,564,925) is attributable to the annual carryover of appropriations to the new fiscal year for encumbrances and services not completed in the prior fiscal year. The bulk of these carryover balances (\$1,553,425) related to park improvement projects that were funded with restricted Park Development monies (\$272,078) and accumulated monies previously set-aside for such improvements (\$1,281,347). These improvements had been

See independent auditors' report.

## **CYPRESS RECREATION AND PARK DISTRICT**

### **Management's Discussion and Analysis**

**June 30, 2014**

identified in the facility assessment/infrastructure study and represented monies appropriated for the first four years of a multi-year improvement program related to the park sites and facilities of the District. Also attributing to the appropriations increase is the agreement between the District and the Cypress School District for the Recreation and Park District's acquisition of 2.9 acres of land, previously declared surplus, at the Mackay Elementary School Site. The purchase was approved in accordance with the provisions of the California Education Code and Government Code, relating to the disposition of surplus school sites with specialized "open space" characteristics, and will be funded with accumulated park development monies. While approved during the past fiscal year, the actual purchase and transfer of land to the District is not expected to occur until the fiscal year currently upon us.

### **REQUEST FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the District's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Cypress, Finance Department, 5275 Orange Avenue, Cypress, California 90630.

## **BASIC FINANCIAL STATEMENTS**

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## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**Cypress Recreation and Park District**  
**Statement of Net Position**  
**June 30, 2014**

	<u>Primary Governmental Activities</u>
<b>ASSETS:</b>	
Current assets:	
Cash and cash equivalents	\$ 10,373,284
Receivables:	
Taxes	44,283
Interest	7,288
Other	48,775
Prepaid expenses	11,234
Total current assets	<u>10,484,864</u>
Noncurrent assets:	
Capital assets:	
Non-depreciable assets	7,309,983
Depreciable assets, net	9,154,515
Total capital assets	<u>16,464,498</u>
TOTAL ASSETS	<u>26,949,362</u>
<b>LIABILITIES:</b>	
Current liabilities:	
Accounts payable and accrued liabilities	154,066
Unearned revenue	48,705
Accrued leave payable	39,250
Total current liabilities	<u>242,021</u>
Noncurrent liabilities:	
Accrued leave payable	117,754
Retirees' health payable	129,000
Total noncurrent liabilities	<u>246,754</u>
TOTAL LIABILITIES	<u>488,775</u>
<b>NET POSITION:</b>	
Net investment in capital assets	16,464,498
Restricted	812,863
Unrestricted	9,183,226
TOTAL NET POSITION	<u>\$ 26,460,587</u>

See independent auditors' report and notes to basic financial statements.

**Cypress Recreation and Park District  
Statement of Activities  
For the fiscal year ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	
<b>Primary government:</b>				
<b>Governmental activities:</b>				
Recreation	\$ 4,902,464	\$ 1,389,595	\$ 101,027	\$ (3,411,842)
Capital contribution to the City	385,925	-	-	(385,925)
Total governmental activities	<u>\$ 5,288,389</u>	<u>\$ 1,389,595</u>	<u>\$ 101,027</u>	<u>(3,797,767)</u>

General revenues:

Property taxes	4,224,593
Investment income	17,688
Loss on disposition of capital assets	<u>(5,255)</u>
Total general revenues	<u>4,237,026</u>
Change in net position	439,259
Net position at beginning of year	<u>26,021,328</u>
Net position at end of year	<u>\$ 26,460,587</u>

See independent auditors' report and notes to basic financial statements.

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## **FUND FINANCIAL STATEMENTS**

*Governmental Fund Financial Statements*

*Proprietary Fund Financial Statements*

*Fiduciary Fund Financial Statements*

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## **GOVERNMENTAL FUND FINANCIAL STATEMENTS**

**Cypress Recreation and Park District  
Balance Sheet  
Governmental Fund  
June 30, 2014**

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 9,024,153
Receivables:	
Taxes	44,283
Interest	7,288
Other	31,267
Prepaid expenses	<u>11,234</u>
 TOTAL ASSETS	 <u><u>\$ 9,118,225</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 149,372
Unearned revenue	<u>48,705</u>
 TOTAL LIABILITIES	 <u>198,077</u>
FUND BALANCE:	
Nonspendable	11,234
Restricted	812,863
Assigned	7,860,993
Unassigned	<u>235,058</u>
 TOTAL FUND BALANCE	 <u>8,920,148</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 9,118,225</u></u>

See independent auditors' report and notes to basic financial statements.

**Cypress Recreation and Park District  
 Reconciliation of the Governmental Fund Balance Sheet  
 to the Statement of Net Position  
 June 30, 2014**

Fund balance - total governmental fund		\$ 8,920,148
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental funds are not current financial resources and therefore are not reported in the Governmental Fund Balance Sheet. This amount does not include the internal service funds' amounts of \$87,084.

Non-depreciable	\$ 7,309,983	
Depreciable, net	<u>9,067,431</u>	16,377,414

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Government-Wide Statement of Net Position.

