



REQUEST FOR PROPOSAL
(RFP)

for

INDEPENDENT AUDIT SERVICES

JULY 2023

OCEANO COMMUNITY SERVICES DISTRICT
1655 Front Street
Oceano, CA 93445
(805) 481-6730
(805) 481-6836 fax

1.0 GENERAL

1.1 Purpose

The Oceano Community Services District (District) is soliciting proposals from accounting firms that are interested in providing audit services to the District. The audit period will be for the fiscal year ending June 30, 2023, with options to renew for annual audits for the fiscal years ending June 30, 2024 and June 30, 2025.

The District intends on following Government Code section 12410.6(b) regarding auditor rotation requirements of public accounting firms providing audit services to local agencies.

1.2 Agency Description

The Oceano Community Services District (District) is a multi-purpose special district and was formed on January 1, 1981. The District is a political subdivision of the State of California and operates under a Board of Directors – General Manager form of government. The District is demographically diverse and classified as disadvantaged based on criteria established for median household income.

District Services

The District provides water, wastewater collection and street lighting services to the community, which is predominantly residential and includes a population of approximately 7,600. In the fiscal year ending June 30, 2023, the District provided fire and emergency services through the Five Cities Fire Authority (FCFA), a joint powers authority (JPA) formed in 2010 between the District and the cities of Arroyo Grande and Grover Beach. Since the District does not provide direct oversight of the FCFA, it is not treated as a component unit of the District in its financial statements. In 2022 the District initiated divestiture of fire and emergency services through the Local Formation Commission (LAFCO). In the fiscal year ending June 30, 2024, the District will contract with FCFA for fire and emergency services and is no longer a member of the JPA. Going forward the District and County of San Luis Obispo will come up with a plan for fire and emergency services. Lastly, the District provides solid waste and recycling services through a franchise agreement with South County Sanitary Incorporated, a subsidiary of Waste Connections Incorporated, a publicly traded corporation. The District's powers also include parks and recreation, but lacks funding and no such services are provided at this time. Other services such as streets and roads, drainage and flood control, land use planning, law enforcement, health and human services are provided by the County of San Luis Obispo or other agencies.

Real Property

In addition to water and wastewater collection infrastructure, the District's significant fixed assets includes real property leased to the County of San Luis Obispo for use as a Sheriff Substation, a community center leased to Lucia Mar Unified School District, and the historic Oceano Train Depot leased to a local non-profit organization.

Water Supply Contracts

The District purchases two sources of water pursuant to long-term contracts executed with the San Luis Obispo County Flood Control and Water Conservation District for supplies from Lopez Reservoir and the State Water Project. Water supply costs are the District's most significant expenditures, and during the recent drought, the reliability of the District's supplies proved sufficient to allow the District to increase water in storage in contrast to most agencies that realized diminishing water supplies.

Wastewater Treatment and Disposal

Wastewater treatment and disposal services for the community are the responsibility of the South San Luis Obispo County Sanitation District, an independent special district formed under provisions of the California State Health and Safety Code. The sanitation district also treats and disposes of wastewater for the cities of Arroyo Grande and Grover Beach. The sanitation district's governing board is comprised of elected officials from each of the three agencies, as provided by state statute. As an independent special district, the sanitation district is not a component unit of the District.

Employees

The District currently has eight (8) full-time employees and one (1) part-time employee – four (4) field staff, four (4) office staff and the general manager. Full-time non-management employees are represented by the Service Employees International Union (SEIU) Local 620. District employees receive pension benefits through CalPERS. The District does not provide post-retirement health benefits. Legal, engineering and computer services are provided by independent contractors.

Recent Audits - Attached

Since 2014, the District has substantially addressed financial and accounting issues. The Board of Directors have approved two water rate increases, one in April 2015 and another in December 2020 eliminating the budgetary deficit and by doing so established a modest operating surplus. The District's inter-fund loan history was researched, and reported to the Board, who approved repayment schedules to the wastewater and water funds and incorporated them into the District's budget. A rate increase to the wastewater fund is needed in the upcoming years with the inter-loan coming to an end.

Outlook

The District has secured approximately \$3,600,000 in grants and technical assistance has also been secured in this time period to help the District address deferred infrastructure replacement and upgrades. These funds have allowed the District to develop a long term capital improvement program in the water system.

1.3 Computer and Accounting System

Tyler Technologies (Incode).

1.4 Contact Information

Any questions about this RFP should be directed to:

Carey Casciola – Business and Accounting Manager

Oceano Community Services District

P.O. Box 599

Oceano, CA 93447-599

Phone: (805) 481-6730

Fax: (805) 481-6836

Email: carey@oceanocsd.org

1.5 Submittal Requirements

Interested accounting firms shall submit one electronic copy of their Response to RFP in PDF format to the District no later than **5:00 p.m. on Monday, August 28, 2023**. All submittals should be sent to carey@oceanocsd.org.

2.0 DESIRED SERVICES

The District desires its audited annual financial report to include financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standard Board (GASB) practices. The examination by the auditors of such financial statements shall be performed in accordance with Generally Accepted Auditing Standards (GAAS) and in compliance with all laws.

The District will prepare and submit the State Controller's Annual Report for Special Districts and supplemental information for the financial statements.

2.1 Project Objectives and Anticipated Scope

The selected auditor will be required to:

1. Prior to the commencement of the audit, the auditor will review the audit program with District Staff including proposed dates for completion of audit tasks. For the initial year (fiscal year ending June 30, 2023), District staff will have the supporting schedules and documentation which the District customarily prepares for audits available for initial review by the auditor upon execution of a letter of engagement with the selected firm. In subsequent years, the District will have schedules and documentation completed by August 30th of each year.
2. The auditor will review the draft financial statements with District Staff. At this meeting the CPA will disclose all findings or situations that the auditors feel are weak or problematic. It is also anticipated that the auditor will review and assess internal controls and make recommendations to improve the current

procedures. The District will receive a management letter from the auditor reflecting the above items. If any irregularities and illegal acts are identified by the auditor, the auditor shall report their findings in writing to the General Manager, the Business and Accounting Manager, and to the Board President. The auditor should anticipate preparing annual GASB #68 calculations based on information provided by CalPERS for use by the District, who will prepare adjusting journal entries for the various funds based on established allocation methodologies.

3. The auditor will prepare the financial statements for fiscal year ending June 30, 2023, by June 30, 2024, and in subsequent years, by November 30th of each year.

District staff will be available to assist the auditors by providing information, documentation, and explanations. The District will provide the trial balance, all schedules and other related items, including a MD&A.

The District will provide the auditor with reasonable work space, phone, internet and copy machine access.

The audit report shall consist of, but not be limited to the auditor's report and opinion, a management letter, statement of net position, statement of cash flows, statement of revenues, expenses and changes in net position, notes to the financial statements, any required supplementary information, and any other additional information that may be applicable or pertinent to the audit as would be customary for a complete and conforming audit by current standards and regulations.

Report preparation, editing and printing will be the auditor's responsibility.

3.0 RFP REQUIREMENTS

As previously mentioned, responses should be submitted electronically in PDF format. Required proposal elements are outlined in this section. Submittals may contain additional information, but it is necessary to maintain the specific headings or order presented below.

3.1 Firm Overview

Provide a general overview and history of your firm that describes general capabilities and practice areas. Include a list of office locations and identify the office that would be the primary point of service for District projects. Responses may also contain a description of your firm's approach to quality assurance and other key operating practices. Responses should include an affirmative statement of independence from the Oceano Community Services District and affirmative statement that the firm and assigned staff are licensed to practice in California.

3.2 Experience Summary

This section should include summaries of your firm's overall experience and qualifications performing governmental and special district audits. Responses may

also include engagements in the last five years that are similar to that anticipated for our organization.

3.3 Personnel

Provide a list of key personnel within your organization that would be expected to contribute to the performance of the audit. Provide a description of individual experience/qualifications and include professional resumes, if appropriate.

If your firm would typically assign a client manager or a single point of contact for services of this type, please identify the person that you propose to fill this role.

3.4 Scope of Services

Provide the scope of audit services that your firm would propose to undertake for this engagement. The scope should be responsive to the objectives and anticipated services outline in Section 2.1 and should include information on deliverables and other proposed services.

3.5 Proposed Fees

Provide a proposed lump sum fee for complete audit services, including all anticipated direct and indirect costs, for each year of three-year performance period (FY 2022/23, FY 2023/24 and FY 2024/25), based on the scope of services presented in your proposal.

3.6 References

Provide at least three client references with complete contact information. Ideally, references would be from agencies or entities for which your firm has recently completed independent audit services that are similar to the District's.

4.0 SELECTION PROCESS

The District's objective is to select an accounting firm with the experience and resources necessary to meet the District's expressed needs.

Proposed Schedule:

Submittal Due	August 28, 2023
Selection Announced (expected)	September 1, 2023

All responses received will be carefully reviewed by District management and the Board of Directors will approve the selected firm. The District may elect to create a short list, conduct interviews of selected firms or request additional information as part of the evaluation process.

Ultimately, the selected firm will be required to provide an engagement letter. Additionally, firms providing services will be required to comply with District's standard insurance requirements, which are attached.

The District reserves the right to reject any and all proposals submitted and to award the contract to the firm which, in the District's opinion is best qualified.

Attached:

- Financial Statements for the year ending June 30, 2020 and related auditor letters.
- Financial Statements for the year ending June 30, 2021 and related auditor letters.
- Financial Statements for the year ending June 30, 2022 and related auditor letters.
- Condition of Purchase and Insurance Requirements



Moss, Levy & Hartzheim LLP

Certified Public Accountants

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

Board of Directors
Oceano Community Services District
Oceano, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Oceano Community Services District, as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Oceano Community Services District's basic financial statements and have issued our report thereon dated January 15, 2021.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of the District, 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 opinions 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oceano Community Services 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Levy & Hartzheim LLP

Santa Maria, California
January 15, 2021



January 15, 2021

To the Board of Directors of the
Oceano Community Services District

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Oceano Community Services District for the fiscal year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 13, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Oceano Community Services District are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of capital assets is based on experience with other capital assets and on their standard table of useful lives. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for bad debt is based on their past experience with the Management's estimate of the net pension liability and deferred inflows and outflows related to pension are based on the CalPERS actuary's expertise experience. We evaluated the key factors and assumptions used to develop the net pension liability and deferred inflows and outflows related to pension in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the Pension Plans in Note 7.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of

audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 15, 2021.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of the Oceano Community Services District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Moss, Reny & Haulgheim LLP

Santa Maria, California

OCEANO COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2020

**OCEANO COMMUNITY SERVICES DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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Moss, Levy & Hartzheim LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors of Oceano Community Services District
Oceano, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Oceano Community Services District (the District), as of and for the fiscal year ended June 30, 2020, 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Oceano Community Services District, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, the budgetary comparison information on page 41, the schedule of proportionate share of net pension liability on page 42, and the schedule of pension contributions on page 43 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 of the basis 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 our report dated January 15, 2021, on our consideration of the Oceano Community Services 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 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.

Moss, Renz & Hartzheim LLP

Santa Maria, California
January 15, 2021

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2020

The management of the Oceano Community Services District (District) has prepared the following narrative for the readers of the District's financial statements to provide an overview and analysis of the District for the year ending June 30, 2020. The District encourages readers to consider the information together with the District's financial statements following this section.

The District is an independent special district serving a population of approximately 7,600. The District is governed by a five (5) member Board of Directors elected by voters within the District's boundaries; all Board members must reside within the District's boundaries. The District is governed by California Government Code Sections 61000 et al, as well as other specific statutes and regulations that govern its operations.

The District provides both governmental-type activities and enterprise activities. Governmental activities include emergency and fire services, street lighting, and recreation. Enterprise activities include water service, wastewater collection service, and garbage and recycling services.

District Services and Related Agencies

As a special District, the District's powers are authorized by the San Luis Obispo County Local Agency Formation Commission (LAFCo). Any proposed additions to the District services, modification of District boundaries, or services outside of the District boundaries must be approved in advance by LAFCo.

The following provides a brief overview of each of the District's services:

Emergency Medical and Fire Protection Services

The District provides emergency medical and fire protection services through the Five Cities Fire Authority (FCFA). The FCFA was created as a "joint exercise of powers authority" (JPA) through an agreement originally approved in 2010 and amended on May 23, 2018, June 12, 2019, and most recently on June 24, 2020 between the cities of Arroyo Grande and Grover Beach, and this District. One member of the OCSD Board of Directors is appointed to serve the District on the FCFA Board of Directors and a second member of the OCSD Board is an alternate member on the FCFA Board. Since the District does not control the operations of FCFA, the financial statements and audit of the FCFA are separate from the District.

The District pays a portion of the annual costs of FCFA services based on funding formula established in the FCFA agreement, which was modified in the June 12, 2019 amendment. That amendment also required the District to call for a special tax election on the March 2020 ballot for voters to consider approving additional funding so that the District can continue to participate as a member of the FCFA. On March 3, 2020 Measure A-20 received 66.14% support, which was only 11 votes short of passage. The third amendment to the FCFA JPA was approved on June 24, 2020 which extends the agreement for an additional two years and will provide the community another opportunity to approve additional funding in 2022.

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2020

The JPA amendments were needed for several reasons, including a multi-year implementation of the FCFA “Strategic Plan.” The “Strategic Plan” includes increased staffing and services levels greater than those provided in the existing JPA. The amendments include specific approval of each member’s annual costs during the implementation period and requires either a citizen initiative or District initiated special tax measure to be placed on the 2022 primary ballot. The increase in District costs during the implementation period is being funded from reserves to the extent that the costs exceed property tax revenues received by OCSD.

On a related effort, the County of San Luis Obispo Board of Supervisors prepared a report on independent fire departments serving unincorporated communities throughout the County and significant constraints in generating the needed revenues to fund full-time fire departments. Alternatives of a stand-alone fire department and/or service from the County/ Cal Fire are also possible options to review and consider.

Lighting Services

The District provides street lighting services in certain areas of the community. The County of San Luis Obispo and the California Department of Transportation also provide some street lighting.

Parks and Recreation Services

The District is authorized to provide parks and recreation services, however, currently has no programs at this time other than those implemented by Lucia Mar Unified School District (LMUSD). The District holds a lease with LMUSD for the Oceano Community Center and as part of the lease requirements LMUSD utilizes the community center for recreation programs. There is a section in the lease where the District may also utilize the community center. Currently the District offers individuals the opportunity to utilize the Oceano Community Center for up to 10 hours per month and 120 hours per year with discounted fees.

Water Services

The District provides water service to approximately 2,200 connections. An annual Consumer Confidence Report (CCR) is mailed to all water customers providing a summary of the District’s water quality including a comparison to regulatory requirements. The California State Division of Drinking Water regulates the District’s water supplies and the CCR can be found on the District website or by calling the District’s offices.

The District’s water supplies include groundwater, Lopez water and State water. Regulation of the District’s groundwater supply is also subject to the stipulations and judgment adopted for the adjudication of the Santa Maria groundwater basin. Lopez and State water supplies are provided by the County of San Luis Obispo under terms of water supply contracts. The District’s water supply reliability is relatively high, and the District had been increasing water in storage during the recent drought. Nevertheless, the need to address water supply reliability continues and contract amendments for the State Water Project are being developed by the

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2020

State Department of Water Resources and, separately, contract amendments for the Lopez Lake water supply are being considered by local agencies to establish water storage rights and enhance multi-year water resource planning.

The Water Fund revenues have been falling short as the community continues to conserve water. As a result, a water rate increase was approved by the Board on October 14, 2020 at a public hearing. The rate increase established in 2015 was enacted in the midst of a drought and the rates were insufficient to cover costs from continued water conservation by the community post drought. The 2020 rate increase includes funds for capital improvement projects and minimum reserves. The increase began November 2020 and will be phased in over three years.

Wastewater Collection Services

The District provides wastewater collection services through a network of neighborhood pipelines that flow into pipelines and facilities owned by the South San Luis Obispo County Sanitation District (SSLOCSD), which is responsible for treatment and disposal. The SSLOCSD customers include the customers of the District as well as those of the cities of Arroyo Grande and Grover Beach. Since the District does not control the operations of SSLOCSD, the financial statements and audit of the SSLOCSD are separate from the District. District operations are regulated by the Central Coast Regional Water Quality Control Board.

Solid Waste and Recycling Services

The District provides mandatory solid waste and recycling services through a franchise agreement with South County Sanitary Services Incorporated (SCSS Inc.), which is a subsidiary of Waste Connections Incorporated, a publicly traded corporation "WCN" on the New York Stock Exchange. In 2020 the Board adopted a resolution to reduce the franchise fee payment from SCSS from 10% to 5% to reduce the customers utility bills. The District enforces illegal dumping within the community and other violations. The District has also adopted incentive programs designed to promote a cleaner community. Since the District does not control operations of SCSS or WCN, the financial statements and audits of those entities are separate from the District.

Overview of the Financial Statements

This annual report contains the following five parts.

- Management Discussion and Analysis (this section)
- The Basic Financial Statements
- Notes to the Financial Statements
- Supplementary Information - a comparison of the District's budgets to actual results
- Supplementary Information on Pension Disclosures

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2020

This management discussion and analysis is intended to provide an overview of the most relevant information affecting the District's financial affairs for the year and the District's end of the year status. The basic financial statements provide information on the governmental and enterprise activities including operating and non-operating revenues and expenditures, current assets, non-current assets, capital assets, deferred outflows of resources, current and long-term liabilities, and deferred inflows of resources.

The notes to the financial statements provide additional detailed information and explanations on the financial statements. The budget to actual comparison illustrates differences between the board adopted budget and actual revenues, expenditures, and changes in fund balance in the General fund. The current year reflects a positive budget variance of \$61,013 for the Governmental Fund. Of this amount, \$ 90,865 was utilized to repay a portion of an interfund loan owed by the Governmental Fund to the Sewer Fund.

Financial Statement Analysis and Highlights

The District's Statements of Net Position is illustrated below for the Governmental and Enterprise Funds, and subsequently, for each of the Enterprise Funds.

Statements of Net Position as of June 30, 2020 and 2019				
	Governmental Funds		Business-type Activities	
	2020	2019	2020	2019
Current and other assets	\$ 781,114	\$ 940,770	\$ 2,653,834	\$ 2,972,920
Capital assets, net	1,813,033	1,740,909	2,822,935	2,794,734
Total Assets	2,594,147	2,681,679	5,476,769	5,767,654
Deferred outflow of resources	19,113	18,530	195,928	189,939
Current liabilities	55,676	46,392	146,369	185,001
Non-current liabilities	203,438	183,439	636,269	577,536
Total Liabilities	259,114	229,831	782,638	762,537
Deferred inflow of resources	9,168	8,280	43,153	38,982
Net investment in capital assets	1,813,033	1,740,909	2,822,935	2,788,057
Restricted	266,210	241,441	40,589	15,574
Unrestricted	265,735	479,748	1,983,382	2,352,443
Net Position	\$ 2,344,978	\$ 2,462,098	\$ 4,846,906	\$ 5,156,074

The Net Position of the District's Governmental Fund changed in the year ending June 30, 2020 as a result of a deficit of \$117,120.

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2020

The Net Position of the Enterprise Funds remained consistent with the previous year.

Statements of Net Position as of June 30, 2020 and 2019						
	Water Fund		Wastewater Fund		Garbage Fund	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 1,373,289	\$ 1,660,585	\$ 1,332,002	\$ 1,386,005	\$ 361,052	\$ 377,568
Capital assets, net	1,598,443	1,467,461	1,238,206	1,338,745	2,523	4,102
Total Assets	2,971,732	3,128,046	2,570,208	2,724,750	363,575	381,670
Deferred Outflow of Resources	106,591	103,333	78,259	75,867	11,078	10,739
Current Liabilities	193,145	642,034	3,865	8,398	3,560	1,381
Non-current liabilities	729,274	321,984	252,274	228,987	29,266	26,565
Total Liabilities	922,419	964,018	256,139	237,385	32,826	27,946
Deferred inflow of resources	20,916	18,894	13,503	12,198	8,734	7,890
Net investment in capital assets	1,582,206	1,447,713	1,238,206	1,336,659	2,523	3,685
Restricted	40,589	15,574	-	-	-	-
Unrestricted	512,193	785,180	1,140,619	1,214,375	330,570	352,888
Net Position	\$ 2,134,988	\$ 2,248,467	\$ 2,378,825	\$ 2,551,034	\$ 333,093	\$ 356,573

Following the District's Statements of Net Position are the Statements of Revenues, Expenses and Changes in Net Position.

Statements of Revenues, Expenses, and Changes in Net Position for the years ending June 30, 2020 and 2019				
	Governmental Activities		Business-type Activities	
	2020	2019	2020	2019
Operating Revenues	\$ 10,158	\$ 106,323	\$ 3,091,774	\$ 2,737,355
Operating Expenses:				
Administrative Expenses	(1,008,591)	(934,643)		
Fire Protection	(1,166,081)	(1,018,439)		
Street Lighting	(31,476)	(38,499)		
Business-type Activities			(2,636,979)	(2,481,853)
Net Operating Income / (Loss)	(2,195,990)	(1,885,258)	454,795	255,502
Ad valorem taxes	1,081,219	1,028,371	-	-
Other non-operating income	179,698	192,188	48,234	154,294
Transfers	817,953	765,626	(817,953)	(765,626)
Total Non-Operating Income	2,078,870	1,986,185	(769,719)	(611,332)
Change in Net Position	\$ (117,120)	\$ 100,927	\$ (314,924)	\$ (355,830)

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2020

In summary, the Governmental Activities went from a Net Income of \$100,927 to a Net Deficit of \$117,120 in 2020. The decrease in net position is from the \$150,786 increase for fire protection from the second amendment to the Five Cities Fire Authority Joint Exercise of Powers

The Business-type Activities went from a Net Loss for the prior fiscal year of \$355,830 to a Net Loss of \$314,924. The Enterprise Funds are broken out by fund in the table below.

Statements Revenues, Expenses, and Changes in Net Position as of June 30, 2020 and 2019						
	Water Fund		Wastewater Fund		Garbage Fund	
	2020	2019	2020	2019	2020	2019
Operating Revenues	\$ 2,473,798	\$ 2,243,736	\$ 400,445	\$ 398,818	\$ 85,384	\$ 94,801
Operating Expenditures	(2,343,386)	(2,179,357)	(236,745)	(253,340)	(55,791)	(47,644)
Net Operating Income / (Loss)	130,412	64,379	163,700	145,478	29,593	47,157
Other non-operating income	154,494	125,985	25,887	28,218	-	91
Non-operating Expenditures	(1,010)	(1,324)	(39)	(157)	(8)	(31)
Net Non-Operating Income	153,484	124,661	25,848	28,061	(8)	60
Net Transfers	(402,848)	(376,970)	(361,993)	(338,992)	(53,112)	(49,664)
Net Income / (Loss)	\$ (118,952)	\$ (187,930)	\$ (172,445)	\$ (165,453)	\$ (23,527)	\$ (2,447)

The slight decrease in the net deficit of \$118,952 in the Water Fund reflects the revenue shortfalls that are resulting from continued water conservation by the community even after the drought ended and the capital expenditures to the water system of \$215,000 for the Norswing waterline replacement project. The cost from the administrative allocation included in the Operating Expenses increased in the 2018-19 fiscal year budget from 45% to 60% to better reflect the work and time spent on water services.

The Wastewater Fund continues to incur a Net Loss because the revenues are not increased every year similar to the Water Fund. The cost from the administrative allocation included in the Operating Expenditures is a significant cost for the Wastewater Fund and was reduced in the 2018-19 fiscal year budget from 40% to 30%. A change in indirect charges will increase cost allocations to the water fund, which reflect a greater share of the District's overall enterprise activities. In addition, the wastewater fund receives approximately \$90,000 from the General Fund loan repayment to help cover the cost of the deficit.

The Garbage Fund's Net Deficit increased from the prior year because in 2020 the Board adopted a resolution to reduce the franchise fee payment from SCSS from 10% to 5% to reduce the costs to customers. The District continues to move forward on the Solid Waste Programs adopted by the Board on February 8, 2017. These programs include policies to address illegal dumping, unsanitary conditions, and related solid waste problems in the District.

Oceano Community Services District
 Management Discussion and Analysis
 For the fiscal year ended June 30, 2020

Capital Assets

The District owns the community fire station, administrative offices, Sheriff's substation, the Oceano Depot, the Oceano Community Center, the former fire station and some undeveloped land. The community fire station is provided to FCFA for their use for \$15,000 per year. The Sheriff substation is leased to the County of San Luis Obispo for \$113,400 per year. The Oceano Depot and Community Center are leased to a non-governmental agency and the Lucia Mar Unified School District at \$1 per year each based on the multi-party agreements developed for those properties in conjunction with grants that funded the development of the community center and the preservation of the historic Oceano train depot.

The water and wastewater infrastructure of the District ranges drastically in age. Many of the water and wastewater system pipelines were originally constructed in the 1950's. The District completed water and wastewater system master plans in 2009 but revenue shortfalls have deferred infrastructure replacement projects. The District is completed an updated water system capital improvement program for infrastructure replacement, which was substantially funded with grants approved by the State of California.

Debt Activities

The District has no issued debt.

Internal debt, or borrowing between District funds, is more significant. Footnote #3 to the Financial Statements illustrates interfund liabilities. During the year ending June 30, 2020, the District recorded the following interfund transfers to adhere to resolutions adopted April 26, 2017 to ensure repayment of interfund liabilities.

Interfund (Due to) / Due From	Beginning Balances – July 1, 2019	Interfund Increase	Interfund Decrease	Ending Balances – June 30, 2020
General Fund Due to Sewer Fund	\$ (384,575)	\$ 90,865	\$ - 0 -	\$ (293,710)
General Fund Due from Water Fund	428,724	- 0 -	30,641	398,083
Net General Fund Due to Other Funds	44,149	90,865	30,641	104,373
Water Fund Due to the General Fund	(428,724)	30,641	\$ - 0 -	(398,083)
Water Fund Due to Garbage Fund	(38,086)	7,423	- 0 -	(30,663)
Sewer Fund Due from General Fund	384,575	- 0 -	90,865	293,710
Garbage Fund Due from Water Fund	38,086	- 0 -	7,423	30,663
Totals	\$ - 0 -	\$ 128,930	\$ 128,930	\$ - 0 -

Budget and Rates

The District's budget for the year ending June 30, 2020 reflects the water system rate increase that was approved by the Board of Directors on April 20, 2015, as adjusted based on increases in the consumer price index and wholesale water costs. The annual increases are prescribed in Ordinance 2015-01, and in accordance with California Government Code section 53756. The following illustrates the Water Fund change in net position before and after the April 2015 rate increase:

Fiscal Year	Surplus/ (Deficit)
2014/15	\$ (182,216)
2015/16	93,228
2016/17	186,858
2017/18	22,518
2018/19	(187,930)
2019/20	(118,952)

This year the deficit in net position is due to the revenue shortfalls that are resulting from continued water conservation by the community post drought. With the approval of the 2020 rate increase the District will establish fiscal stability and funds for capital improvement projects and minimum reserves. The increase begins November 2020 and will be phased in over three years. The District has secured approximately \$275,000 in grants from state agencies for the water system and related needs.

No rate changes affected the wastewater fund for the fiscal year ending June 30, 2020. The following shows the running deficit of the Sewer Fund:

Fiscal Year	Surplus/ (Deficit)
2014/15	\$ (16,927)
2015/16	(54,103)
2016/17	(104,305)
2017/18	(153,944)
2018/19	(165,453)
2019/20	(172,445)

The decreasing financial status of the wastewater fund resulted because rental revenues from the Sheriff substation are now dedicated to repaying the General Fund's interfund loan due to the wastewater fund. The future annual transfers from the General Fund to the wastewater fund are shown on the following page:

Oceano Community Services District
 Management Discussion and Analysis
 For the fiscal year ended June 30, 2020

Year Ending	Beginning Balance	Interest Payment	Principal Payment	Total Payment	Ending Balance
June 30, 2020	384,575	23,075	90,865	113,940	293,710
June 30, 2021	293,710	17,623	96,317	113,940	197,393
June 30, 2022	197,392	11,844	102,096	113,940	95,296
June 30, 2023	\$ 95,296	\$ -0-	\$ 95,296	95,296	\$ -0-

The operating shortfall for the sewer fund needs to be addressed in the future. The last three budgets included modifications to the District's indirect charges to the sewer fund that reduced those costs while increasing indirect cost allocations to the water fund, which reflect a greater share of the District's overall enterprise activities. In addition, addressing deferred infrastructure needs of the sewer fund will also become a higher priority, which may also require sewer fund rate increases in the near future.

An increase of 10.06% in garbage rates for the SCSS Inc. were approved on June 26, 2019, and inflationary adjustment of 1.7% went into effect on January 1, 2020 and January 1, 2021. On January 22, 2020 the Board approved a decrease to the franchise fee from 10% to 5% to reduce customers garbage bills.

Future Outlook

Overall, the District's financial outlook has maintained a relatively stable short-term position during the year ending June 30, 2020. The primary enterprise fund challenges relate to deferred infrastructure repairs and replacement of the water and wastewater funds and long-term costs. Currently, the District is evaluating deferred infrastructure needs and is utilizing grants obtained from the State of California for much of this effort. Identifying costs and rate impacts to fund the deferred infrastructure were completed in 2020. The future of the fire department's operation will also be a significant District effort in the future.

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OCEANO COMMUNITY SERVICES DISTRICT
 STATEMENT OF NET POSITION
 June 30, 2020

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 365,165	\$ 2,151,715	\$ 2,516,880
Restricted cash and investments	262,470		262,470
Accounts receivable, net	14,488	471,292	485,780
Prepaid items	34,618	93,109	127,727
Deposits		16,237	16,237
Inventory		25,854	25,854
Internal balances	104,373	(104,373)	
Capital assets:			
Non Depreciable:			
Land	610,390	6,000	616,390
Construction in progress		234,382	234,382
Depreciable:			
Buildings and improvements	2,088,370	7,310,827	9,399,197
Equipment, vehicles and machinery	435,679	877,554	1,313,233
Software		195,918	195,918
Accumulated depreciation	(1,321,406)	(5,801,746)	(7,123,152)
Total assets	<u>2,594,147</u>	<u>5,476,769</u>	<u>8,070,916</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred pensions	<u>19,113</u>	<u>195,928</u>	<u>215,041</u>
Total deferred outflow of resources	<u>19,113</u>	<u>195,928</u>	<u>215,041</u>
LIABILITIES			
Accounts payable	28,451	44,062	72,513
Accrued wages and benefits	14,730	4,205	18,935
Deposits	3,000	97,052	100,052
Unearned revenue	9,495	1,050	10,545
Noncurrent liabilities:			
Due within one year	20,033		20,033
Due in more than one year	183,405	636,269	819,674
Total liabilities	<u>259,114</u>	<u>782,638</u>	<u>1,041,752</u>
DEFERRED INFLOW OF RESOURCES			
Deferred pensions	<u>9,168</u>	<u>43,153</u>	<u>52,321</u>
Total deferred inflow of resources	<u>9,168</u>	<u>43,153</u>	<u>52,321</u>
NET POSITION			
Net investment in capital assets	1,813,033	2,822,935	4,635,968
Restricted for:			
Capital facilities	266,210		266,210
Water joint venture agreement		40,589	40,589
Unrestricted	265,735	1,983,382	2,249,117
Total net position	<u>\$ 2,344,978</u>	<u>\$ 4,846,906</u>	<u>\$ 7,191,884</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
 STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2020

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
Administration	\$ 1,008,591	\$ -	\$ -	\$ 10,158
Fire protection	1,166,081			
Street lighting	31,476			
Total governmental activities	<u>2,206,148</u>			<u>10,158</u>
Business-type activities:				
Water	2,344,396	2,360,265	245,680	
Sewer	236,784	389,850	10,595	
Garbage	55,799		85,384	
Total business-type activities	<u>2,636,979</u>	<u>2,750,115</u>	<u>341,659</u>	
Total governmental	<u>\$ 4,843,127</u>	<u>\$ 2,750,115</u>	<u>\$ 341,659</u>	<u>\$ 10,158</u>

General Revenues and Transfers:

Taxes:

Property

Use of money and property

Other general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning of fiscal year

Prior-period adjustments

Net position - beginning of fiscal year, restated

Net position - end of fiscal year

The notes to basic financial statements are an integral part of this statement.

Net (Expenses) Revenue and Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (998,433)	\$ -	\$ (998,433)
(1,166,081)		(1,166,081)
(31,476)		(31,476)
<u>(2,195,990)</u>		<u>(2,195,990)</u>
	261,549	261,549
	163,661	163,661
	<u>29,585</u>	<u>29,585</u>
	454,795	454,795
<u>(2,195,990)</u>	<u>454,795</u>	<u>(1,741,195)</u>
1,081,219		1,081,219
175,078	23,888	198,966
4,620	24,346	28,966
<u>817,953</u>	<u>(817,953)</u>	
<u>2,078,870</u>	<u>(769,719)</u>	<u>1,309,151</u>
<u>(117,120)</u>	<u>(314,924)</u>	<u>(432,044)</u>
2,462,098	5,156,074	7,618,172
	<u>5,756</u>	<u>5,756</u>
<u>2,462,098</u>	<u>5,161,830</u>	<u>7,623,928</u>
<u>\$ 2,344,978</u>	<u>\$ 4,846,906</u>	<u>\$ 7,191,884</u>

OCEANO COMMUNITY SERVICES DISTRICT
GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2020

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 365,165
Restricted cash and investments	262,470
Accounts receivable	14,488
Prepaid items	34,618
Advances receivable	<u>398,083</u>
Total assets	<u>\$ 1,074,824</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 28,451
Accrued payroll and benefits	14,730
Deposits	3,000
Unearned revenue	9,495
Due to other funds	<u>293,710</u>
Total liabilities	<u>349,386</u>
Fund Balance:	
Nonspendable:	
Prepaid items	34,618
Restricted:	
Capital facilities	266,210
Assigned:	
Infrastructure replacement	213,266
Unassigned	<u>211,344</u>
Total fund balance	<u>725,438</u>
Total liabilities and fund balance	<u>\$ 1,074,824</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND - BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2020

Total fund balance - governmental fund \$ 725,438

In the governmental fund, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	\$	3,134,439
Accumulated depreciation		<u>(1,321,406)</u>

Net 1,813,033

Long-term liabilities: In the governmental fund, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Compensated absences payable	\$	80,133
Net pension liability		<u>123,305</u>

Total (203,438)

In the governmental fund, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows of \$19,113 and inflows of resources of \$(9,168) relating to pensions are reported.