	<u>1,163,025</u>
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Net position of governmental activities		<u><u>\$ 26,460,587</u></u>
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See independent auditors' report and notes to basic financial statements.

**Cypress Recreation and Park District**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Fund**  
**For the fiscal year ended June 30, 2014**

REVENUES:	
Taxes	\$ 4,224,593
Investment and rental income	143,787
From other agencies	96,475
Charges for services	1,263,496
Other revenue	4,552
	5,732,903
EXPENDITURES:	
Current:	
Recreation	4,452,117
Capital outlay	153,712
Capital contribution to the City	385,925
	4,991,754
EXCESS OF REVENUES OVER EXPENDITURES	
	741,149
FUND BALANCE - BEGINNING OF YEAR	8,178,999
FUND BALANCE - END OF YEAR	\$ 8,920,148

See independent auditors' report and notes to basic financial statements.

**Cypress Recreation and Park District  
 Reconciliation of the Statement of Revenues, Expenditures  
 and Changes in Fund Balance of the Governmental Fund  
 to the Statement of Activities  
 For the fiscal year ended June 30, 2014**

Net change in fund balance - total governmental fund \$ 741,149

Amounts reported for governmental activities in the Statement of Activities are different because:

The governmental fund reports capital outlays as expenditures. However, in the Government-Wide Statement of Activities, the cost of those capital assets are allocated over the estimated useful lives as depreciation expense. This is the amount of capital assets, net of internal service funds recorded in the current period. 153,712

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the Governmental Fund. This amount does not include the depreciation expense for internal service funds in the amount of \$31,636. (429,696)

Loss on disposition of capital assets (this amount does not include the loss on disposition of capital assets for internal service funds in the amount of \$1,570). (3,685)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The change in net position of the internal service fund is reported with governmental activities. (22,221)

Change in net position of governmental activities \$ 439,259

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## **PROPRIETARY FUND FINANCIAL STATEMENTS**

**Cypress Recreation and Park District**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2014**

	Governmental Activities
	Internal Service Funds
<b>ASSETS:</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 1,349,131
Other receivables	17,508
	1,366,639
<b>TOTAL CURRENT ASSETS</b>	
<b>NONCURRENT ASSETS:</b>	
Capital assets:	
Depreciable, net	87,084
	87,084
<b>TOTAL NONCURRENT ASSETS</b>	
	1,453,723
<b>TOTAL ASSETS</b>	
<b>LIABILITIES:</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable and accrued liabilities	4,694
Accrued leave payable	39,250
	43,944
<b>TOTAL CURRENT LIABILITIES</b>	
<b>NONCURRENT LIABILITIES:</b>	
Accrued leave payable	117,754
Retirees' health payable	129,000
	246,754
<b>TOTAL NONCURRENT LIABILITIES</b>	
	290,698
<b>TOTAL LIABILITIES</b>	
<b>NET POSITION:</b>	
Net investment in capital assets	87,084
Unrestricted	1,075,941
	\$ 1,163,025

See independent auditors' report and notes to basic financial statements.

**Cypress Recreation and Park District**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Fund**  
**For the fiscal year ended June 30, 2014**

	Governmental Activities
	Internal Service Funds
OPERATING REVENUES:	
Charges for services	\$ 782,134
OPERATING EXPENSES:	
Contractual services	436,158
Supplies and other services	334,991
Depreciation	31,636
TOTAL OPERATING EXPENSES	802,785
OPERATING LOSS	(20,651)
NONOPERATING EXPENSES:	
Loss on disposal of equipment	(1,570)
CHANGE IN NET POSITION	(22,221)
NET POSITION AT BEGINNING OF YEAR	1,185,246
NET POSITION AT END OF YEAR	\$ 1,163,025

See independent auditors' report and notes to basic financial statements.

**Cypress Recreation and Park District  
Statement of Cash Flows  
Proprietary Fund  
For the fiscal year ended June 30, 2014**

	Governmental Activities
	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from user departments	\$ 777,410
Payments to suppliers for goods and services	(716,673)
	60,737
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>60,737</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>60,737</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>1,288,394</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 1,349,131</b>
 <b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating loss	\$ (20,651)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	31,636
Changes in operating assets and liabilities:	
(Increase) decrease in other receivables	(4,724)
(Increase) decrease in prepaid expenses	14,200
Increase (decrease) in accounts payable and accrued liabilities	4,694
Increase (decrease) in accrued leave payable	13,582
Increase (decrease) in retirees' health payable	22,000
Total adjustments	81,388
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 60,737</b>

See independent auditors' report and notes to basic financial statements.

## **FIDUCIARY FUND FINANCIAL STATEMENTS**

**Cypress Recreation and Park District**  
**Statement of Fiduciary Assets and Liabilities**  
**Agency Fund**  
**June 30, 2014**

	<u>Agency Fund</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 21,079</u>
LIABILITIES:	
Deposits	<u>\$ 21,079</u>

See independent auditor's report and notes to basic financial statements.