9,945

Total net position - governmental activities \$ 2,344,978

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2020

	<u>General Fund</u>
Revenues:	
Taxes and assessments	\$ 1,081,219
Public facility fee	10,158
Interest income	35,413
Rental income	139,665
Other	4,620
	<hr/>
Total revenues	1,271,075
	<hr/>
Expenditures:	
Salaries, wages and directors' stipends	469,609
Payroll taxes and employee benefits	181,824
Liability insurance	24,219
Repairs and maintenance	13,750
Administrative services	10,011
Data processing	13,749
Dues and fees	29,235
Education	3,386
Legal fees	88,808
Miscellaneous	3,012
Office expense	11,278
Street lighting	30,193
Professional fees	59,123
Utilities	25,321
Public safety	1,138,148
Capital outlay	133,227
Interest expense	23,075
	<hr/>
Total expenditures	2,257,968
	<hr/>
Excess of revenues over (under) expenditures	(986,893)
	<hr/>
Other Financing Sources (Uses):	
Transfers in	817,953
	<hr/>
Total other financing sources (uses)	817,953
	<hr/>
Net change in fund balance	(168,940)
	<hr/>
Fund balance - July 1	894,378
	<hr/>
Fund balance - June 30	\$ 725,438
	<hr/> <hr/>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2020

Total net change in fund balance - governmental fund	\$ (168,940)
Capital outlays are reported in the governmental fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$133,227 are more than depreciation expense \$(61,103) in the period.	72,124
In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In the governmental fund, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, vacation earned exceeded the amounts used by \$8,617.	(8,617)
In the governmental fund, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:	<u>(11,687)</u>
Changes in net position - governmental activities	<u><u>\$ (117,120)</u></u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 June 30, 2020

	Water Fund	Sewer Fund	Garbage Fund	Totals
ASSETS				
Current assets:				
Cash and investments	\$ 849,238	\$ 979,707	\$ 322,770	\$ 2,151,715
Accounts receivable, net	407,792	56,106	7,394	471,292
Prepaid expenses	92,884		225	93,109
Inventory	23,375	2,479		25,854
Due from other funds		293,710	30,663	324,373
Total current assets	<u>1,373,289</u>	<u>1,332,002</u>	<u>361,052</u>	<u>3,066,343</u>
Noncurrent assets:				
Joint venture deposits	16,237			16,237
Non depreciable capital assets:				
Land	6,000			6,000
Construction in progress	159,013	75,369		234,382
Depreciable capital assets:				
Buildings and improvements	4,640,649	2,670,178		7,310,827
Equipment, vehicles and machinery	561,916	294,662	20,976	877,554
Software	156,734	39,184		195,918
Accumulated depreciation	(3,942,106)	(1,841,187)	(18,453)	(5,801,746)
Total noncurrent assets	<u>1,598,443</u>	<u>1,238,206</u>	<u>2,523</u>	<u>2,839,172</u>
Total assets	<u>2,971,732</u>	<u>2,570,208</u>	<u>363,575</u>	<u>5,905,515</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pensions	106,591	78,259	11,078	195,928
Total deferred outflows of resources	<u>106,591</u>	<u>78,259</u>	<u>11,078</u>	<u>195,928</u>
LIABILITIES				
Current liabilities:				
Accounts payable	38,696	1,975	3,391	44,062
Accrued wages and benefits	3,196	840	169	4,205
Customer deposits	97,052			97,052
Unearned revenue		1,050		1,050
Due to other funds	30,663			30,663
Advances payable-current portion	23,538			23,538
Total current liabilities	<u>193,145</u>	<u>3,865</u>	<u>3,560</u>	<u>200,570</u>
Noncurrent liabilities:				
Advances payable - non-current portion	374,545			374,545
Net pension liability	354,729	252,274	29,266	636,269
Total noncurrent liabilities	<u>729,274</u>	<u>252,274</u>	<u>29,266</u>	<u>1,010,814</u>
Total liabilities	<u>922,419</u>	<u>256,139</u>	<u>32,826</u>	<u>1,211,384</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred pensions	20,916	13,503	8,734	43,153
Total deferred inflows of resources	<u>20,916</u>	<u>13,503</u>	<u>8,734</u>	<u>43,153</u>
NET POSITION				
Net investment in capital assets	1,582,206	1,238,206	2,523	2,822,935
Restricted	40,589			40,589
Unrestricted	512,193	1,140,619	330,570	1,983,382
Total net position	<u>\$ 2,134,988</u>	<u>\$ 2,378,825</u>	<u>\$ 333,093</u>	<u>\$ 4,846,906</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Fiscal Year Ended June 30, 2020

	Water Fund	Sewer Fund	Garbage Fund	Totals
Operating Revenues:				
Charges for services	\$ 2,360,265	\$ 389,850	\$ -	\$ 2,750,115
Other fees	113,533	10,595	85,384	209,512
Total operating revenues	<u>2,473,798</u>	<u>400,445</u>	<u>85,384</u>	<u>2,959,627</u>
Operating Expenses:				
Salaries and wages	173,398	51,063	13,968	238,429
Payroll taxes and employee benefits	131,079	60,796	18,648	210,523
Repairs and maintenance	156,287	8,370	1,600	166,257
Legal and professional	121,569	8,159	3,819	133,547
Dues and fees	8,593	3,580		12,173
Education	2,367	181	9,980	12,528
Water meters	12,498			12,498
Wheeled water expense	24,143			24,143
Office expense	571	79	261	911
Supplies	7,898	1,388		9,286
Utilities	12,654	1,365	5,936	19,955
Water supply expense	1,563,957			1,563,957
Bad debt	4,697	1,223		5,920
Depreciation	123,675	100,541	1,579	225,795
Total operating expenses	<u>2,343,386</u>	<u>236,745</u>	<u>55,791</u>	<u>2,635,922</u>
Operating income (loss)	<u>130,412</u>	<u>163,700</u>	<u>29,593</u>	<u>323,705</u>
Non-Operating Revenues (Expenses):				
Grant income	132,147			132,147
Interest income	813	23,075		23,888
Interest expense	(1,010)	(39)	(8)	(1,057)
Other non-operating revenue	21,534	2,812		24,346
Total non-operating revenues (expenses)	<u>153,484</u>	<u>25,848</u>	<u>(8)</u>	<u>179,324</u>
Income before transfers	<u>283,896</u>	<u>189,548</u>	<u>29,585</u>	<u>503,029</u>
Transfers:				
Transfers in	1,634		819	2,453
Transfers (out)	(404,482)	(361,993)	(53,931)	(820,406)
Total transfers	<u>(402,848)</u>	<u>(361,993)</u>	<u>(53,112)</u>	<u>(817,953)</u>
Change in net position	<u>(118,952)</u>	<u>(172,445)</u>	<u>(23,527)</u>	<u>(314,924)</u>
Net position - July 1	2,248,467	2,551,034	356,573	5,156,074
Prior period adjustments	5,473	236	47	5,756
Net position - July 1, restated	<u>2,253,940</u>	<u>2,551,270</u>	<u>356,620</u>	<u>5,161,830</u>
Net position - June 30	<u>\$ 2,134,988</u>	<u>\$ 2,378,825</u>	<u>\$ 333,093</u>	<u>\$ 4,846,906</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2020

	Water Fund	Sewer Fund	Garbage Fund	Totals
Cash Flows From Operating Activities:				
Receipts from customers	\$ 2,420,990	\$ 398,853	\$ 92,019	\$ 2,911,862
Payments to suppliers	(1,891,471)	(22,427)	(19,061)	(1,932,959)
Payments to employees	(272,683)	(89,408)	(29,527)	(391,618)
Net cash provided by operating activities	<u>256,836</u>	<u>287,018</u>	<u>43,431</u>	<u>587,285</u>
Cash Flows From Capital and Related Financing Activities:				
Acquisition of capital assets	(253,996)			(253,996)
Principal paid on capital debt	(3,717)	(1,858)	(371)	(5,946)
Interest paid on capital debt	(58)	(33)	(7)	(98)
Net cash (used) by capital and related financing activities	<u>(257,771)</u>	<u>(1,891)</u>	<u>(378)</u>	<u>(260,040)</u>
Cash Flows from Noncapital Financing Activities:				
Grants received	132,147			132,147
Transfers from (to) other funds	(440,914)	(271,128)	(45,688)	(757,730)
Interfund interest paid	(934)			(934)
Other revenue	21,534	2,812		24,346
Net cash (used) by noncapital financing activities	<u>(288,167)</u>	<u>(268,316)</u>	<u>(45,688)</u>	<u>(602,171)</u>
Cash Flows From Investing Activities:				
Interest income	813	23,075		23,888
Net cash provided by investing activities	<u>813</u>	<u>23,075</u>		<u>23,888</u>
Net increase (decrease) in cash and cash equivalents	(288,289)	39,886	(2,635)	(251,038)
Cash and cash equivalents - July 1	1,137,527	939,821	325,405	2,402,753
Cash and cash equivalents - June 30	<u>\$ 849,238</u>	<u>\$ 979,707</u>	<u>\$ 322,770</u>	<u>\$ 2,151,715</u>
Reconciliation to Statement of Net Position:				
Cash and investments	<u>\$ 849,238</u>	<u>\$ 979,707</u>	<u>\$ 322,770</u>	<u>\$ 2,151,715</u>

(Continued)

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS (Continued)
 For the Fiscal Year Ended June 30, 2020

	Water Fund	Sewer Fund	Garbage Fund	Totals
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 130,412	\$ 163,700	\$ 29,593	\$ 323,705
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation expense	123,675	100,541	1,579	225,795
Change in assets, liabilities, deferred inflows of resources, and deferred outflows of resources:				
Receivables, net	(4,539)	2,781	6,635	4,877
Prepaid expenses	5,145	236	(178)	5,203
Inventories	(1,599)	7		(1,592)
Joint venture deposits	(663)			(663)
Deferred outflows	(3,258)	(2,392)	(339)	(5,989)
Accounts payable	16,183	452	2,713	19,348
Accrued wages and benefits	285	251	(117)	419
Customer deposits	(43,572)	(4,200)		(47,772)
Unearned revenues		1,050		1,050
Net pension liability	32,745	23,287	2,701	58,733
Deferred inflows	2,022	1,305	844	4,171
Net cash provided by operating activities	<u>\$ 256,836</u>	<u>\$ 287,018</u>	<u>\$ 43,431</u>	<u>\$ 587,285</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

The Oceano Community Services District (“the District”) is a multipurpose special district established on January 1, 1981. The District is a political subdivision of the State of California and operates under a Board of Directors. The District provides water, wastewater, street lighting, and garbage franchise services.

The District complies with the U. S. Generally Accepted Accounting Principles (GAAP) and all relevant Government Accounting Standards Board (GASB) pronouncements. These technical pronouncements establish criteria for determining the District’s activities and functions that are included in the financial statements of a governmental unit. The proprietary funds apply Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) unless those principles conflict with or contradict GASB pronouncements, in which case GASB prevails. There are no component units included in this report which meet the criteria of GASB Statement No. 14 as amended by GASB Statements No. 39, 61, and 80.

B. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

On the government-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item “b” below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds are accounted for using a “current financial resources” measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. All proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or non-current) associated with the operation of these funds are reported. Proprietary fund equity is classified as net position.

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District defines available to be within 60 days of fiscal year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for principal and interest on long term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent that they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds for governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest, and charges for services. Certain indirect costs are included in program expenses reported for individual functions and activities.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the District may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position are available to finance program expenditures. The District’s policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. 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 revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Basis of Presentation

Government-wide Statements:

The Statement of Net Position and the Statement of Activities display information about the District. These statements include the financial activities of the overall District government. Eliminations have been made to minimize the double counting of internal activities. Government activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

The fund financial statements provide information about the District's funds. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred inflows of resources, liabilities, deferred outflows of resources, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. All District funds are considered major funds.

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows for all proprietary funds. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total 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 liability is incurred.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund - This is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The fund provides for public administration and overall management as it pertains to the District as a whole as well as the District's street lighting services. It also accounts for the District's fire protection services as agreed upon with the Five Cities Fire Authority Joint Powers Authority.

Proprietary Funds

Enterprise Funds: Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Water Fund - This fund accounts for the operation and maintenance of the District's water distribution, treatment, and monitoring systems.

Sewer Fund - This fund is used to account for all activities of operating sewer services and maintaining the sewer lines.

Garbage Fund - This fund is used to account for the garbage franchise services.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property Taxes

San Luis Obispo County levies, bills, and collects property taxes and special assessments for the District. Property taxes levied are recorded as revenue in the fiscal year of levy, due to the adoption of the “alternate method of property tax distribution,” known as the Teeter Plan, by the District and the County. The Teeter Plan authorizes the Auditor/Controller of the County to allocate 100% of the secured property taxes billed, excluding unitary tax (whether paid or unpaid). The County remits tax monies to the District every month and twice a month in December and April. The final amount which is “teetered” is remitted in August each year.

Tax collections are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls, which constitute a lien against the property, may be paid in two installments; the first is due November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the tax becomes delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payment.

Property valuations are established by the Assessor of the County for the secured and unsecured property tax rolls. Under the provisions of Article XIII A of the State Constitution, properties are assessed at 100% of purchase price or value in 1978 whichever is later. From this base assessment, subsequent annual increases in valuation are limited to a maximum of 2 percent. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax levy dates are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property, as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

E. Cash and Investments

The District pools the cash of all funds, except for monies deposited with fiscal agent in accordance with related bond indentures. The cash and investments balance in each fund represents that fund’s equity share of the District’s cash and investment pool. For purposes of the statement of cash flows, the District has defined cash and cash equivalents to be change and petty cash funds, equity in the District’s cash and investment pool, and restricted non-pooled investments with initial maturities of three months or less.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, 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 District maintains its cash balance in financial institutions in the United States. The balances at the institutions are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2020, the District held cash in financial institutions in excess of federally insured limits.

F. Accounts and Interest Receivable

In the government-wide statements, receivables consist of all revenues earned at fiscal year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts if applicable, and estimated refunds due. Major receivable balances for the governmental activities may include sales taxes, property taxes, grants, and other fees, if any. Business-type activities report utilities as their major receivables.

In the fund financial statements, material receivables in governmental funds may include revenue accruals such as franchise tax, grants, service charges and other similar intergovernmental revenues that are both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned and if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at fiscal year-end and not yet received. Utility accounts receivable and interest earnings comprise the majority of proprietary fund receivables.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Prepaid Expenses and Inventory

Inventory is valued at the lower of cost or market using the first-in, first-out (FIFO) method. The cost is recorded as an expenditure/expense in the funds at the time individual inventory items are purchased rather than when consumed. This is then adjusted by physical inventory at fiscal year-end. Inventory in the enterprise funds consist principally of materials and supplies for utility operations.

Payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

H. Capital Assets

The accounting treatment over property, plant, and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations. The presentation and recording of governmental assets are described below.

Government-Wide Statements

In the government-wide financial statements, capital assets with a historical cost of \$5,000 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, if any, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets.

With the implementation of GASB Statement No. 34, the District has recorded all its public domain (infrastructure) capital assets on the government-wide statements.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Water system	5-75 years
Sanitation system	10-50 years
Drainage	5-50 years
Administration	5-40 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are capitalized when purchased.

I. Accumulated Compensated Absences

Compensated absences comprise unused vacation leave, sick leave, and compensatory time off, which are accrued as earned. Vacation hours, which accrue from the first day of employment, can be taken immediately and are capped at 320 hours. Upon termination, all accumulated vacation hours up to 320 hours are paid out. Sick leave, which accrue from the first day of employment can be taken immediately and can be accrued up to 180 days or 1,440 hours. Upon termination, all accumulated vacation hours up to 180 days are paid out. Payments will be based on the pay rate at the time of termination. The District's liability for the current and long-term portions of compensated absences is shown in the government-wide Statement of Net Position for both governmental funds and proprietary funds. Only proprietary funds reflect the long-term portion in the fund financials report, Statement of Net Position. The short-term portion is reflected for both governmental and proprietary funds in the fund financial statements. Computation was based on rates in effect as of the fiscal year-end.

J. Long-Term Liabilities

In the government-wide financial statements, long-term liabilities are presented for both governmental and proprietary fund types. In the fund financial statements, only the proprietary funds show long-term liabilities.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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 Oceano Community Services District California Public Employees' Retirement System (CalPERS) Miscellaneous, Miscellaneous PEPRA, and Safety Fire Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. 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.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report the following timeframes are used:

Valuation Date:	June 30, 2018
Measurement Date:	June 30, 2019
Measurement Period:	July 1, 2018 through June 30, 2019

L. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category, refer to Note 7 for a detailed listing of the deferred outflows of resources the District has recognized.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 7 for a detailed listing of the deferred inflows of resources the District has recognized.

M. Interfund Transactions

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

N. Equity Classifications

Government-Wide Statements

GASB Statement No. 63 requires that the difference between assets and the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is *net investment in capital assets* consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. *Restricted net position* is the portion of the net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. *Unrestricted net position* consists of net position that does not meet the definition of net investments in capital assets or restricted net position.

Governmental Fund Statements

Fund balance is the difference between the assets and liabilities reported in the governmental funds. In compliance with GASB Statement No. 54, the District has established the following fund balance classifications:

Non-spendable – The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – The restricted fund balance classification includes amounts that reflect constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Equity Classifications (continued)

Committed – The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (legislation, resolution, ordinance, etc.) it employed to previously commit those amounts. Committed fund balance should also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – The assigned fund balance classification includes amounts that are constrained by the government’s intent to be used for specific purposes, but that are neither restricted nor committed. Such intent is to be established by (a) the Board of Directors itself or (b) the General Manager to which the Board of Directors has delegated the authority to assign amounts to be used for specific purposes.

Unassigned – The unassigned fund balance classification includes amounts that do not fall into one of the above four categories. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned for specific purposes within the General Fund.

When an expenditure is incurred for which both restricted and unrestricted fund balances are available, it is District’s policy that the restricted fund balance be spent first followed by committed, then assigned, and, if applicable, unassigned.

O. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after June 15, 2021.
Statement No. 89	"Accounting for Interest Cost Incurred before the End of a Construction Period"	The provisions of this statement are effective for fiscal years beginning after December 15, 2020.
Statement No. 90	"Majority Equity Interests-an Amendment of GASB Statements No. 14 and No. 61"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 91	"Conduit Debt Obligations"	The provisions of this statement are effective for fiscal years beginning after December 15, 2021.
Statement No. 92	"Omnibus 2020"	The provisions of this statement are effective for fiscal years beginning after June 15, 2021.
Statement No. 93	"Replacement of Interbank Offered Rates"	The provision of this statement except for paragraphs 11b, 13, and 14 are effective for fiscal years beginning after June 15, 2020. Paragraph 11b is effective for fiscal years beginning after December 31, 2021. Paragraphs 13 and 14 are effective for fiscal years beginning after June 15, 2021.
Statement No. 94	"Public-Private and Public-Public Partnerships and Availability Payment Arrangements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2022.
Statement No. 96	"Subscription-Based Information Technology Arrangements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2022.
Statement No. 97	"Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32"	The provisions of this statement are effective for fiscal years beginning December 15, 2019.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by Management. Actual results could differ from these amounts.

NOTE 2 – CASH AND INVESTMENTS

The composition of cash and investments as of June 30, 2020, is as follows:

Cash in bank and on hand	\$ 525,777
Investments	2,253,573
Total cash and investments, Statement of Net Position	<u>\$ 2,779,350</u>

The District categorizes its fair value measurements within the fair value hierarchy established by U.S. Generally Accepted Accounting Principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investment in the San Luis Obispo County Investment Pool of \$1,937,663 is measured under level 2. The District had investments in the money market funds and bank time deposits that are measured at amortized cost are not required to be measured under Level 1, 2 or 3.

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types the District has that are authorized for the District by the California Government Code or the District's investment policy, where more restrictive, that addresses interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations – CA and Others	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	30%	None
Placement Services Deposits	5 years	30%	None
Repurchase and Reserve			
Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
State Registered Warrants, Notes or Bonds	N/A	None	None
Notes and Bonds for other Local California Agencies	5 years	None	None
Local Agency Investment Fund	5 years	None	None

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District's interest rate risk is mitigated is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosure Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market rate fluctuations is provided by the table on the following page that shows the distribution of the District's investments by maturity as of June 30, 2020.

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Non-Negotiable Certificate of Deposit	\$ 24,352	\$ -	\$ 24,352	\$ -	\$ -
Money market	291,558	291,558			
San Luis Obispo County Investment Pool	1,937,663	1,937,663			
	<u>\$ 2,253,573</u>	<u>\$ 2,229,221</u>	<u>\$ 24,352</u>	<u>\$ -</u>	<u>\$ -</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The District has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations. Presented below is the minimum rating required by (where applicable) the California Government Code, the investment policy, or debt agreements, and the actual rating as of the fiscal year ended June 30, 2020 for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	Aa	Not Rated
Non-Negotiable Certificate of Deposit	\$ 24,352	N/A	\$ -	\$ -	\$ -	\$ 24,352
Money market	291,558	N/A				291,558
San Luis Obispo County Investment Pool	1,937,663					1,937,663
	<u>\$ 2,253,573</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,253,573</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The District minimizes its credit risk by investing only in the safest types of securities or investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Deposits are insured up to \$250,000.

The investment in the San Luis Obispo County Investment Pool is not required to be collateralized. The fair value of securities in the pool is based on quoted market prices. The San Luis Obispo County Treasurer's Office performs a monthly fair market valuation of all securities held against carrying costs. Reports of valuations and financial statements are available to participants on the San Luis Obispo County Treasurer's website.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3 – INTERFUND TRANSACTIONS

Transfers between funds during the fiscal year ended June 30, 2020, were as follows:

Interfund Transfers:

<u>Governmental Fund:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 817,953	\$ -
<u>Proprietary Funds:</u>		
Water	1,634	404,482
Sewer		361,993
Garbage	819	53,931
	<u>\$ 820,406</u>	<u>\$ 820,406</u>

Borrowing between funds during the fiscal year ended June 30, 2020, was as follows:

Advances and Due To/Due From:

<u>Governmental Fund:</u>	<u>Due From</u>	<u>Due To</u>
General	\$ 398,083	\$ 293,710
<u>Proprietary Funds:</u>		
Water		428,746
Sewer	293,710	
Garbage	30,663	
	<u>\$ 722,456</u>	<u>\$ 722,456</u>

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2020 was as follows:

Governmental activities:

	<u>Balance at July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2020</u>
Capital assets not being depreciated				
Land	\$ 610,390	\$ -	\$ -	\$ 610,390
Total capital assets not being depreciated	<u>\$ 610,390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 610,390</u>
Capital assets being depreciated				
Buildings and improvements	\$ 2,088,370	\$ -	\$ -	\$ 2,088,370
Vehicles and equipment	302,452	133,227		435,679
Total capital assets being depreciated	2,390,822	133,227		2,524,049
Less accumulated depreciation	1,260,303	61,103		1,321,406
Total capital assets being depreciated, net	<u>\$ 1,130,519</u>	<u>\$ 72,124</u>	<u>\$ -</u>	<u>\$ 1,202,643</u>
Net capital assets	<u>\$ 1,740,909</u>	<u>\$ 72,124</u>	<u>\$ -</u>	<u>\$ 1,813,033</u>

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4 – CAPITAL ASSETS (Continued)

Business-type activities:

	Balance at July 1, 2019	Additions	Retirements/ Transfers	Balance at June 30, 2020
Capital assets not being depreciated				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Construction in progress	215,210	19,172		234,382
Total capital assets not being depreciated	<u>\$ 221,210</u>	<u>\$ 19,172</u>	<u>\$ -</u>	<u>\$ 240,382</u>
Capital assets being depreciated				
Buildings and improvements	\$ 7,095,321	\$ 218,318	\$ (2,812)	\$ 7,310,827
Software	195,918			195,918
Vehicles and equipment	861,048	16,506		877,554
Total capital assets being depreciated	<u>8,152,287</u>	<u>234,824</u>	<u>(2,812)</u>	<u>8,384,299</u>
Less accumulated depreciation	<u>5,578,763</u>	<u>225,795</u>	<u>(2,812)</u>	<u>5,801,746</u>
Total capital assets being depreciated, net	<u>\$ 2,573,524</u>	<u>\$ 9,029</u>	<u>\$ -</u>	<u>\$ 2,582,553</u>
Net capital assets	<u>\$ 2,794,734</u>	<u>\$ 28,201</u>	<u>\$ -</u>	<u>\$ 2,822,935</u>

NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of changes in the District's long-term liabilities for the fiscal year ended June 30, 2020:

	Balance at July 1, 2019	Additions	Reductions	Prior Period Adjustment	Balance at June 30, 2020	Current Portion	Long Term Portion
Governmental Activities:							
Compensated Absences	\$ 71,516	\$ 43,417	\$ 34,800	\$ -	\$ 80,133	\$ 20,033	\$ 60,100
Net Pension Liability	111,923	27,813	16,431		123,305		123,305
Total Governmental Activities	<u>\$ 183,439</u>	<u>\$ 71,230</u>	<u>\$ 51,231</u>	<u>\$ -</u>	<u>\$ 203,438</u>	<u>\$ 20,033</u>	<u>\$ 183,405</u>
Business-Type Activities:							
Capital Lease Payable	\$ 6,677	\$ -	\$ 5,946	\$ (731)	\$ -	\$ -	\$ -
Net Pension Liability	577,536	143,519	84,786		636,269		636,269
Total Business-Type Activities	<u>\$ 584,213</u>	<u>\$ 143,519</u>	<u>\$ 90,732</u>	<u>\$ (731)</u>	<u>\$ 636,269</u>	<u>\$ -</u>	<u>\$ 636,269</u>

NOTE 6 – CAPITAL LEASE PAYABLE

In November 2014, the District acquired a vehicle under a capital lease obligation. The capital lease obligation has been recorded in the accompanying financial statements at the present value of future minimum lease payments. The cost of the asset acquired under the lease totaled \$55,626 at a 4.423% interest to repaid in 60 monthly payments of \$756. As of June 30, 2020, the outstanding principal payable was \$0 as the lease was paid off during this fiscal year.

NOTE 7 – PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the District's separate Safety and Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 7 – PENSION PLANS (Continued)

A. General Information about the Pension Plans (Continued)

Benefits Provided

CalPERS 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 employment. Classic Plan members with five years of total service are eligible to retire at age 50 and new members/PEPRA Plan members with five years of total service are eligible to retire at age 52, with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Contribution rates are based on the Actuarial Valuation Report as of June 30, 2017. The Plans' provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Miscellaneous		Safety
	Classic Member Hired Prior to January 1, 2013*	New Member Hired On or after January 1, 2013	Classic Member Hired Prior to January 1, 2013*
Hire Date			
Benefit formula	2.0% @ 55	2% @ 62	2% @ 50
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-63	52-67	50-55
Monthly benefits, as a % of eligible compensation	1.46% to 2.418%	1.0% to 2.5%	2.0-2.7%
Required employee contribution rates	7.00%	6.50%	N/A
Required employer contribution rates	9.680% + \$38,869	6.985% + \$919	\$ 7,331

* A new employee may transfer into the Classic Member formula if he/she comes from another agency participating in the CalPERS or reciprocal retirement system and did not have more than a six month break in service.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. 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 District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$7,079 for the Safety Plan and \$94,138 for the Miscellaneous Plan for the fiscal year ended June 30, 2020.

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

At June 30, 2020, the District reported net pension liabilities for its proportionate shares of the net position liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 664,064
Safety	95,510
Total	<u>\$ 759,574</u>

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 7 – PENSION PLANS (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2019, the District's proportionate share of the net pension liability for each Plan as of June 30, 2018 and June 30, 2019 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion-June 30, 2018	0.01589%	0.00155%
Proportion-June 30, 2019	0.01658%	0.00153%
Change-Increase (Decrease)	<u>0.00069%</u>	<u>-0.00002%</u>

For the fiscal year ended June 30, 2020, the District recognized pension expense of \$169,819. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 52,358	\$ 3,574
Changes in assumptions	35,581	11,989
Net difference between projected and actual earnings on retirement plan investments		12,924
Adjustment due to differences in proportion	25,885	1,497
Changes in proportion and differences between District contributions and proportionate share of contributions		22,337
District contributions subsequent to the measurement date	101,217	
	<u>\$ 215,041</u>	<u>\$ 52,321</u>

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

\$101,217 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

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

<u>Fiscal year ending June 30</u>	<u>Amount</u>
2021	\$ 56,063
2022	(4,673)
2023	7,511
2024	2,602
	<u>\$ 61,503</u>

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 7 – PENSION PLANS (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous and Safety</u>
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return (1)	7.00%
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.50% thereafter

- (1) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of Sale MP 2016. For more details on this table please refer to the December 2017 experience study report.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on testing the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB No. 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2022. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2021-22 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short term (first 10 years) and the long term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits were calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table on the following page reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 7 – PENSION PLANS (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	<u>100.0%</u>		

(a) An expected inflation of 2.00% was used for this period.
(b) An expected inflation of 2.92% was used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rate

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15 percent) or 1 percentage point higher (8.15 percent) than the current rate:

	Discount Rate -1% 6.15%	Current Discount Rate 7.15%	Discount Rate +1% 8.15%
Net Pension Liability - Miscellaneous	\$ 1,045,770	\$ 664,064	\$ 348,991
Net Pension Liability - Safety	144,664	95,510	55,213
Net Pension Liability - Total	<u>\$ 1,190,434</u>	<u>\$ 759,574</u>	<u>\$ 404,204</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately-issued CalPERS financial reports.

C. Payable to the Pension Plan

At June 30, 2020, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2020.

NOTE 8 – JOINT VENTURES

State Water Project

In 1991, the District approved participation in the State Water Project (SWP). As a result, the District entered into two contracts with the San Luis Obispo County Flood Control and Water Conservation District (SLOFCD). One agreement is entitled "Water Supply Agreement" and the other is entitled "Water Treatment and Local Facilities Agreement."

The Water Supply Agreement is for the SWP source of supply, which is an allocation of 750 acre feet per year. The Water Supply Agreement incorporates by reference the SLOFCD agreement with the California Department of Water Resources (DWR), which is termed the "Master Water Supply Agreement." The District is obligated to pay its proportionate share of the cost of the SWP facilities owned by the California Department of Water Resources (DWR) that is used to convey the District's source of supply to the "Lopez Turnout," plus a proportionate share of the SLOFCD costs. The Lopez Turnout connects the SWP facilities to Lopez facilities enabling State Water deliveries to the District. The District's prorated share of operating, maintenance, pumping, and other related costs are charged as an operating expense in the Water Fund. The portion of the costs that is fixed in nature must be paid regardless of water deliveries. Variable costs are paid based on actual water deliveries.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 – JOINT VENTURES (Continued)

State Water Project (Continued)

The Water Treatment and Local Facilities agreement is for treatment of the SWP supply and for construction associated with the Lopez Turnout, a local facility. The Water Treatment and Local Facilities agreement incorporates by reference the SLOFCD agreement with the Central Coast Water Authority termed the "Master Water Treatment Agreement." The District is obligated to pay its proportionate share of treatment facilities owned and operated by CCWA, and for the cost of local facilities specifically benefitting the District – the Lopez Turnout. The portion of the costs that is fixed in nature must be paid regardless of water deliveries. Variable costs are paid based on actual water deliveries.

The District is required to make payments under its Water Supply agreement and its Water Treatment and Local Facilities agreement from the revenues of its water system. The District has agreed in its agreements to fix, prescribe and collect rates and charges for its water system which will be at least sufficient to yield each fiscal year's net revenues equal to 125% of the sum of (1) the payment required pursuant to the agreements, and (2) debt service on any existing participant obligation for which revenues are also pledged.

On October 1, 1992, CCWA sold \$177,120,000 in revenue bonds at a true interest cost of 6.64% to enable CCWA to finance a portion of the costs of constructing a water treatment plant to treat SWP water for use by various participating water purveyors and users within Santa Barbara and San Luis Obispo Counties, local facilities needed to deliver such water to the participating water purveyors and users, and certain other local improvements to the water systems of some of the participating purveyors. In November 1996, CCWA sold \$198,015,000 of revenue bonds at a true interest cost of 5.55% to defease CCWA's \$177,120,000 1992 revenue bonds and to pay certain costs of issuing the bonds. The 1996 bonds were issued in two series: Series A of \$173,015,000 and Series B of \$25,000,000. The Series B bonds are subject to mandatory redemption from amounts transferred from the Construction Fund and the Reserve Fund upon completion of the construction of the CCWA facilities.

The District's current fiscal year State water project expense totaled \$1,101,264. All of the District's disbursements were paid to the SLOFCD, which is obligated to pay to DWR and CCWA the District's proportionate share of costs to those agencies.

The District also contracts with SLOFCD for an annual allocation of 303 acre feet of water from the Lopez project, issued voter-approved general obligation bonds for the purpose of building Lopez Dam, a storage reservoir, water treatment plant, and other facilities to provide a primary municipal water supply. The District has entered into a water supply agreement wherein the District has agreed to pay annually, regardless of water deliveries, a prorated percentage of certain costs. In addition, the District also pays the San Luis Obispo County Flood Control and Water Conservation District a prorated share of operating, maintenance, pumping, and related operating costs which are charge as an operating expense in the Water Fund. The District's current fiscal year San Luis Obispo County Flood Control and Water Conservation District expense totaled \$462,693.

South San Luis Obispo County Sanitation District

The District does not own and operate a separate wastewater treatment plant facility. The Oceano Community Services District's waste is transported through District-owned and District-maintained lines for processing at the South San Luis Obispo County Sanitation District plant.

Five Cities Fire Authority

The District is a member of the Five Cities Fire Authority (FCFA), a joint powers authority between the Cities of Arroyo Grande, Grover Beach, and the Oceano Community Services District. FCFA was formed on July 9, 2010, for the purpose of providing a more efficient fire protection service within the City limits of Arroyo Grande and Grover Beach, as well as the towns of Oceano and Halcyon. Each member contributes its pro-rated share of operating costs to FCFA based on a funding formula calculated annually. In 2015, it was determined that adherence to the funding formula had not occurred in prior years. Any recalculation of prior year funding, and adjustments that may be made to remedy differences between actual funding and funding that would have adhered to the agreement establishing the joint powers authority is indeterminable at this time.

The FCFA governing board consists of one member appointed from each participating entity and shall be appointed as determined by the respective City Council or Board of Directors. All financial decisions are made by this three-member board. The District contributed \$1,138,148 to FCFA during the fiscal year ended June 30, 2020 for fire protections services. Separate financial statements may be obtained from the Five Cities Fire Authority at 140 Traffic Way in Arroyo Grande, California.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 – RISK MANAGEMENT AND CONTINGENCIES

Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the California Association of Mutual Water Companies Joint Powers Risk and Insurance Management Authority (JPRIMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for small California water agencies. The purpose of the JPRIMA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At June 30, 2020, the District participated in the liability and property programs of the JPRIMA as follows:

- General and auto liability: The District has a \$500 deductible for general and auto liability. The District purchased additional excess coverage layers: \$5 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.
- Employee dishonesty coverage and public officials' liability up to \$1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, computer fraud coverages.
- Property loss/Boiler and Machinery is paid based on the replacement cost or actual cash value for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis, to a combined total of \$4 million subject to a \$1,000 deductible per occurrence for most equipment.
- Workers' compensation insurance provides coverage with a self-insured retention limit of \$1 million for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2020, 2019 and 2018. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2020, 2019, and 2018.

Legal Contingency

In the opinion of management and legal counsel, the disposition of any pending litigation will not have an anticipated material effect on the City's financial statements as of June 30, 2020.

Construction Contingency

The District has no construction contingencies as of June 30, 2020.

NOTE 10 – SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the District is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity as of the date of issuance of these financial statements.

NOTE 11 – PRIOR-PERIOD ADJUSTMENTS

There is a prior-period adjustment to the Proprietary Funds Statement of Revenues, Expenses and Changes in Net Position of \$5,473 to the Water Fund, \$236 to the Sewer Fund, and \$47 to the Garbage Fund for a total of \$5,756 to account an over statement in the loan payable balance of \$756 and a \$5,000 Water Fund deposit that was canceled by San Luis Obispo County.