**Cypress Recreation and Park District  
Statement of Changes in Assets and Liabilities  
Agency Fund  
For the fiscal year ended June 30, 2014**

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
<b>AGENCY FUND</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 15,891	\$ 25,491	\$ (20,303)	\$ 21,079
<b>LIABILITIES:</b>				
Deposits	\$ 15,891	\$ 34,600	\$ (29,412)	\$ 21,079

See independent auditor's report and notes to basic financial statements.

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## **NOTES TO BASIC FINANCIAL STATEMENTS**

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements**  
**For the fiscal year ended June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***A. Description of Reporting Entity***

The Cypress Recreation and Park District (the District) was formed in 1949 to provide park and recreational facilities for the area now known as the Cities of Cypress and La Palma and adjacent unincorporated areas plus small portions of the adjacent Cities of Los Alamitos, Buena Park and Anaheim. The District was under the control of the Orange County Board of Supervisors until 1971, when the Cities of Cypress and La Palma withdrew from the District. On June 29, 1971, the District was reestablished as a subsidiary district of the City of Cypress (City), effective July 1, 1971.

The Governmental Accounting Standards Board defines the reporting entity as the primary government and those component units for which the primary government is, or has the potential to be, financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's Board and either (a) the primary government has the ability to impose its will or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Since the City Council of the City also serves as the Board of Directors of the District, the City, in effect, has the ability to influence and control operations. Therefore, the City has oversight responsibility for the District. Accordingly, in applying the criteria of GASB, the financial statements of the District are included in the City's Comprehensive Annual Financial Report. The District has the same fiscal year as the City. The Comprehensive Annual Financial Report of the City can be obtained from the Finance Department of the City.

***B. Measurement Focus, Basis of Accounting and Basis of Presentation***

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures or expenses. These funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. 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.

**Government-Wide Financial Statements**

The District's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental Activities for the District. Fiduciary Activities of the District are not included in these statements.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Measurement Focus, Basis of Accounting and Basis of Presentation, Continued***

*Government-Wide Financial Statements, Continued*

The basic financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the District’s assets, deferred outflows of resources, liabilities and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions reported as program revenues for the District are reported in two categories:

- Charges for services
- Operating grants and contributions

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated. The following interfund activities have been eliminated:

- Transfers in/out

*Governmental Fund Financial Statements*

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance. An accompanying schedule is presented to reconcile and explain the differences in fund balance as presented in these statements to the net position presented in the Government-Wide Financial Statements.

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, deferred outflows of resources, current liabilities and deferred inflows of resources are included on the balance sheet. 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.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Measurement Focus, Basis of Accounting and Basis of Presentation, Continued***

*Governmental Fund Financial Statements, Continued*

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District, are property taxes, grant revenues and earnings on investments. Expenditures are recorded in the accounting period in which the related 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.

*Proprietary Fund Financial Statements*

Internal Service Funds are used to account for the financing of goods or services provided by one department of the District to other departments or agencies of the District on a cost-reimbursement basis. The District currently uses internal service funds for employees' benefits and central services (which includes print shop, information systems, phone and equipment maintenance, building and grounds maintenance for the City's Civic Center and Corporate Yard, fleet maintenance for equipment, and for accumulating and expending monies for capital equipment acquisition and replacement).

Proprietary funds are accounted for using the "economic resources" measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets, deferred outflows of resources, all liabilities and deferred inflows of resources (whether current or noncurrent) associated with their activity are included on the statement of net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position.

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service funds are charges to departments in the governmental funds of the District for services. Operating expenses for the internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Measurement Focus, Basis of Accounting and Basis of Presentation, Continued***

*Proprietary Fund Financial Statements, Continued*

The District's internal service funds are presented in the proprietary fund financial statements. Because the principal users of the internal services are the District's governmental activities, the financial statements of the internal service funds are consolidated into the governmental column, within the recreation function, when presented in the government-wide financial statements.

*Fiduciary Fund Financial Statements*

Agency funds are used to account for various activities in which the District acts as an agent. The Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund includes amounts held for facility rental deposits.

***C. New Accounting Pronouncements***

*Current Year Standards*

GASB 66 - "Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62", required to be implemented in the current fiscal year did not impact the District.

GASB 70 - "Accounting and Financial Reporting for Nonexchange Financial Guarantees", required to be implemented in the current fiscal year did not impact the District.

*Pending Accounting Standards*

GASB has issued the following statements which may impact the District's financial reporting requirements in the future:

- GASB 68 - "Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "Government Combinations and Disposals of Government Operations", effective for periods beginning after December 15, 2013.
- GASB 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68", effective for periods beginning after June 15, 2014.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***D. Capital Assets***

Capital assets, which include land, machinery and equipment (vehicles, computers, etc.), buildings and improvements, are reported in the Government-Wide Financial Statements. Capital assets are defined by the District as all land and buildings, vehicles, computers and equipment with an initial individual cost of more than \$1,000; and improvements with costs of more than \$10,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated or annexed capital assets are recorded at estimated market value at the date of donation or annexation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation is recorded in the Government-Wide Financial Statements on a straight-line basis over the estimated useful life of the assets as follows:

Building and improvements	10 to 40 years
Vehicles, computers and equipment	3 to 10 years

***E. Cash, Cash Equivalents and Investments***

The District's cash and investments are pooled with the City to maximize the yield.

The City pools its available cash for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk due to changes in interest rates.

For purposes of the statement of cash flows, all pooled cash and investments in the proprietary fund type are considered to be short-term and, accordingly, are classified as cash and cash equivalents.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**E. Cash, Cash Equivalents and Investments, Continued**

Certain disclosure requirements, if applicable, for Deposits and Investment Risks are provided in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk
- Foreign Currency Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

**F. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any applicable deferred outflows of resources.

In addition to liabilities, the statement of net position and governmental fund balance sheet 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 future periods and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any applicable deferred inflows of resources.

**G. Net Position Flow Assumption**

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted grant proceeds or developer fees) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied (if eligible).

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**H. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund.

Since unexpended and encumbered appropriations of the governmental funds automatically lapse at the end of the fiscal year, they are not included in reported expenditures and the authorization for expenditure must be re-established through inclusion in the subsequent year's appropriation.

**I. Net Position**

In the Government-Wide Financial Statements, net position may be classified in the following categories:

Net Investment 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 is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position" as defined above.

**J. Fund Balances**

In the Governmental Fund Financial Statements, fund balances are classified in the following categories:

Nonspendable - Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

Restricted - Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed - Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body through council resolutions, etc., and that remain binding unless removed in the same manner. The City Council is considered the highest authority for the District.

See independent auditors' report.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**J. Fund Balances, Continued**

In the Governmental Fund Financial Statements, fund balances are classified in the following categories, Continued

Assigned - Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The City Council has authorized the Director of Finance for that purpose.

Unassigned - This category is for any balances that have no restrictions placed upon them.

**K. Spending Policy**

Governmental Fund Financial Statements

When expenditures are incurred for purposes for which all restricted, committed, assigned and unassigned fund balances are available, the District's policy is to apply in the following order, except for instances wherein an ordinance specifies the fund balance:

- Restricted
- Committed
- Assigned
- Unassigned

**L. Use of Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

**2. CASH AND CASH EQUIVALENTS**

The District's cash and investments are pooled with the City. The District does not own specifically identifiable securities in the City's pool. Investment income earned on pooled cash and investments is allocated quarterly to the various funds based on the average cash balance in each fund. At June 30, 2014, the cash and cash equivalent balance of the District was as follows:

	<u>Government- Wide Statement of Net Position</u> Governmental Activities	<u>Fund Financials</u> Fiduciary Fund Statement of Assets and Liabilities	<u>Total</u>
Cash and cash equivalents	\$ 10,373,284	\$ 21,079	\$ 10,394,363

See independent auditors' report.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**2. CASH AND CASH EQUIVALENTS, Continued**

**Authorized Investments**

Under provision of the City's annually adopted investment policy, and in accordance with Section 53601 of the California Government Code, the City may deposit and invest in the following:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Bills and Notes	5 Years	None	N/A
Federal Agency Issues	5 Years	None	N/A
Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan companies	1 Year	25%	N/A
Bankers' Acceptances	180 Days	25%	10%
Negotiable Certificates of Deposit	5 Years	25%	10%
Commercial Paper	270 Days	25%	10%
Local Agency Investment Fund (LAIF)	None	\$50 million*	N/A
Investment Trust of California (CalTRUST)	None	\$20 million*	N/A
Passbook Savings Account demand deposits	5 Years	None	N/A
Medium-term Notes	5 Years	25%	10%

\* Limit is per entity.

N/A - Not Applicable

**Deposits and Risks**

The California Government Code requires California banks and savings and loans associations to secure a City's deposit by pledging government securities with a value of 110% of a City's deposits, or by pledging first trust deed mortgage notes having a total value of 150% of the City's total deposits.

*Interest Rate Risk* - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. At June 30, 2014, approximately 83% of the City's entire pooled cash and cash equivalents had a maturity of less than one year with an average life of the portfolio being slightly more than 208 days.

*Credit Risk* - State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City's practice to limit its investments in these investment types to the top rating issued by NRSROs, including raters Standard & Poor's and Moody's Investors Service. The California Local Agency Investment Fund (LAIF) is not rated, but has a separate investment policy governed by Government Code Sections 16480-16481.2 that provides credit standards for its investments.

See independent auditors' report.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**2. CASH AND CASH EQUIVALENTS, Continued**

**External Investment Pool**

The City is a voluntary participant in LAIF, which is an external investment pool regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California through which local governments may pool investments. The City and the District each may invest up to \$50,000,000 in the fund. Investments in LAIF are considered highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available.