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REQUIRED SUPPLEMENTARY INFORMATION

OCEANO COMMUNITY SERVICES DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and assessments	\$ 1,049,181	\$ 1,049,181	\$ 1,081,219	\$ 32,038
Public facility fee	15,000	15,000	10,158	(4,842)
Interest income			35,413	35,413
Rental income	140,640	140,640	139,665	(975)
Other	5,455	5,455	4,620	(835)
Total revenues	<u>1,210,276</u>	<u>1,210,276</u>	<u>1,271,075</u>	<u>60,799</u>
Expenditures:				
Salaries, wages, and director stipends	483,190	483,190	469,609	13,581
Payroll taxes and employee benefits	207,471	207,471	181,824	25,647
Liability insurance	24,000	24,000	24,219	(219)
Repairs and maintenance	31,710	31,710	13,750	17,960
Administrative services	24,378	24,378	10,011	14,367
Data processing	14,420	14,420	13,749	671
Dues and fees	29,475	29,475	29,235	240
Education	7,210	7,210	3,386	3,824
Legal fees	89,650	89,650	88,808	842
Miscellaneous	515	515	3,012	(2,497)
Office expense	14,085	14,085	11,278	2,807
Street lighting	38,110	38,110	30,193	7,917
Professional fees	44,320	44,320	59,123	(14,803)
Utilities	27,285	27,285	25,321	1,964
Public safety	1,138,148	1,138,148	1,138,148	
Capital outlay		80,280	133,227	(52,947)
Interest expense			23,075	(23,075)
Total expenditures	<u>2,173,967</u>	<u>2,254,247</u>	<u>2,257,968</u>	<u>(3,721)</u>
Excess of revenues over (under) expenditures	<u>(963,691)</u>	<u>(1,043,971)</u>	<u>(986,893)</u>	<u>57,078</u>
Other Financing Sources (Uses)				
Transfers in	927,958	927,958	817,953	(110,005)
Transfers out	<u>(113,940)</u>	<u>(113,940)</u>		<u>113,940</u>
Total other financing sources (uses)	<u>814,018</u>	<u>814,018</u>	<u>817,953</u>	<u>3,935</u>
Net change in fund balance	(149,673)	(229,953)	(168,940)	61,013
Fund balance - July 1	<u>894,378</u>	<u>894,378</u>	<u>894,378</u>	
Fund balance - June 30	<u>\$ 744,705</u>	<u>\$ 664,425</u>	<u>\$ 725,438</u>	<u>\$ 61,013</u>

OCEANO COMMUNITY SERVICES DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 Last 10 Years*
 As of June 30, 2020

The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Proportion of the net pension liability	0.00741%	0.00715%	0.00704%	0.00692%	0.00649%
Proportionate share of the net pension liability	\$ 759,574	\$ 689,459	\$ 698,116	\$ 598,558	\$ 445,280
Covered payroll	\$ 577,089	\$ 573,557	\$ 544,352	\$ 437,408	\$ 453,904
Proportionate share of the net pension liability as a percentage of covered payroll	131.62%	120.21%	128.25%	136.84%	98.10%
Plan's total pension liability	\$41,426,453,489	\$38,944,855,364	\$37,161,348,332	\$33,358,627,624	\$31,771,217,402
Plan's fiduciary net position	\$31,179,414,067	\$29,308,589,559	\$27,244,095,376	\$24,705,532,291	\$24,907,305,871
Plan fiduciary net position as a percentage of the total pension liability	75.26%	75.26%	73.31%	74.06%	78.40%
	<u>2015</u>				
Proportion of the net pension liability	0.00676%				
Proportionate share of the net pension liability	\$ 420,438				
Covered payroll	\$ 312,044				
Proportionate share of the net pension liability as a percentage of covered payroll	134.74%				
Plan's total pension liability	\$30,829,966,631				
Plan's fiduciary net position	\$24,607,502,515				
Plan fiduciary net position as a percentage of the total pension liability	79.82%				

Notes to Schedule:

Changes in assumptions

In 2018, inflation was changed from 2.75 percent to 2.50 percent and individual salary increases and overall payroll growth was reduced from 3.00 percent to 2.75 percent.

In 2017, as part of the Asset Liability Management review cycle, the discount rate was changed from 7.65% to 7.15%.

In 2016, the discount rate was changed from 7.5% (net of administrative expense) to 7.65% to correct for an adjustment to exclude administrative expense.

In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

*- Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

OCEANO COMMUNITY SERVICES DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
 Last 10 Years*
 As of June 30, 2020

The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution (actuarially determined)	\$ 101,217	\$ 83,717	\$ 73,333	\$ 65,457	\$ 52,723
Contribution in relation to the actuarially determined contributions	(101,217)	(83,717)	(73,333)	(65,457)	(52,723)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 643,779	\$ 577,089	\$ 573,557	\$ 544,352	\$ 437,408
Contributions as a percentage of covered-employee payroll	15.72%	14.51%	12.79%	12.02%	12.05%
	<u>2015</u>				
Contractually required contribution (actuarially determined)	<u>\$ 49,702</u>				
Contribution in relation to the actuarially determined contributions	(49,702)				
Contribution deficiency (excess)	<u>\$ -</u>				
Covered-employee payroll	\$ 453,904				
Contributions as a percentage of covered-employee payroll	10.95%				

Notes to Schedule

Valuation Date: 6/30/2017

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2019/2020 were derived from the June 30, 2017 funding valuation report.

Actuarial Cost Method Entry Age Normal

Amortization Method/Period For details, see June 30, 2017 funding valuation report.

Inflation 2.63%

Salary Increases Varies by entry age and service

Payroll Growth 3.00%

Investment Rate of Return 7.0% net of pension plan investment and administrative expenses; includes inflation.

Retirement Age The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.

Mortality The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

Valuation Date: 6/30/2017 6/30/2016 6/30/2015

Discount Rate: 7.150% 7.375% 7.650%

*- Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.



Moss, Levy & Hartzheim LLP

Certified Public Accountants

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
Oceano Community Services District
Oceano, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Oceano Community Services District, as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Oceano Community Services District's basic financial statements and have issued our report thereon dated January 21, 2022.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of the District, 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 opinions 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oceano Community Services 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Levy & Hartzheim LLP

Santa Maria, California
January 21, 2022



January 21, 2022

To the Board of Directors of the
Oceano Community Services District

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Oceano Community Services District for the fiscal year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 13, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Oceano Community Services District are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of capital assets is based on experience with other capital assets and on their standard table of useful lives. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for bad debt is based on their past experience with the Management's estimate of the net pension liability and deferred inflows and outflows related to pension are based on the CalPERS actuary's expertise experience. We evaluated the key factors and assumptions used to develop the net pension liability and deferred inflows and outflows related to pension in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the Pension Plans in Note 7.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of

audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 21, 2022.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of the Oceano Community Services District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Moss, Levy & Hutzgretter LLP

Santa Maria, California

OCEANO COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2021

**OCEANO COMMUNITY SERVICES DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Directors of Oceano Community Services District
Oceano, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Oceano Community Services District (the District), as of and for the fiscal year ended June 30, 2021, 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Oceano Community Services District, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, the budgetary comparison information on page 41, the schedule of proportionate share of net pension liability on page 42, and the schedule of pension contributions on page 43 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 of the basis 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 our report dated January 21, 2022, on our consideration of the Oceano Community Services 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 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.

Moss, Levy & Hartshorn LLP

Santa Maria, California
January 21, 2022

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2021

The management of the Oceano Community Services District (District) has prepared the following narrative for the readers of the District's financial statements to provide an overview and analysis of the District for the year ending June 30, 2021. The District encourages readers to consider the information together with the District's financial statements following this section.

The District is an independent special district serving a population of approximately 7,200. The District is governed by a five (5) member Board of Directors elected by voters within the District's boundaries; all Board members must reside within the District's boundaries. The District is governed by California Government Code Sections 61000 et al, as well as other specific statutes and regulations that govern its operations.

The District provides both governmental-type activities and enterprise activities. Governmental activities include emergency and fire services, street lighting, and recreation. Enterprise activities include water service, wastewater collection service, and garbage and recycling services.

District Services and Related Agencies

As a special District, the District's powers are authorized by the San Luis Obispo County Local Agency Formation Commission (LAFCO). Any proposed additions to the District services, modification of District boundaries, or services outside of the District boundaries must be approved in advance by LAFCO.

The following provides a brief overview of each of the District's services:

Emergency Medical and Fire Protection Services

The District provides emergency medical and fire protection services through the Five Cities Fire Authority (FCFA). The FCFA was created as a "joint exercise of powers authority" (JPA) through an agreement originally approved in 2010 and amended on May 23, 2018, June 12, 2019, and most recently on June 24, 2020 between the cities of Arroyo Grande and Grover Beach, and the District. One member of the OCSD Board of Directors is appointed to serve the District on the FCFA Board of Directors and a second member of the OCSD Board is an alternate member on the FCFA Board. Since the District does not control the operations of FCFA, the financial statements and audit of the FCFA are separate from the District.

The District pays a portion of the annual costs of FCFA services based on funding formula established in the FCFA agreement, which was modified in the June 12, 2019 amendment. That amendment also required the District to call for a special tax election on the March 2020 ballot for voters to consider approving additional funding so that the District could continue to participate as a member of the FCFA. On March 3, 2020 Measure A-20 received 66.14% support, which was 11 votes short of passage. The third amendment to the FCFA JPA was approved on June 24, 2020 which extends the agreement for an additional two years and will provide the community another opportunity to consider additional funding via a June 2022 ballot measure.

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2021

The JPA amendments were needed for several reasons, including a multi-year implementation of the FCFA “Strategic Plan.” The “Strategic Plan” includes increased staffing and services levels greater than those provided in the existing JPA. The amendments include specific approval of each members annual costs during the implementation period and requires either a citizen initiative or District initiated special tax measure to be placed on the 2022 primary ballot. The increase in District costs during the implementation period is being funded from reserves to the extent that the costs exceed property tax revenues received by OCSD.

On a related effort, the County of San Luis Obispo Board of Supervisors prepared a report on independent fire departments serving unincorporated communities throughout the County and significant constraints in generating the needed revenues to fund full-time fire departments. Alternatives of a stand-alone fire department and/or service from the County/ Cal Fire are also possible options to review and consider.

Lighting Services

The District provides street lighting services in certain areas of the community. The County of San Luis Obispo and the California Department of Transportation also provide some street lighting.

Parks and Recreation Services

The District is authorized to provide parks and recreation services, however, currently has no programs at this time other than those implemented by Lucia Mar Unified School District (LMUSD). The District holds a lease with LMUSD for the Oceano Community Center and as part of the lease requirements LMUSD utilizes the community center for recreation programs. There is a section in the lease where the District may also utilize the community center. Currently the District offers individuals the opportunity to utilize the Oceano Community Center for up to 10 hours per month and 120 hours per year with discounted fees.

Water Services

The District provides water service to approximately 2,200 connections. An annual Consumer Confidence Report (CCR) is mailed to all water customers providing a summary of the District’s water quality including a comparison to regulatory requirements. The California State Division of Drinking Water regulates the District’s water supplies and the CCR can be found on the District website or by calling the District office.

The District’s water supplies include groundwater, Lopez water and State water. Regulation of the District’s groundwater supply is also subject to the stipulations and judgment adopted for the adjudication of the Santa Maria groundwater basin. Lopez and State water supplies are provided by the County of San Luis Obispo under terms of water supply contracts. The District’s water supply reliability is relatively high, and the District had been increasing water in storage during the recent drought. Nevertheless, the need to address water supply reliability continues and contract amendments for the State Water Project are being developed by the

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2021

State Department of Water Resources and, separately, contract amendments for the Lopez Lake water supply are being considered by local agencies to establish water storage rights and enhance multi-year water resource planning.

A water rate increase was approved by the Board on October 14, 2020. The rate increase provided funding for ongoing operations, capital improvement projects, and minimum reserves. The rate increase will be phased in over five years.

Wastewater Collection Services

The District provides wastewater collection services through a network of neighborhood pipelines that flow into pipelines and facilities owned by the South San Luis Obispo County Sanitation District (SSLOCSD), which is responsible for treatment and disposal. The SSLOCSD customers include the customers of the District as well as those of the cities of Arroyo Grande and Grover Beach. Since the District does not control the operations of SSLOCSD, the financial statements and audit of the SSLOCSD are separate from the District. District operations are regulated by the Central Coast Regional Water Quality Control Board.

Solid Waste and Recycling Services

The District provides mandatory solid waste and recycling services through a franchise agreement with South County Sanitary Services Incorporated (SCSS Inc.), which is a subsidiary of Waste Connections Incorporated, a publicly traded corporation "WCN" on the New York Stock Exchange. In 2020 the Board adopted a resolution to reduce the franchise fee payment from SCSS from 10% to 5% to reduce the customers utility bills. The District enforces illegal dumping within the community and other violations. The District has also adopted incentive programs designed to promote a cleaner community. Since the District does not control operations of SCSS or WCN, the financial statements and audits of those entities are separate from the District.

Overview of the Financial Statements

This annual report contains the following five parts.

- Management Discussion and Analysis (this section)
- The Basic Financial Statements
- Notes to the Financial Statements
- Supplementary Information - a comparison of the District's budgets to actual results
- Supplementary Information on Pension Disclosures

This management discussion and analysis is intended to provide an overview of the most relevant information affecting the District's financial affairs for the year and the District's end of the year status. The basic financial statements provide information on the governmental and enterprise activities including operating and non-operating revenues and expenditures, current assets, non-current assets, capital assets, deferred outflows of resources, current and long-term liabilities, and deferred inflows of resources.

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2021

The notes to the financial statements provide additional detailed information and explanations on the financial statements. The budget to actual comparison illustrates differences between the board adopted budget and actual revenues, expenditures, and changes in fund balance in the General fund. The current year reflects a positive budget variance of \$193,689 for the Governmental Fund. Of this amount, \$ 96,317 was utilized to repay a portion of an interfund loan owed by the Governmental Fund to the Sewer Fund.

Financial Statement Analysis and Highlights

The District's Statements of Net Position is illustrated below for the Governmental and Business-type Activities, and subsequently, for each of the Enterprise Funds.

Statements of Net Position as of June 30, 2021 and 2020				
	Governmental Activities		Business-type Activities	
	2021	2020	2021	2020
Current and Other Assets	\$ 815,053	\$ 781,114	\$ 3,074,131	\$ 2,653,834
Capital Assets, net	1,732,123	1,813,033	2,626,346	2,822,935
Total Assets	2,547,176	2,594,147	5,700,477	5,476,769
Deferred Outflow of Resources	218,945	19,113	838,249	195,928
Current Liabilities	79,070	55,676	335,451	146,369
Non-current Liabilities	269,643	203,438	1,515,177	636,269
Total Liabilities	348,713	259,114	1,850,628	782,638
Deferred Inflow of Resources	5,359	9,168	20,516	43,153
Net Investment in Capital Assets	1,732,123	1,813,033	2,626,346	2,822,935
Restricted	274,079	266,210	41,091	40,589
Unrestricted	405,847	265,735	2,000,145	1,983,382
Net Position	<u>\$ 2,412,049</u>	<u>\$ 2,344,978</u>	<u>\$ 4,667,582</u>	<u>\$ 4,846,906</u>

The Net Position of the District's Governmental Activities changed in the year ending June 30, 2021 as a result of an operating income of \$67,071.

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2021

The Net Position of the Business-type Activities remained consistent with the previous year.

Statements of Net Position as of June 30, 2021 and 2020						
	Water Fund		Wastewater Fund		Garbage Fund	
	2021	2020	2021	2020	2021	2020
Current and Other Assets	\$ 1,922,336	\$ 1,373,289	\$ 1,247,037	\$ 1,332,002	\$ 326,463	\$ 361,052
Capital Assets, net	1,470,395	1,598,443	1,154,532	1,238,206	1,419	2,523
Total Assets	3,392,731	2,971,732	2,401,569	2,570,208	327,882	363,575
Deferred Outflow of Resources	509,462	106,591	288,614	78,259	40,173	11,078
Current Liabilities	360,184	194,607	18,888	3,865	42,556	3,560
Non-current Liabilities	1,306,898	727,812	512,254	252,274	31,553	29,266
Total Liabilities	1,667,082	922,419	531,142	256,139	74,109	32,826
Deferred Inflow of Resources	12,469	20,916	7,064	13,503	983	8,734
Net investment in Capital Assets	1,470,395	1,582,206	1,154,532	1,238,206	1,419	2,523
Restricted	41,091	40,589	- 0 -	- 0 -	- 0 -	- 0 -
Unrestricted	711,156	512,193	997,445	1,140,619	291,544	330,570
Net Position	<u>\$ 2,222,642</u>	<u>\$ 2,134,988</u>	<u>\$ 2,151,977</u>	<u>\$ 2,378,825</u>	<u>\$ 292,963</u>	<u>\$ 333,093</u>

Following the District's Statements of Net Position is the Statement of Activities.

Statement of Activities for the years ending June 30, 2021 and 2020				
	Governmental Activities		Business-type Activities	
	2021	2020	2021	2020
Operating Revenues	\$ 20,528	\$ 10,158	\$ 3,370,805	\$ 3,091,774
Operating Expenditures:				
Administrative Expenditures	(1,023,846)	(1,008,591)		
Fire Protection	(1,155,189)	(1,166,081)		
Street Lighting	(35,434)	(31,476)		
Enterprise Funds			(2,611,027)	(2,636,979)
Net Operating Income / (Loss)	(2,193,941)	(2,195,990)	759,529	454,795
Ad Valorem Taxes	1,132,291	1,081,219	- 0 -	- 0 -
Other Non-operating Income	165,930	179,698	23,938	48,234
Transfers	962,791	817,953	(962,791)	(817,953)
Total Non-Operating Income	2,261,012	2,078,870	(938,853)	(769,719)
Change in Net Position	<u>\$ 67,071</u>	<u>\$ (117,120)</u>	<u>\$ (179,324)</u>	<u>\$ (314,924)</u>

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2021

In summary, the Governmental Activities went from a Net Deficit of \$117,120 to a Net Income of \$67,071 in 2021. The increase in net position is from the \$133,227 decrease in capital outlay since the Emergency Generator Project was completed in 2020.