The City values its investments in LAIF at a fair market value provided by LAIF. At June 30, 2014 the factor used was 1.00029875. The City's investment with LAIF includes a portion of pool funds invested in structured notes and asset-backed securities. At June 30, 2014, the City invested in LAIF, which had invested 1.86% of the pool's funds in structured notes and asset-backed securities.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**3. CAPITAL ASSETS**

The following is a summary of capital assets for governmental activities for the year ended June 30, 2014:

	Balance at <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 7,260,278	\$ -	\$ -	\$ 7,260,278
Construction in progress	<u>-</u>	<u>153,712</u>	<u>(104,007)</u>	<u>49,705</u>
Total capital assets, not being depreciated	<u>7,260,278</u>	<u>153,712</u>	<u>(104,007)</u>	<u>7,309,983</u>
Capital assets, being depreciated:				
Buildings and improvements	16,392,134	104,007	(67,342)	16,428,799
Equipment	<u>558,233</u>	<u>-</u>	<u>(111,662)</u>	<u>446,571</u>
Total capital assets, being depreciated	<u>16,950,367</u>	<u>104,007</u>	<u>(179,004)</u>	<u>16,875,370</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,003,928)	(428,453)	67,342	(7,365,039)
Equipment	<u>(429,344)</u>	<u>(32,879)</u>	<u>106,407</u>	<u>(355,816)</u>
Total accumulated depreciation	<u>(7,433,272)</u>	<u>(461,332)</u>	<u>173,749</u>	<u>(7,720,855)</u>
Total capital assets, being depreciated, net	<u>9,517,095</u>	<u>(357,325)</u>	<u>(5,255)</u>	<u>9,154,515</u>
Capital assets, net	<u>\$ 16,777,373</u>	<u>\$ (203,613)</u>	<u>\$ (109,262)</u>	<u>\$ 16,464,498</u>

Depreciation expense for capital assets for the year ended June 30, 2014 comprised of the following:

Governmental funds	\$ 429,696
Internal service funds	<u>31,636</u>
Total depreciation expense	<u>\$ 461,332</u>

Depreciation expense of \$429,696 is allocated to the recreation program on the statement of activities.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**4. PROPERTY TAXES**

Property taxes include assessments on both secured and unsecured property. Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. The County of Orange (County) bills and collects the property taxes and remits them to the District in installments during the year. District property tax revenues are recognized when levied to the extent that they result in current receivables, defined as being received within 60 days after year-end.

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year. The District receives a share of this basic levy proportionate to what it received in the 1976 to 1978 period, adjusted by state mandated transfers to the Educational Revenue Augmentation Fund in fiscal years 1992-93 and 1993-94.

**5. ACCRUED LEAVE PAYABLE**

The Employees' Benefits Internal Service Fund pays accrued leave for all permanent employees. The accrued leave payable represents the estimated liability for all vacation, compensatory time, and 50% of the sick leave, as noted below, for all employees of the reporting entity. The Employees' Benefits Fund is reimbursed through payroll charges to other funds based on benefits earned during the fiscal year.

Accrued leave payable at June 30, 2014 consisted of \$39,250 in short-term and \$117,754 in long-term liabilities.

Permanent employees may accumulate sick leave with no limitation as to the number of hours of accumulation. However, the accumulation of vacation leave is generally limited to two times their annual accrual. Employees who are terminated for any reason are paid for 100% of their accumulated vacation pay. Employees, terminated for any reason, with 5 years of service and having 60 days or more of accumulated sick leave (equal to 480 hours) will be paid for 50% of their accumulated sick leave. Employees, terminated for any reason, with 5 years of service and having between 240 hours and 480 hours will be paid for 50% of their accumulated leave for their hours only in excess of 240 hours. All other terminated employees will not be paid for their accumulated sick leave.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**6. CLASSIFICATION OF NET POSITION AND FUND BALANCE**

**A. Government-Wide Financial Statements**

At June 30, 2014, classifications of net position were as follows:

Net investment in capital assets	\$ <u>16,464,498</u>
Restricted net position:	
Open space	762,564
Youth League renovations	<u>50,299</u>
Total restricted net position	<u>812,863</u>
Unrestricted net position	<u>9,183,226</u>
<b>Total net position</b>	<b>\$ <u>26,460,587</u></b>

Restricted for Open Space – These restrictions represent funds received from developers for open space use.

Restricted for Youth League Renovations – This restriction represents amounts required to be used for future renovations of youth league facilities.