The Business-type Activities went from a Net Loss for the prior fiscal year of \$314,924 to a Net Loss of \$179,324. The Enterprise Funds are broken out by fund in the table below.

Statements Revenues, Expenses, and Changes in Net Position as of June 30, 2021 and 2020						
	Water Fund		Wastewater Fund		Garbage Fund	
	2021	2020	2021	2020	2021	2020
Operating Revenues	\$ 2,739,317	\$ 2,473,798	\$ 401,678	\$ 400,445	\$ 61,222	\$ 85,384
Operating Expenditures	(2,351,034)	(2,343,386)	(221,394)	(236,745)	(38,599)	(55,791)
Net Operating Income / (Loss)	388,283	130,412	180,284	163,700	22,623	23,519
Other non-operating income	174,267	154,494	18,259	25,887	- 0 -	- 0 -
Non-operating Expenditures	(249)	(1,010)	- 0 -	(39)	- 0 -	(8)
Net Non-Operating Income	174,267	153,484	18,259	25,848	- 0 -	(8)
Transfers	(474,647)	\$ (402,848)	\$ (425,391)	\$ (361,993)	\$ (62,753)	\$ (53,112)
Net Income / (Loss)	\$ 87,654	\$ (118,952)	\$ (226,848)	\$ (172,445)	\$ (40,130)	\$ (23,527)

The increase in the net income of \$87,903 in the Water Fund reflects the rate increase to the water revenues that went into place October 2020. The new rate structure has established financial stability and funds for long-term capital improvement plans and minimum reserves.

The Wastewater Fund continues to incur a Net Loss because the revenues are not increased annually. The wastewater fund receives approximately \$90,000 from the General Fund loan repayment to help cover the cost of the deficit which will end June 30, 2023. A Proposition 218 rate increase process will then be needed to close the structural deficit.

The Garbage Fund's Net Deficit increased from the prior year because in 2020 the Board adopted a resolution to reduce the franchise fee payment from SCSS from 10% to 5% to reduce the costs to customers and draw down reserves in the Garbage Fund. The District continues to move forward on the Solid Waste Programs adopted by the Board on February 8, 2017. These programs include policies to address illegal dumping, unsanitary conditions, and related solid waste problems in the District.

Capital Assets

The District owns the community fire station, administrative offices, Sheriff's substation, the Oceano Depot, the Oceano Community Center, the former fire station and some undeveloped land. The community fire station is provided to FCFA for their use for \$15,000 per year. The Sheriff substation is leased to the County of San Luis Obispo for \$113,400 per year. The Oceano Depot and Community Center are leased to a non-governmental agency, and the

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2021

Lucia Mar Unified School District at \$1 per year each based on the multi-party agreements developed for those properties in conjunction with grants that funded the development of the community center and the preservation of the historic Oceano train depot.

The water and wastewater infrastructure of the District ranges drastically in age. Many of the water and wastewater system pipelines were originally constructed in the 1950's. The District completed water and wastewater system master plans in 2009 but revenue shortfalls have deferred infrastructure replacement projects. The District completed an updated water system capital improvement program for infrastructure replacement, which was substantially funded with grants approved by the State of California. The 2020 water rates include funds for long-term capital improvement plans starting with \$75,000 in 2022 and \$150,000 each year thereafter.

Debt Activities

On June 1, 2021 the District entered into a financing agreement with First Foundation Bank after issuing a "Request for Proposals" (RFP) to purchase the District's outstanding California Public Employees' Retirement System (CalPERS) Unfunded Accrued Liability (UAL) or the "CalPERS UAL Repayment Project." The District holds a contract with CalPERS and is required to make contributions to fund pension benefits for miscellaneous employees, safety employees and amortize a portion of the UAL. The total UAL as of June 30, 2021 for the District's miscellaneous plan and safety plan was \$822,745. The Board adopted Resolution 2021-02 to proceed with refinancing the UAL balances under these plans to bring the funding status of these plans to 100% funded and to enhance budget predictability by "smoothing" out the UAL payment structure over the next 15 years and to provide cash flow savings to the District. The District received two bids and locked in an interest rate of 3.46%. By lowering the interest rate this will result in a total cash flow savings of \$328,600 through June 30, 2035. The finance agreement pledged the revenues of the Water and Wastewater Funds. An interfund agreement was also established from the General (17.5%) and Garbage (3.5%) Funds to pay back the Water and Wastewater Funds for the payment of the UAL obligation. The principal and interest payments to First Foundation Bank will range between \$68,000 and \$83,000 until August 1, 2035.

Internal debt, or borrowing between District funds, is more significant. Note #3 to the Financial Statements illustrates interfund liabilities. During the year ending June 30, 2021, the District recorded the interfund transfers on the following page to adhere to resolutions adopted April 26, 2017 to ensure repayment of interfund liabilities.

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2021

Interfund (Due to) / Due From	Beginning Balances – July 1, 2020	Interfund Transfers Out	Interfund Transfers In	Ending Balances – June 30, 2021
General Fund Due to Sewer Fund	\$ (293,709)	\$ 96,317	\$ - 0 -	\$ (197,392)
General Fund Due from Water Fund	398,081	- 0 -	23,538	374,543
Net General Fund Due to Other Funds	104,372	96,317	23,538	177,151
Water Fund Due to the General Fund	(398,081)	23,538	- 0 -	(374,543)
Water Fund Due to Garbage Fund	(30,662)	6,886	- 0 -	(23,776)
Sewer Fund Due from General Fund	293,709	- 0 -	96,317	197,392
Garbage Fund Due from Water Fund	30,662	- 0 -	6,886	23,776
Totals	\$ - 0 -	\$ 126,741	\$ 126,741	\$ - 0 -

Budget and Rates

The District's budget for the year ending June 30, 2021 reflects the water system rate increase that was approved by the Board of Directors in October 2020, as adjusted based on increases in the consumer price index and wholesale water costs. The annual increases are prescribed in Ordinance 2020-01, and in accordance with California Government Code section 53756. The following illustrates the Water Fund change in net position before and after the rate increase:

Fiscal Year	Surplus/ (Deficit)
2014/15	\$ (182,216)
2015/16	93,228
2016/17	186,858
2017/18	22,518
2018/19	(187,930)
2019/20	(118,952)
2020/21	87,654

With the approval of the 2020 rate increase, the District established fiscal stability and funds for capital improvement projects and minimum reserves. The increase began in November 2020 and will be phased in over five years. The District has secured approximately \$275,000 in grants from state agencies for the water system and related needs.

Oceano Community Services District
 Management Discussion and Analysis
 For the fiscal year ended June 30, 2021

No rate changes affected the wastewater fund for the fiscal year ending June 30, 2021. The following shows the running deficit of the Sewer Fund:

Fiscal Year	Surplus/ (Deficit)
2014/15	\$ (16,927)
2015/16	(54,103)
2016/17	(104,305)
2017/18	(153,944)
2018/19	(165,453)
2019/20	(172,445)
2020/21	(226,848)

The operating shortfall for the sewer fund needs to be addressed in the future. The last four budgets included modifications to the District's indirect charges to the sewer fund that reduced those costs while increasing indirect cost allocations to the water fund, which reflect a greater share of the District's overall enterprise activities. In addition, addressing deferred infrastructure needs of the sewer fund will also become a higher priority, which may also require sewer fund rate increases in the near future.

An increase of 10.06% in garbage rates for the SCSS Inc. were approved on June 26, 2019, and inflationary adjustment of 1.7% went into effect on January 1, 2020 and January 1, 2021. On January 22, 2020, the Board approved a decrease to the franchise fee from 10% to 5% to reduce customers garbage bills.

Future Outlook

Overall, the District's financial outlook has maintained a relatively stable short-term position during the year ending June 30, 2021. The primary enterprise fund challenges relate to deferred infrastructure repairs and replacement in the water and wastewater systems. Currently, the District is evaluating deferred infrastructure needs and is utilizing grants obtained from the State of California for much of this effort. Identifying costs and rate impacts to fund the deferred infrastructure were completed in 2020 and the new water rates set aside funds for long-term capital projects. The future of the fire department's operation will also be a significant District effort in the future.

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OCEANO COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
June 30, 2021

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 482,906	\$ 2,484,314	\$ 2,967,220
Restricted cash and investments	270,339		270,339
Accounts receivable, net	9,265	480,162	489,427
Prepaid items	41,671	78,865	120,536
Deposits		16,593	16,593
Inventory		25,069	25,069
Internal balances	10,872	(10,872)	
Capital assets:			
Non Depreciable:			
Land	610,390	6,000	616,390
Depreciable:			
Buildings and improvements	2,088,370	7,577,290	9,665,660
Equipment, vehicles and machinery	435,679	877,554	1,313,233
Software		195,918	195,918
Accumulated depreciation	(1,402,316)	(6,030,416)	(7,432,732)
Total assets	<u>2,547,176</u>	<u>5,700,477</u>	<u>8,247,653</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred pensions	218,945	838,249	1,057,194
Total deferred outflow of resources	<u>218,945</u>	<u>838,249</u>	<u>1,057,194</u>
LIABILITIES			
Accounts payable	17,922	18,468	36,390
Accrued wages and benefits	16,093	6,767	22,860
Deposits	3,000	205,882	208,882
Unearned revenue	9,495	55,134	64,629
Noncurrent liabilities:			
Due within one year	32,560	49,200	81,760
Due in more than one year	269,643	1,515,177	1,784,820
Total liabilities	<u>348,713</u>	<u>1,850,628</u>	<u>2,199,341</u>
DEFERRED INFLOW OF RESOURCES			
Deferred pensions	5,359	20,516	25,875
Total deferred inflow of resources	<u>5,359</u>	<u>20,516</u>	<u>25,875</u>
NET POSITION			
Net investment in capital assets	1,732,123	2,626,346	4,358,469
Restricted for:			
Capital facilities	274,079		274,079
Water joint venture agreement		41,091	41,091
Unrestricted	405,847	2,000,145	2,405,992
Total net position	<u>\$ 2,412,049</u>	<u>\$ 4,667,582</u>	<u>\$ 7,079,631</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2021

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
Administration	\$ 1,023,846	\$ -	\$ -	\$ 20,528
Fire protection	1,155,189			
Street lighting	35,434			
Total governmental activities	2,214,469			20,528
Business-type activities:				
Water	2,351,283	2,667,047	240,858	
Sewer	221,394	394,413	7,265	
Garbage	38,599		61,222	
Total business-type activities	2,611,276	3,061,460	309,345	
Total governmental	\$ 4,825,745	\$ 3,061,460	\$ 309,345	\$ 20,528

General Revenues and Transfers:

Taxes:

Property

Use of money and property

Other general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning of fiscal year

Net position - end of fiscal year

The notes to basic financial statements are an integral part of this statement.

Net (Expenses) Revenue and Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (1,003,318)	\$ -	\$ (1,003,318)
(1,155,189)		(1,155,189)
(35,434)		(35,434)
<u>(2,193,941)</u>		<u>(2,193,941)</u>
	556,622	556,622
	180,284	180,284
	22,623	22,623
	<u>759,529</u>	<u>759,529</u>
(2,193,941)	759,529	(1,434,412)
1,132,291		1,132,291
155,674	18,126	173,800
10,256	5,812	16,068
962,791	(962,791)	
<u>2,261,012</u>	<u>(938,853)</u>	<u>1,322,159</u>
67,071	(179,324)	(112,253)
<u>2,344,978</u>	<u>4,846,906</u>	<u>7,191,884</u>
<u>\$ 2,412,049</u>	<u>\$ 4,667,582</u>	<u>\$ 7,079,631</u>

OCEANO COMMUNITY SERVICES DISTRICT
GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2021

	General Fund
	<hr/>
ASSETS	
Cash and investments	\$ 482,906
Restricted cash and investments	270,339
Accounts receivable	9,265
Prepaid items	41,671
Advances receivable	366,814
	<hr/>
Total assets	<u>\$ 1,170,995</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 17,922
Accrued payroll and benefits	16,093
Deposits	3,000
Unearned revenue	9,495
Due to other funds	355,942
	<hr/>
Total liabilities	<u>402,452</u>
Fund Balance:	
Nonspendable:	
Prepaid items	41,671
Advances receivable	366,814
Restricted:	
Capital facilities	274,079
Assigned:	
Infrastructure replacement	85,979
	<hr/>
Total fund balance	<u>768,543</u>
Total liabilities and fund balance	<u>\$ 1,170,995</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND - BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2021

Total fund balance - governmental fund	\$	768,543
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In the governmental fund, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	\$	3,134,439	
Accumulated depreciation		<u>(1,402,316)</u>	
Net			1,732,123

Long-term liabilities: In the governmental fund, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Compensated absences payable	\$	130,240	
Net pension liability		<u>171,963</u>	
Total			(302,203)

In the governmental fund, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows of \$218,945 and inflows of resources of \$(5,359) relating to pensions are reported.

		<u>213,586</u>	
Total net position - governmental activities	\$		<u><u>2,412,049</u></u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2021

	<u>General Fund</u>
Revenues:	
Taxes and assessments	\$ 1,132,291
Public facility fee	20,528
Interest income	14,959
Rental income	140,715
Other	<u>10,256</u>
 Total revenues	 <u>1,318,749</u>
Expenditures:	
Salaries, wages and directors' stipends	423,821
Payroll taxes and employee benefits	374,473
Liability insurance	26,576
Repairs and maintenance	20,451
Administrative services	27,772
Data processing	17,987
Dues and fees	21,633
Education	2,938
Legal fees	53,072
Miscellaneous	(888)
Office expense	5,814
Street lighting	33,292
Professional fees	51,721
Utilities	24,002
Public safety	1,138,148
Interest expense	<u>17,623</u>
 Total expenditures	 <u>2,238,435</u>
 Excess of revenues over (under) expenditures	 <u>(919,686)</u>
Other Financing Sources (Uses):	
Transfers in	<u>962,791</u>
 Total other financing sources (uses)	 <u>962,791</u>
 Net change in fund balance	 43,105
 Fund balance - July 1	 <u>725,438</u>
 Fund balance - June 30	 <u><u>\$ 768,543</u></u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2021

Total net change in fund balance - governmental fund	\$	43,105
<p>Capital outlays are reported in the governmental fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$0 are less than depreciation expense \$(80,910) in the period.</p>		
		(80,910)
<p>In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In the governmental fund, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, vacation earned exceeded the amounts used by \$50,107.</p>		
		(50,107)
<p>In the governmental fund, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:</p>		
		<u>154,983</u>
Changes in net position - governmental activities	\$	<u><u>67,071</u></u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
June 30, 2021

	Water Fund	Sewer Fund	Garbage Fund	Totals
ASSETS				
Current assets:				
Cash and investments	\$ 1,259,558	\$ 924,301	\$ 300,455	\$ 2,484,314
Accounts receivable, net	417,546	60,014	2,602	480,162
Prepaid expenses	78,640		225	78,865
Inventory	23,153	1,916		25,069
Due from other funds	126,846	260,806	23,181	410,833
Total current assets	<u>1,905,743</u>	<u>1,247,037</u>	<u>326,463</u>	<u>3,479,243</u>
Noncurrent assets:				
Joint venture deposits	16,593			16,593
Non depreciable capital assets:				
Land	6,000			6,000
Construction in progress				
Depreciable capital assets:				
Buildings and improvements	4,815,243	2,762,047		7,577,290
Equipment, vehicles and machinery	561,916	294,662	20,976	877,554
Software	156,734	39,184		195,918
Accumulated depreciation	(4,069,498)	(1,941,361)	(19,557)	(6,030,416)
Total noncurrent assets	<u>1,486,988</u>	<u>1,154,532</u>	<u>1,419</u>	<u>2,642,939</u>
Total assets	<u>3,392,731</u>	<u>2,401,569</u>	<u>327,882</u>	<u>6,122,182</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pensions	509,462	288,614	40,173	838,249
Total deferred outflows of resources	<u>509,462</u>	<u>288,614</u>	<u>40,173</u>	<u>838,249</u>
LIABILITIES				
Current liabilities:				
Accounts payable	17,766	201	501	18,468
Accrued wages and benefits	4,658	1,764	345	6,767
Customer deposits	205,882			205,882
Unearned revenue	44,609	525	10,000	55,134
Due to other funds	23,181		31,710	54,891
Advances payable-current portion	31,286			31,286
Taxable revenue bond obligation - current portion	32,802	16,398		49,200
Total current liabilities	<u>360,184</u>	<u>18,888</u>	<u>42,556</u>	<u>421,628</u>
Noncurrent liabilities:				
Advances payable - non-current portion	335,528			335,528
Taxable revenue bond obligation - non-current portion	571,229	285,571		856,800
Net pension liability	400,141	226,683	31,553	658,377
Total noncurrent liabilities	<u>1,306,898</u>	<u>512,254</u>	<u>31,553</u>	<u>1,850,705</u>
Total liabilities	<u>1,667,082</u>	<u>531,142</u>	<u>74,109</u>	<u>2,272,333</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred pensions	12,469	7,064	983	20,516
Total deferred inflows of resources	<u>12,469</u>	<u>7,064</u>	<u>983</u>	<u>20,516</u>
NET POSITION				
Net investment in capital assets	1,470,395	1,154,532	1,419	2,626,346
Restricted	41,091			41,091
Unrestricted	711,156	997,445	291,544	2,000,145
Total net position	<u>\$ 2,222,642</u>	<u>\$ 2,151,977</u>	<u>\$ 292,963</u>	<u>\$ 4,667,582</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2021