**B. Fund Financial Statements**

Classifications of fund balances are based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The governmental fund statements fund balances are summarized as follows:

	General <u>Fund</u>
<b>Nonspendable</b>	\$ <u>11,234</u>
<b>Restricted</b>	
Open space	762,564
Youth League renovations	<u>50,299</u>
Total restricted	<u>812,863</u>
<b>Assigned</b>	
OCERS retirement (unfunded)	150,000
Cash flow	2,000,000
Art in public places	10,993
Infrastructure/amenities	4,700,000
Contingency	<u>1,000,000</u>
Total assigned	<u>7,860,993</u>
<b>Unassigned</b>	<u>235,058</u>
<b>Total fund balances</b>	<b>\$ <u>8,920,148</u></b>

See independent auditors' report.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**7. PENSION PLAN - PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)**

Pension Plan Description - The District provides retirement and disability benefits to eligible employees, as part of the City's 2.0% at 55 and 2.0% at 62 plans administered by the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual costs-of-living adjustments, 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 City ordinance. Copies of CalPERS' annual financial reports may be obtained from their office located at 400 P Street, Sacramento, California 95814.

Funding Policy - Miscellaneous employees participating in the 2.0% at 55 plan are required to contribute 7% of their annual covered salary. The City makes the contributions required of full-time City employees on their behalf and for their account. Upon the implementation of the California Employees' Pension Reform Act (PEPRA) on January 1, 2013, this plan is only open to qualified employees (employees hired before January 1, 2013 or employees hired after January 1, 2013 and have been in the PERS System). The CalPERS 2.0% at 62 Risk Pool Retirement Plan was created by PEPRA as of January 1, 2013 and is open to all new employees who do not qualify for the 2.0% at 55 plan. Active plan members of the 2.0% at 62 plan are required to contribute 6.75% of their annual covered salary. PEPRA does not allow the City to pay any portion of the employee required contribution on behalf of the employee unless previously negotiated. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members under the California Employees' Pension Reform Act (PEPRA) provisions. The actuarial methods and assumptions are those adopted by the CalPERS Board of Administration. The actuarially determined rate for miscellaneous employees in both plans was 12.968% of annual covered payroll for the fiscal year ended June 30, 2014. For the year ended June 30, 2014, the District's contributions were \$201,714.

Annual Pension Cost - For the fiscal year 2013-14, the City's annual pension cost for CalPERS was equal to the City's required and actual contribution and includes the required employee contribution amount paid by the City on behalf of eligible employees. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) payroll growth of 3.00%. Each of the assumptions includes an inflation component of 2.75%. 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 fifteen-year period (smoothed market value). CalPERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2014 was twenty-two (22) years for miscellaneous employees.

Funded Status - The funded status is only available for the City as a whole. There is no separate information available specifically for the District.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**8. RETIREES' HEALTH BENEFITS**

Plan Description - The District provides medical benefits to eligible retirees through the CalPERS healthcare program (PEMHCA) as a part of the City's plan. The City pays the PEMHCA minimum amount (\$119 per month in 2014) for all eligible retirees who choose to continue with their coverage through PEMHCA. All eligible employees become participants in PEMHCA on their date of hire. A portion of the liability attributable to the District, based on the percent of payroll of District employees, has been recorded on the financial statements of the District. At June 30, 2014, the District's portion of the retiree's health benefits liability was \$129,000.

In addition to the PEMHCA minimum amount, certain members of all retiree groups with at least ten years of continuous service receive supplemental retiree health benefits directly from the City. The benefits are based on negotiated memorandums of understanding with the various employee associations. The City provides a monthly contribution from \$100 to \$300 based on years of continuous service and employee classification, which can be used by the retiree to either continue their health care benefits as may be available under the City's current health care contract through PEMHCA or to use the monthly contribution amount to purchase alternative health care benefits. The City's supplemental contribution plan is a single-employer plan and terminates for retirees on the date the retiree reaches age 65 or becomes Medicare eligible whichever comes first.

All other District employees that are either ineligible or have elected out of the above supplemental postemployment health care plan are members of the City's Retiree Health Savings plan in which the City contributes monthly amounts on behalf of the employee to an account in the employee's name. These monthly contributions range between \$75 per month to \$185 per month for full-time employees based on employee association.

Funding Policy - The contribution for PEMHCA are established and amended by CalPERS. The City pays the monthly contribution for all employees and retirees. The contribution requirements for the Supplemental Post-employment Health care plan are established and amended by the City. The required contribution is based on projected pay-as-you-go financing requirements. The contribution requirements for the Retirees Health Savings Plan (RHS) are established and amended by the City. The required contribution is based on pay-as-you-go financing requirements. The payments of the benefits are recognized as expenditures when the payments are made.

The Actuarial Accrued Liability as of June 30, 2013, the date of the most recent actuarial valuation, for the District is estimated at \$349,800. The City has chosen not to transfer the required contributions to an irrevocable trust or equivalent arrangement, recognizing that this does not qualify as pre-funding under GASB 45.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**8. RETIREES' HEALTH BENEFITS, Continued**

Annual OPEB Cost and Net OPEB Obligation - The City's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution of the Employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013, actuarial valuation, the entry age actuarial cost method was used. The assumptions include a 4.00% investment rate of return which is based on the expected long-term return on funds invested by the City, inflation rate of 3.00%, and projected salary increases of 3.25%. The annual healthcare cost trend starts at 8.00% for non-medicare eligible participants and 8.30% for medicare eligible participants in the first year and decreases to an ultimate rate of 5.00% in 6 years for both types of participants. It is not anticipated that the plan amounts paid on behalf of retirees will be increased or changed in the future. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over multi-year periods. The UAAL is being amortized as a level percent of payroll over a 30 year closed period.