	Water Fund	Sewer Fund	Garbage Fund	Totals
Operating Revenues:				
Charges for services	\$ 2,667,047	\$ 394,413	\$ -	\$ 3,061,460
Other fees	72,270	7,265	61,222	140,757
Total operating revenues	<u>2,739,317</u>	<u>401,678</u>	<u>61,222</u>	<u>3,202,217</u>
Operating Expenses:				
Salaries and wages	303,913	52,397	6,435	362,745
Payroll taxes and employee benefits	108,822	41,784	16,906	167,512
Repairs and maintenance	201,711	10,492	633	212,836
Legal and professional	115,299	7,834	3,385	126,518
Dues and fees	8,741	4,449		13,190
Education	449		9,500	9,949
Water meters	21,537			21,537
Wheeled water expense	23,169			23,169
Office expense	35	24		59
Supplies	13,982	2,664	16	16,662
Utilities	12,538	1,577	620	14,735
Water supply expense	1,413,445			1,413,445
Depreciation	127,393	100,173	1,104	228,670
Total operating expenses	<u>2,351,034</u>	<u>221,394</u>	<u>38,599</u>	<u>2,611,027</u>
Operating income (loss)	<u>388,283</u>	<u>180,284</u>	<u>22,623</u>	<u>591,190</u>
Non-Operating Revenues (Expenses):				
Grant income	168,588			168,588
Interest income	503	17,623		18,126
Interest expense	(249)			(249)
Other non-operating revenue	5,176	636		5,812
Total non-operating revenues (expenses)	<u>174,018</u>	<u>18,259</u>		<u>192,277</u>
Income before transfers	<u>562,301</u>	<u>198,543</u>	<u>22,623</u>	<u>783,467</u>
Transfers:				
Transfers in	1,458		728	2,186
Transfers (out)	(476,105)	(425,391)	(63,481)	(964,977)
Total transfers	<u>(474,647)</u>	<u>(425,391)</u>	<u>(62,753)</u>	<u>(962,791)</u>
Change in net position	87,654	(226,848)	(40,130)	(179,324)
Net position - July 1	<u>2,134,988</u>	<u>2,378,825</u>	<u>333,093</u>	<u>4,846,906</u>
Net position - June 30	<u>\$ 2,222,642</u>	<u>\$ 2,151,977</u>	<u>\$ 292,963</u>	<u>\$ 4,667,582</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2021

	Water Fund	Sewer Fund	Garbage Fund	Totals
Cash Flows From Operating Activities:				
Receipts from customers	\$ 2,838,393	\$ 397,245	\$ 66,014	\$ 3,301,652
Payments to suppliers	(1,817,726)	(28,251)	(17,044)	(1,863,021)
Payments to employees	(777,179)	(335,642)	(57,724)	(1,170,545)
Net cash provided (used) by operating activities	<u>243,488</u>	<u>33,352</u>	<u>(8,754)</u>	<u>268,086</u>
Cash Flows From Capital and Related Financing Activities:				
Refund on capital purchase	9,619			9,619
Acquisition of capital assets	(25,200)	(16,500)		(41,700)
Net cash used by capital and related financing activities	<u>(15,581)</u>	<u>(16,500)</u>		<u>(32,081)</u>
Cash Flows from Noncapital Financing Activities:				
Grants received	213,197		10,000	223,197
Transfers from (to) other funds	(640,244)	(392,487)	(23,561)	(1,056,292)
Interfund interest paid	(249)			(249)
Proceeds from issuance of taxable revenue bond obligation	604,031	301,969		906,000
Other revenue	5,176	636		5,812
Net cash provided (used) by noncapital financing activities	<u>181,911</u>	<u>(89,882)</u>	<u>(13,561)</u>	<u>78,468</u>
Cash Flows From Investing Activities:				
Interest income	502	17,624		18,126
Net cash provided by investing activities	<u>502</u>	<u>17,624</u>		<u>18,126</u>
Net increase (decrease) in cash and cash equivalents	410,320	(55,406)	(22,315)	332,599
Cash and cash equivalents - July 1	849,238	979,707	322,770	2,151,715
Cash and cash equivalents - June 30	<u>\$ 1,259,558</u>	<u>\$ 924,301</u>	<u>\$ 300,455</u>	<u>\$ 2,484,314</u>
Reconciliation to Statement of Net Position:				
Cash and investments	<u>\$ 1,259,558</u>	<u>\$ 924,301</u>	<u>\$ 300,455</u>	<u>\$ 2,484,314</u>

(Continued)

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2021

	Water Fund	Sewer Fund	Garbage Fund	Totals
Reconciliation of operating income to				
net cash provided (used) by operating				
activities:				
Operating income	\$ 388,283	\$ 180,284	\$ 22,623	\$ 591,190
Adjustments to reconcile operating income to				
net cash provided (used) by operating activities				
Depreciation expense	127,393	100,173	1,104	228,670
Change in assets, liabilities, deferred inflows of resources,				
and deferred outflows of resources:				
Receivables, net	(9,754)	(3,908)	4,792	(8,870)
Prepaid expenses	14,244			14,244
Inventories	222	563		785
Joint venture deposits	(356)			(356)
Deferred outflows	(402,871)	(210,355)	(29,095)	(642,321)
Accounts payable	(20,930)	(1,774)	(2,890)	(25,594)
Accrued wages and benefits	1,462	924	176	2,562
Customer deposits	108,830			108,830
Unearned revenues		(525)		(525)
Net pension liability	45,412	(25,591)	2,287	22,108
Deferred inflows	(8,447)	(6,439)	(7,751)	(22,637)
Net cash provided (used) by operating activities	<u>\$ 243,488</u>	<u>\$ 33,352</u>	<u>\$ (8,754)</u>	<u>\$ 268,086</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

The Oceano Community Services District (“the District”) is a multipurpose special district established on January 1, 1981. The District is a political subdivision of the State of California and operates under a Board of Directors. The District provides water, wastewater, street lighting, and garbage franchise services.

The District complies with the U. S. Generally Accepted Accounting Principles (GAAP) and all relevant Government Accounting Standards Board (GASB) pronouncements. These technical pronouncements establish criteria for determining the District’s activities and functions that are included in the financial statements of a governmental unit. The proprietary funds apply Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) unless those principles conflict with or contradict GASB pronouncements, in which case GASB prevails. There are no component units included in this report which meet the criteria of GASB Statement No. 14 as amended by GASB Statements No. 39, 61, and 80.

B. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

On the government-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item “b” below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds are accounted for using a “current financial resources” measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. All proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or non-current) associated with the operation of these funds are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District defines available to be within 60 days of fiscal year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for principal and interest on long term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent that they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds for governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest, and charges for services. Certain indirect costs are included in program expenses reported for individual functions and activities.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the District may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position are available to finance program expenditures. The District’s policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting (Continued)

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. 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 revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Basis of Presentation

Government-wide Statements:

The Statement of Net Position and the Statement of Activities display information about the District. These statements include the financial activities of the overall District government. Eliminations have been made to minimize the double counting of internal activities. Government activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

The fund financial statements provide information about the District's funds. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred inflows of resources, liabilities, deferred outflows of resources, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. All District funds are considered major funds.

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows for all proprietary funds. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total 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 liability is incurred.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund - This is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The fund provides for public administration and overall management as it pertains to the District as a whole as well as the District's street lighting services. It also accounts for the District's fire protection services as agreed upon with the Five Cities Fire Authority Joint Powers Authority.

Proprietary Funds

Enterprise Funds: Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Water Fund - This fund accounts for the operation and maintenance of the District's water distribution, treatment, and monitoring systems.

Sewer Fund - This fund is used to account for all activities of operating sewer services and maintaining the sewer lines.

Garbage Fund - This fund is used to account for the garbage franchise services.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property Taxes

San Luis Obispo County levies, bills, and collects property taxes and special assessments for the District. Property taxes levied are recorded as revenue in the fiscal year of levy, due to the adoption of the “alternate method of property tax distribution,” known as the Teeter Plan, by the District and the County. The Teeter Plan authorizes the Auditor/Controller of the County to allocate 100% of the secured property taxes billed, excluding unitary tax (whether paid or unpaid). The County remits tax monies to the District every month and twice a month in December and April. The final amount which is “teetered” is remitted in August each year.

Tax collections are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls, which constitute a lien against the property, may be paid in two installments; the first is due November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the tax becomes delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payment.

Property valuations are established by the Assessor of the County for the secured and unsecured property tax rolls. Under the provisions of Article XIII A of the State Constitution, properties are assessed at 100% of purchase price or value in 1978 whichever is later. From this base assessment, subsequent annual increases in valuation are limited to a maximum of 2 percent. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax levy dates are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property, as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

E. Cash and Investments

The District pools the cash of all funds, except for monies deposited with fiscal agent in accordance with related bond indentures. The cash and investments balance in each fund represents that fund’s equity share of the District’s cash and investment pool. For purposes of the statement of cash flows, the District has defined cash and cash equivalents to be change and petty cash funds, equity in the District’s cash and investment pool, and restricted non-pooled investments with initial maturities of three months or less.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, 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 District maintains its cash balance in financial institutions in the United States. The balances at the institutions are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2021, the District held cash in financial institutions in excess of federally insured limits.

F. Accounts and Interest Receivable

In the government-wide statements, receivables consist of all revenues earned at fiscal year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts if applicable, and estimated refunds due. Major receivable balances for the governmental activities may include sales taxes, property taxes, grants, and other fees, if any. Business-type activities report utilities as their major receivables.

In the fund financial statements, material receivables in governmental funds may include revenue accruals such as franchise tax, grants, service charges and other similar intergovernmental revenues that are both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned and if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at fiscal year-end and not yet received. Utility accounts receivable and interest earnings comprise the majority of proprietary fund receivables.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Prepaid Expenses and Inventory

Inventory is valued at the lower of cost or market using the first-in, first-out (FIFO) method. The cost is recorded as an expenditure/expense in the funds at the time individual inventory items are purchased rather than when consumed. This is then adjusted by physical inventory at fiscal year-end. Inventory in the enterprise funds consist principally of materials and supplies for utility operations.

Payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

H. Capital Assets

The accounting treatment over property, plant, and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations. The presentation and recording of governmental assets are described below.

Government-Wide Statements

In the government-wide financial statements, capital assets with a historical cost of \$5,000 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, if any, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets.

With the implementation of GASB Statement No. 34, the District has recorded all its public domain (infrastructure) capital assets on the government-wide statements.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Water system	5-75 years
Sanitation system	10-50 years
Drainage	5-50 years
Administration	5-40 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are capitalized when purchased.

I. Accumulated Compensated Absences

Compensated absences comprise unused vacation leave, sick leave, and compensatory time off, which are accrued as earned. Vacation hours, which accrue from the first day of employment, can be taken immediately and are capped at 320 hours. Upon termination, all accumulated vacation hours up to 320 hours are paid out. Sick leave, which accrue from the first day of employment can be taken immediately and can be accrued up to 180 days or 1,440 hours. Upon termination, all accumulated vacation hours up to 180 days are paid out. Payments will be based on the pay rate at the time of termination. The District's liability for the current and long-term portions of compensated absences is shown in the government-wide Statement of Net Position for both governmental funds and proprietary funds. Only proprietary funds reflect the long-term portion in the fund financials report, Statement of Net Position. The short-term portion is reflected for both governmental and proprietary funds in the fund financial statements. Computation was based on rates in effect as of the fiscal year-end.

J. Long-Term Liabilities

In the government-wide financial statements, long-term liabilities are presented for both governmental and proprietary fund types. In the fund financial statements, only the proprietary funds show long-term liabilities.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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 Oceano Community Services District California Public Employees' Retirement System (CalPERS) Miscellaneous, Miscellaneous PEPRAs, and Safety Fire Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. 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.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report the following timeframes are used:

Valuation Date:	June 30, 2019
Measurement Date:	June 30, 2020
Measurement Period:	July 1, 2019 through June 30, 2020

L. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 7 for a detailed listing of the deferred outflows of resources the District has recognized.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 7 for a detailed listing of the deferred inflows of resources the District has recognized.

M. Interfund Transactions

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

N. Equity Classifications

Government-Wide Statements

GASB Statement No. 63 requires that the difference between assets and the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is *net investment in capital assets* consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. *Restricted net position* is the portion of the net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. *Unrestricted net position* consists of net position that does not meet the definition of net investments in capital assets or restricted net position.

Governmental Fund Statements

Fund balance is the difference between the assets and liabilities reported in the governmental funds. In compliance with GASB Statement No. 54, the District has established the following fund balance classifications:

Non-spendable – The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – The restricted fund balance classification includes amounts that reflect constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Equity Classifications (continued)

Committed – The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (legislation, resolution, ordinance, etc.) it employed to previously commit those amounts. Committed fund balance should also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – The assigned fund balance classification includes amounts that are constrained by the government’s intent to be used for specific purposes, but that are neither restricted nor committed. Such intent is to be established by (a) the Board of Directors itself or (b) the General Manager to which the Board of Directors has delegated the authority to assign amounts to be used for specific purposes.

Unassigned – The unassigned fund balance classification includes amounts that do not fall into one of the above four categories. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned for specific purposes within the General Fund.

When an expenditure is incurred for which both restricted and unrestricted fund balances are available, it is District’s policy that the restricted fund balance be spent first followed by committed, then assigned, and, if applicable, unassigned.

O. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after June 15, 2021.
Statement No. 89	"Accounting for Interest Cost Incurred before the End of a Construction Period"	The provisions of this statement are effective for fiscal years beginning after December 15, 2020.
Statement No. 91	"Conduit Debt Obligations"	The provisions of this statement are effective for fiscal years beginning after December 15, 2021.
Statement No. 92	"Omnibus 2020"	The provisions of this statement are effective for fiscal years beginning after June 15, 2021.
Statement No. 93	"Replacement of Interbank Offered Rates"	The provision of this statement except for paragraphs 11b, 13, and 14 are effective for fiscal years beginning after June 15, 2020. Paragraph 11b is effective for fiscal years beginning after December 31, 2021. Paragraphs 13 and 14 are effective for fiscal years beginning after June 15, 2021.
Statement No. 94	"Public-Private and Public-Public Partnerships and Availability Payment Arrangements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2022.
Statement No. 96	"Subscription-Based Information Technology Arrangements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2022.
Statement No. 97	"Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32"	The provision of this statement except for paragraphs 6-9 are effective for fiscal years beginning after December 15, 2019. Paragraph 6-9 is effective for fiscal years beginning after June 15, 2021.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by Management. Actual results could differ from these amounts.

NOTE 2 – CASH AND INVESTMENTS

The composition of cash and investments as of June 30, 2021, is as follows:

Cash in bank and on hand	\$ 1,243,759
Investments	1,993,800
Total cash and investments, Statement of Net Position	<u>\$ 3,237,559</u>

The District categorizes its fair value measurements within the fair value hierarchy established by U.S. Generally Accepted Accounting Principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investment in the San Luis Obispo County Investment Pool of \$1,698,963 is measured under level 2. The District had investments in the money market funds and bank time deposits that are measured at amortized cost are not required to be measured under Level 1, 2 or 3.

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types the District has that are authorized for the District by the California Government Code or the District's investment policy, where more restrictive, that addresses interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations – CA and Others	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	30%	None
Placement Services Deposits	5 years	30%	None
Repurchase and Reserve			
Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
State Registered Warrants, Notes or Bonds	N/A	None	None
Notes and Bonds for other Local California Agencies	5 years	None	None
Local Agency Investment Fund	5 years	None	None

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District's interest rate risk is mitigated is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosure Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market rate fluctuations is provided by the table on the following page that shows the distribution of the District's investments by maturity as of June 30, 2021.

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Non-Negotiable Certificate of Deposit	\$ 24,498	\$ -	\$ 24,498	\$ -	\$ -
Money Market	270,339	270,339			
San Luis Obispo County Investment Pool	1,698,963	1,698,963			
	<u>\$ 1,993,800</u>	<u>\$ 1,969,302</u>	<u>\$ 24,498</u>	<u>\$ -</u>	<u>\$ -</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The District has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations. Presented below is the minimum rating required by (where applicable) the California Government Code, the investment policy, or debt agreements, and the actual rating as of the fiscal year ended June 30, 2021 for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	Aa	Not Rated
Non-Negotiable Certificate of Deposit	\$ 24,498	N/A	\$ -	\$ -	\$ -	\$ 24,498
Money Market	270,339	N/A				270,339
San Luis Obispo County Investment Pool	1,698,963					1,698,963
	<u>\$ 1,993,800</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,993,800</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The District minimizes its credit risk by investing only in the safest types of securities or investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Deposits are insured up to \$250,000.