Funded Status - The funded status of the plan is only available for the City as a whole. There is no separate information available specifically for the District.

**9. COMMITMENTS AND CONTINGENCIES**

The District is a defendant in certain other legal actions arising in the normal course of operations. In the opinion of management and legal counsel, any liability resulting from these actions will not result in a material adverse effect on the District's financial position.

As of June 30, 2014, in the opinion of District management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the District.

**Cypress Recreation and Park District**  
**Notes to Basic Financial Statements, Continued**  
**For the fiscal year ended June 30, 2014**

**10. RISK MANAGEMENT**

At June 30, 2014 the District was covered under the City's Risk Management program. The City was self-insured for workers' compensation and general liability. The self-insured portion for workers' compensation and general liability is limited to the first \$300,000 and \$150,000 respectively, of liability per occurrence. Coverage in excess of these amounts is maintained in layers to a maximum of \$42,000,000 for general liability and the statutory limit for workers compensation (of which \$3,000,000 per occurrence is for each employee accident or disease) through the California Insurance Pool Authority (CIPA).

CIPA is a consortium of 13 cities in Southern California, established to pool resources, share risks, purchase excess insurance and to share costs for professional risk management and claims administration. Member agencies make payments based on underwriting estimates. Each agency may be assessed the difference between funds available and the \$42,000,000 annual aggregate in proportion to their annual premiums.

The Governing Board is comprised of one member from each City and is responsible for the selection of management and for the budgeting and financial management of CIPA. No determination has been made as to each participant's proportionate share of the fund equity as of June 30, 2014. Upon termination of CIPA, and after settlement of all claims, any excess or deficit will be divided among the cities in proportion to the amount of their contributions.

**11. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 23, 2014, the date the financial statements were available for issuance. No events were identified that would require recognition or disclosure in the financial statements.

## REQUIRED SUPPLEMENTARY INFORMATION

**Cypress Recreation and Park District  
Budgetary Comparison Schedule  
General Fund  
For the fiscal year ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 4,187,000	\$ 4,187,000	\$ 4,224,593	\$ 37,593
Investment and rental income	134,346	134,346	143,787	9,441
From other agencies	95,350	95,350	96,475	1,125
Charges for services	915,541	915,541	1,263,496	347,955
Other revenue	-	4,000	4,552	552
<b>TOTAL REVENUES</b>	<b>5,332,237</b>	<b>5,336,237</b>	<b>5,732,903</b>	<b>396,666</b>
<b>EXPENDITURES:</b>				
Current:				
Recreation	4,395,859	4,425,359	4,452,117	(26,758)
Capital outlay	560,614	2,594,039	153,712	2,440,327
Capital contribution to the City	1,635,173	1,635,173	385,925	1,249,248
<b>TOTAL EXPENDITURES</b>	<b>6,591,646</b>	<b>8,654,571</b>	<b>4,991,754</b>	<b>3,662,817</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,259,409)</b>	<b>(3,318,334)</b>	<b>741,149</b>	<b>4,059,483</b>
<b>OTHER FINANCING USES:</b>				
Transfers out	(13,300)	(13,300)	-	13,300
<b>TOTAL OTHER FINANCING USES</b>	<b>(13,300)</b>	<b>(13,300)</b>	<b>-</b>	<b>13,300</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(1,272,709)</b>	<b>(3,331,634)</b>	<b>741,149</b>	<b>4,072,783</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>8,178,999</b>	<b>8,178,999</b>	<b>8,178,999</b>	<b>-</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 6,906,290</b>	<b>\$ 4,847,365</b>	<b>\$ 8,920,148</b>	<b>\$ 4,072,783</b>

See independent auditors' report.

**Cypress Recreation and Park District**  
**Note to Required Supplementary Information**  
**For the fiscal year ended June 30, 2014**

**1. BUDGETS AND BUDGETARY ACCOUNTING**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District, along with the City, follows these procedures in establishing the budgetary data reflected in the financial statements: After January 1, department heads prepare estimates for required appropriations for the fiscal year commencing on the following July 1. The proposed budget includes estimated expenditures and forecasted revenues for the fiscal year. The data is presented to the City Manager for review. Prior to June 1, the City Manager submits to the City Council (acting as the ex-officio Board of Directors of the District) a proposed operating budget for the fiscal year commencing on the following July 1. The operating budget includes a summary of the proposed expenditures and financial resources of the District, as well as historical data for the preceding two fiscal periods. Prior year operating appropriations lapse unless they are reappropriated through City Council approval. Encumbered appropriations from the previous year are not included in the adopted budget for the current year. Prior to July 1, the budget is legally enacted through passage of an adopting resolution.

The City Manager is authorized to transfer budgeted amounts within a department or activity and capital outlay may be transferred between accounts within a department. Transfers of appropriations between departments or activities and funds, and additional appropriations of fund balances, may be made only if authorized by the City Council. Formal budgetary integration is employed as a management control device during the fiscal year for governmental fund types. The District maintains legally adopted budgets for all governmental funds. The budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts presented are as originally adopted or as amended (if applicable) by the City Council.

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## **SUPPLEMENTARY INFORMATION**

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## **INTERNAL SERVICE FUNDS**

**Cypress Recreation and Park District  
Combining Statement of Net Position  
Internal Service Funds  
June 30, 2014**

	Central Services	Employees' Benefits	Total
<b>ASSETS:</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 677,637	\$ 671,494	\$ 1,349,131
Other receivables	-	17,508	17,508
<b>TOTAL CURRENT ASSETS</b>	<b>677,637</b>	<b>689,002</b>	<b>1,366,639</b>
<b>NONCURRENT ASSETS:</b>			
<b>Capital assets:</b>			
Depreciable, net	87,084	-	87,084
<b>TOTAL NONCURRENT ASSETS</b>	<b>87,084</b>	<b>-</b>	<b>87,084</b>
<b>TOTAL ASSETS</b>	<b>764,721</b>	<b>689,002</b>	<b>1,453,723</b>
<b>LIABILITIES:</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable and accrued liabilities	-	4,694	4,694
Accrued leave payable	-	39,250	39,250
<b>TOTAL CURRENT LIABILITIES</b>	<b>-</b>	<b>43,944</b>	<b>43,944</b>
<b>NONCURRENT LIABILITIES:</b>			
Accrued leave payable	-	117,754	117,754
Retirees' health payable	-	129,000	129,000
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>-</b>	<b>246,754</b>	<b>246,754</b>
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>290,698</b>	<b>290,698</b>
<b>NET POSITION:</b>			
Net investment in capital assets	87,084	-	87,084
Unrestricted	677,637	398,304	1,075,941
<b>NET POSITION</b>	<b>\$ 764,721</b>	<b>\$ 398,304</b>	<b>\$ 1,163,025</b>

See independent auditors' report.

**Cypress Recreation and Park District  
Combining Statement of  
Revenues, Expenses and Changes in Net Position  
Internal Service Funds  
For the fiscal year ended June 30, 2014**

	Central Services	Employees' Benefits	Total
OPERATING REVENUES:			
Charges for services	\$ 51,191	\$ 730,943	\$ 782,134
OPERATING EXPENSES:			
Contractual services	6,578	429,580	436,158
Supplies and other services	-	334,991	334,991
Depreciation	31,636	-	31,636
TOTAL OPERATING EXPENSES	38,214	764,571	802,785
OPERATING INCOME (LOSS)	12,977	(33,628)	(20,651)
NONOPERATING EXPENSES:			
Loss on disposal of equipment	(1,570)	-	(1,570)
CHANGES IN NET POSITION	11,407	(33,628)	(22,221)
NET POSITION AT BEGINNING OF YEAR	753,314	431,932	1,185,246
NET POSITION AT END OF YEAR	\$ 764,721	\$ 398,304	\$ 1,163,025

See independent auditors' report.

**Cypress Recreation and Park District  
Combining Statement of Cash Flows  
Internal Service Funds  
For the fiscal year ended June 30, 2014**

	Central Services	Employees' Benefits	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from user departments	\$ 51,191	\$ 726,219	\$ 777,410
Payments to suppliers for goods and services	(6,578)	(710,095)	(716,673)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>44,613</b>	<b>16,124</b>	<b>60,737</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>44,613</b>	<b>16,124</b>	<b>60,737</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>633,024</b>	<b>655,370</b>	<b>1,288,394</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 677,637</b>	<b>\$ 671,494</b>	<b>\$ 1,349,131</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 12,977	\$ (33,628)	\$ (20,651)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	31,636	-	31,636
Changes in operating assets and liabilities:			
(Increase) decrease in other receivables	-	(4,724)	(4,724)
(Increase) decrease in prepaid expenses	-	14,200	14,200
Increase (decrease) in accounts payable and accrued liabilities	-	4,694	4,694
Increase (decrease) in accrued leave payable	-	13,582	13,582
Increase (decrease) in retirees' health payable	-	22,000	22,000
Total adjustments	31,636	49,752	81,388
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 44,613</b>	<b>\$ 16,124</b>	<b>\$ 60,737</b>

See independent auditors' report.

INDEPENDENT AUDITORS' 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

To the Board of Directors  
of the Cypress Recreation and Park District  
Cypress, 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 activities, each major fund, and the aggregate of remaining fund information of the Cypress Recreation and Park District (the District), a component unit of the City of Cypress (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 23, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 District'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "White Nelson Reed Evans LLP".

Irvine, California  
December 23, 2014