The investment in the San Luis Obispo County Investment Pool is not required to be collateralized. The fair value of securities in the pool is based on quoted market prices. The San Luis Obispo County Treasurer's Office performs a monthly fair market valuation of all securities held against carrying costs. Reports of valuations and financial statements are available to participants on the San Luis Obispo County Treasurer's website.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 – INTERFUND TRANSACTIONS

Transfers between funds during the fiscal year ended June 30, 2021, were as follows:

Interfund Transfers:

<u>Governmental Fund:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 962,791	\$ -
<u>Proprietary Funds:</u>		
Water	1,458	476,105
Sewer		425,391
Garbage	728	63,481
	<u>\$ 964,977</u>	<u>\$ 964,977</u>

Borrowing between funds during the fiscal year ended June 30, 2021, was as follows:

Advances and Due To/Due From:

<u>Governmental Fund:</u>	<u>Due From</u>	<u>Due To</u>	<u>Advances Receivable</u>	<u>Advances Payable</u>
General	\$ -	\$ 355,942	\$ 366,814	\$ -
<u>Proprietary Funds:</u>				
Water	126,846	23,181		366,814
Sewer	260,806			
Garbage	23,181	31,710		
	<u>\$ 410,833</u>	<u>\$ 410,833</u>	<u>\$ 366,814</u>	<u>\$ 366,814</u>

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2021 was as follows:

Governmental activities:

	<u>Balance at July 1, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2021</u>
Capital assets not being depreciated				
Land	\$ 610,390	\$ -	\$ -	\$ 610,390
Total capital assets not being depreciated	<u>\$ 610,390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 610,390</u>
Capital assets being depreciated				
Buildings and improvements	\$ 2,088,370	\$ -	\$ -	\$ 2,088,370
Vehicles and equipment	435,679			435,679
Total capital assets being depreciated	2,524,049			2,524,049
Less accumulated depreciation	1,321,406	80,910		1,402,316
Total capital assets being depreciated, net	<u>\$ 1,202,643</u>	<u>\$ (80,910)</u>	<u>\$ -</u>	<u>\$ 1,121,733</u>
Net capital assets	<u>\$ 1,813,033</u>	<u>\$ (80,910)</u>	<u>\$ -</u>	<u>\$ 1,732,123</u>

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 4 – CAPITAL ASSETS (Continued)

Business-type activities:

	Balance at July 1, 2020	Additions	Retirements/ Transfers	Balance at June 30, 2021
Capital assets not being depreciated				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Construction in progress	234,382		(234,382)	
Total capital assets not being depreciated	<u>\$ 240,382</u>	<u>\$ -</u>	<u>\$ (234,382)</u>	<u>\$ 6,000</u>
Capital assets being depreciated				
Buildings and improvements	\$ 7,310,827	\$ 41,700	\$ 224,763	\$ 7,577,290
Software	195,918			195,918
Vehicles and equipment	877,554			877,554
Total capital assets being depreciated	<u>8,384,299</u>	<u>41,700</u>	<u>224,763</u>	<u>8,650,762</u>
Less accumulated depreciation	<u>5,801,746</u>	<u>228,670</u>		<u>6,030,416</u>
Total capital assets being depreciated, net	<u>\$ 2,582,553</u>	<u>\$ (186,970)</u>	<u>\$ 224,763</u>	<u>\$ 2,620,346</u>
Net capital assets	<u>\$ 2,822,935</u>	<u>\$ (186,970)</u>	<u>\$ (9,619)</u>	<u>\$ 2,626,346</u>

NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of changes in the District's long-term liabilities for the fiscal year ended June 30, 2021:

	Balance at July 1, 2020	Additions	Reductions	Balance at June 30, 2021	Current Portion	Long Term Portion
Governmental Activities:						
Compensated Absences	\$ 80,133	\$ 82,332	\$ 32,225	\$ 130,240	\$ 32,560	\$ 97,680
Net Pension Liability	123,305	49,645	987	171,963		171,963
Total Governmental Activities	<u>\$ 203,438</u>	<u>\$ 131,977</u>	<u>\$ 33,212</u>	<u>\$ 302,203</u>	<u>\$ 32,560</u>	<u>\$ 269,643</u>
Business-Type Activities:						
Taxable revenue bond obligations	\$ -	\$ 906,000	\$ -	\$ 906,000	\$ 49,200	\$ 856,800
Net Pension Liability	636,269	25,891	3,783	658,377		658,377
Total Business-Type Activities	<u>\$ 636,269</u>	<u>\$ 931,891</u>	<u>\$ 3,783</u>	<u>\$ 1,564,377</u>	<u>\$ 49,200</u>	<u>\$ 1,515,177</u>

NOTE 6 – TAXABLE REVENUE BOND OBLIGATIONS

On June 3, 2021, the District issued \$906,000 in taxable revenue bonds in order to pay off the unfunded accrued liability with CalPERS on the District's pension plans. The taxable revenue obligations were issued at an interest rate of 3.46% per annum and mature on August 1, 2035. Net revenues of the Water and Sewer funds were pledged as the security for the obligations. Debt service payments are due semi-annually on August 1 and February 1. The future minimum payment obligations for the taxable revenue bonds are as follows:

Fiscal Year Ending	Principal	Interest	Total
2022	\$ 49,200	\$ 19,873	\$ 69,073
2023	52,200	28,742	80,942
2024	54,100	26,903	81,003
2025	56,000	24,999	80,999
2026	57,900	23,028	80,928
2027-2031	322,300	83,042	405,342
2032-2036	314,300	27,816	342,116
Total	<u>\$ 906,000</u>	<u>\$ 234,403</u>	<u>\$ 1,140,403</u>

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 7 – PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the District's separate Safety and Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS 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 employment. Classic Plan members with five years of total service are eligible to retire at age 50 and new members/PEPRA Plan members with five years of total service are eligible to retire at age 52, with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Contribution rates are based on the Actuarial Valuation Report as of June 30, 2019. The Plans' provisions and benefits in effect at June 30, 2020, are summarized as follows:

	<u>Miscellaneous</u>		<u>Safety</u>
	Classic Member Hired Prior to <u>January 1, 2013*</u>	New Member Hired On or after <u>January 1, 2013</u>	Classic Member Hired Prior to <u>January 1, 2013*</u>
Hire Date			
Benefit formula	2.0% @ 55	2% @ 62	2% @ 50
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life		monthly for life
Retirement age	50-63	52-67	50-55
Monthly benefits, as a % of eligible compensation	1.46% to 2.418%	1.0% to 2.5%	2.0-2.7%
Required employee contribution rates	7.00%	6.75%	N/A
Required employer contribution rates	10.484% + \$44,769	7.732% + \$4,600	\$13,322

* A new employee may transfer into the Classic Member formula if he/she comes from another agency participating in the CalPERS or reciprocal retirement system and did not have more than a six month break in service.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. 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 District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$105,517 for the Safety Plan and \$848,754 for the Miscellaneous Plan for the fiscal year ended June 30, 2021.

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

At June 30, 2021, the District reported net pension liabilities for its proportionate shares of the net position liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 730,218
Safety	100,122
Total	<u>\$ 830,340</u>

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 7 – PENSION PLANS (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2020, the District's proportionate share of the net pension liability for each Plan as of June 30, 2019 and June 30, 2020 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion-June 30, 2019	0.01658%	0.00153%
Proportion-June 30, 2020	0.01731%	0.00150%
Change-Increase (Decrease)	<u>0.00073%</u>	<u>-0.00003%</u>

For the fiscal year ended June 30, 2021, the District recognized pension expense of \$156,437. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 45,394	\$ -
Changes in assumptions		5,542
Net difference between projected and actual earnings on retirement plan investments	23,868	
Adjustment due to differences in proportion	33,661	1,575
Changes in proportion and differences between District contributions and proportionate share of contributions		18,758
District contributions subsequent to the measurement date	954,271	
	<u>\$ 1,057,194</u>	<u>\$ 25,875</u>

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

\$954,271 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2022.

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

<u>Fiscal year ending June 30</u>	<u>Amount</u>
2022	\$ 15,713
2023	28,350
2024	21,491
2025	11,494
	<u>\$ 77,048</u>

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 7 – PENSION PLANS (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous and Safety</u>
Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return (1)	7.00%
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.75% thereafter

- (1) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of Sale MP 2016. For more details on this table please refer to the December 2017 experience study report.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on testing the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB No. 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2022. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2021-22 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short term (first 10 years) and the long term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits were calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table on the following page reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 7 – PENSION PLANS (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	<u>100.0%</u>		

(a) An expected inflation of 2.00% was used for this period.

(b) An expected inflation of 2.92% was used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rate

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15 percent) or 1 percentage point higher (8.15 percent) than the current rate:

	Discount Rate -1% 6.15%	Current Discount Rate 7.15%	Discount Rate +1% 8.15%
Net Pension Liability - Miscellaneous	\$ 1,115,197	\$ 730,218	\$ 412,121
Net Pension Liability - Safety	151,615	100,122	57,867
Net Pension Liability - Total	<u>\$ 1,266,812</u>	<u>\$ 830,340</u>	<u>\$ 469,988</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately-issued CalPERS financial reports.

C. Payable to the Pension Plan

At June 30, 2021, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2021.

NOTE 8 – JOINT VENTURES

State Water Project

In 1991, the District approved participation in the State Water Project (SWP). As a result, the District entered into two contracts with the San Luis Obispo County Flood Control and Water Conservation District (SLOFCD). One agreement is entitled "Water Supply Agreement" and the other is entitled "Water Treatment and Local Facilities Agreement."

The Water Supply Agreement is for the SWP source of supply, which is an allocation of 750 acre feet per year. The Water Supply Agreement incorporates by reference the SLOFCD agreement with the California Department of Water Resources (DWR), which is termed the "Master Water Supply Agreement." The District is obligated to pay its proportionate share of the cost of the SWP facilities owned by the California Department of Water Resources (DWR) that is used to convey the District's source of supply to the "Lopez Turnout," plus a proportionate share of the SLOFCD costs. The Lopez Turnout connects the SWP facilities to Lopez facilities enabling State Water deliveries to the District. The District's prorated share of operating, maintenance, pumping, and other related costs are charged as an operating expense in the Water Fund. The portion of the costs that is fixed in nature must be paid regardless of water deliveries. Variable costs are paid based on actual water deliveries.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 8 – JOINT VENTURES (Continued)

State Water Project (Continued)

The Water Treatment and Local Facilities agreement is for treatment of the SWP supply and for construction associated with the Lopez Turnout, a local facility. The Water Treatment and Local Facilities agreement incorporates by reference the SLOFCD agreement with the Central Coast Water Authority termed the "Master Water Treatment Agreement." The District is obligated to pay its proportionate share of treatment facilities owned and operated by CCWA, and for the cost of local facilities specifically benefitting the District – the Lopez Turnout. The portion of the costs that is fixed in nature must be paid regardless of water deliveries. Variable costs are paid based on actual water deliveries.

The District is required to make payments under its Water Supply agreement and its Water Treatment and Local Facilities agreement from the revenues of its water system. The District has agreed in its agreements to fix, prescribe and collect rates and charges for its water system which will be at least sufficient to yield each fiscal year's net revenues equal to 125% of the sum of (1) the payment required pursuant to the agreements, and (2) debt service on any existing participant obligation for which revenues are also pledged.

On October 1, 1992, CCWA sold \$177,120,000 in revenue bonds at a true interest cost of 6.64% to enable CCWA to finance a portion of the costs of constructing a water treatment plant to treat SWP water for use by various participating water purveyors and users within Santa Barbara and San Luis Obispo Counties, local facilities needed to deliver such water to the participating water purveyors and users, and certain other local improvements to the water systems of some of the participating purveyors. In November 1996, CCWA sold \$198,015,000 of revenue bonds at a true interest cost of 5.55% to defease CCWA's \$177,120,000 1992 revenue bonds and to pay certain costs of issuing the bonds. The 1996 bonds were issued in two series: Series A of \$173,015,000 and Series B of \$25,000,000. The Series B bonds are subject to mandatory redemption from amounts transferred from the Construction Fund and the Reserve Fund upon completion of the construction of the CCWA facilities.

The District's current fiscal year State water project expense totaled \$913,511. All of the District's disbursements were paid to the SLOFCD, which is obligated to pay to DWR and CCWA the District's proportionate share of costs to those agencies.

The District also contracts with SLOFCD for an annual allocation of 303 acre feet of water from the Lopez project, issued voter-approved general obligation bonds for the purpose of building Lopez Dam, a storage reservoir, water treatment plant, and other facilities to provide a primary municipal water supply. The District has entered into a water supply agreement wherein the District has agreed to pay annually, regardless of water deliveries, a prorated percentage of certain costs. In addition, the District also pays the San Luis Obispo County Flood Control and Water Conservation District a prorated share of operating, maintenance, pumping, and related operating costs which are charge as an operating expense in the Water Fund. The District's current fiscal year San Luis Obispo County Flood Control and Water Conservation District expense totaled \$499,934.

South San Luis Obispo County Sanitation District

The District does not own and operate a separate wastewater treatment plant facility. The Oceano Community Services District's waste is transported through District-owned and District-maintained lines for processing at the South San Luis Obispo County Sanitation District plant.

Five Cities Fire Authority

The District is a member of the Five Cities Fire Authority (FCFA), a joint powers authority between the Cities of Arroyo Grande, Grover Beach, and the Oceano Community Services District. FCFA was formed on July 9, 2010, for the purpose of providing a more efficient fire protection service within the City limits of Arroyo Grande and Grover Beach, as well as the towns of Oceano and Halcyon. Each member contributes its pro-rated share of operating costs to FCFA based on a funding formula calculated annually. In 2015, it was determined that adherence to the funding formula had not occurred in prior years. Any recalculation of prior year funding, and adjustments that may be made to remedy differences between actual funding and funding that would have adhered to the agreement establishing the joint powers authority is indeterminable at this time.

The FCFA governing board consists of one member appointed from each participating entity and shall be appointed as determined by the respective City Council or Board of Directors. All financial decisions are made by this three-member board. The District contributed \$1,138,148 to FCFA during the fiscal year ended June 30, 2021 for fire protections services. Separate financial statements may be obtained from the Five Cities Fire Authority at 140 Traffic Way in Arroyo Grande, California.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 9 – RISK MANAGEMENT AND CONTINGENCIES

Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the California Association of Mutual Water Companies Joint Powers Risk and Insurance Management Authority (JPRIMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for small California water agencies. The purpose of the JPRIMA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At June 30, 2021, the District participated in the liability and property programs of the JPRIMA as follows:

- General and auto liability: The District has a \$500 deductible for general and auto liability. The District purchased additional excess coverage layers: \$5 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.
- Employee dishonesty coverage and public officials' liability up to \$1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, computer fraud coverages.
- Property loss/Boiler and Machinery is paid based on the replacement cost or actual cash value for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis, to a combined total of \$4 million subject to a \$1,000 deductible per occurrence for most equipment.
- Workers' compensation insurance provides coverage with a self-insured retention limit of \$1 million for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2021, 2020 and 2019. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2021, 2020, and 2019.

Legal Contingency

In the opinion of management and legal counsel, the disposition of any pending litigation will not have an anticipated material effect on the City's financial statements as of June 30, 2021.

Construction Contingency

The District has no construction contingencies as of June 30, 2021.

NOTE 10 – EXCESS EXPENDITURES OVER APPROPRIATIONS

General Fund:	
Payroll taxes and employee benefits	\$ 163,523
Liability insurance	1,856
Administrative services	6,132
Data processing	1,422
Street lighting	3,292
Professional fees	1,301
Interest expense	17,623

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REQUIRED SUPPLEMENTARY INFORMATION

OCEANO COMMUNITY SERVICES DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes and assessments	\$ 1,095,680	\$ 1,095,680	\$ 1,132,291	\$ 36,611
Public facility fee	15,000	15,000	20,528	5,528
Interest income			14,959	14,959
Rental income	125,640	125,640	140,715	15,075
Other	3,386	3,386	10,256	6,870
	<u>1,239,706</u>	<u>1,239,706</u>	<u>1,318,749</u>	<u>79,043</u>
Total revenues				
Expenditures:				
Salaries, wages, and director stipends	486,225	486,225	423,821	62,404
Payroll taxes and employee benefits	210,950	210,950	374,473	(163,523)
Liability insurance	24,720	24,720	26,576	(1,856)
Repairs and maintenance	21,750	28,313	20,451	7,862
Administrative services	21,640	21,640	27,772	(6,132)
Data processing	16,565	16,565	17,987	(1,422)
Dues and fees	25,345	25,345	21,633	3,712
Education	7,425	7,425	2,938	4,487
Legal fees	96,000	96,000	53,072	42,928
Miscellaneous	500	500	(888)	1,388
Office expense	11,345	11,345	5,814	5,531
Street lighting	30,000	30,000	33,292	(3,292)
Professional fees	50,420	50,420	51,721	(1,301)
Utilities	25,985	25,985	24,002	1,983
Public safety	1,138,148	1,138,148	1,138,148	
Capital outlay		4,337		4,337
Interest expense			17,623	(17,623)
	<u>2,167,018</u>	<u>2,177,918</u>	<u>2,238,435</u>	<u>(60,517)</u>
Total expenditures				
Excess of revenues over (under) expenditures	<u>(927,312)</u>	<u>(938,212)</u>	<u>(919,686)</u>	<u>18,526</u>
Other Financing Sources (Uses)				
Transfers in	901,568	901,568	962,791	61,223
Transfers out	(113,940)	(113,940)		113,940
	<u>787,628</u>	<u>787,628</u>	<u>962,791</u>	<u>175,163</u>
Total other financing sources (uses)				
Net change in fund balance	(139,684)	(150,584)	43,105	193,689
Fund balance - July 1	<u>725,438</u>	<u>725,438</u>	<u>725,438</u>	
Fund balance - June 30	<u>\$ 585,754</u>	<u>\$ 574,854</u>	<u>\$ 768,543</u>	<u>\$ 193,689</u>

OCEANO COMMUNITY SERVICES DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 Last 10 Years*
 As of June 30, 2021

The following table provides required supplementary information regarding the District's Pension Plan.

	2021	2020	2019	2018	2017
Proportion of the net pension liability	0.00763%	0.00741%	0.00715%	0.00704%	0.00692%
Proportionate share of the net pension liability	\$ 830,340	\$ 759,574	\$ 689,459	\$ 698,116	\$ 598,558
Covered payroll	\$ 643,779	\$ 577,089	\$ 573,557	\$ 544,352	\$ 437,408
Proportionate share of the net pension liability as a percentage of covered payroll	128.98%	131.62%	120.21%	128.25%	136.84%
Plan's total pension liability	\$43,702,930,887	\$41,426,453,489	\$38,944,855,364	\$37,161,348,332	\$33,358,627,624
Plan's fiduciary net position	\$32,822,501,335	\$31,179,414,067	\$29,308,589,559	\$27,244,095,376	\$24,705,532,291
Plan fiduciary net position as a percentage of the total pension liability	75.10%	75.26%	75.26%	73.31%	74.06%
	2016	2015			
Proportion of the net pension liability	0.00649%	0.00676%			
Proportionate share of the net pension liability	\$ 445,280	\$ 420,438			
Covered payroll	\$ 453,904	\$ 312,044			
Proportionate share of the net pension liability as a percentage of covered payroll	98.10%	134.74%			
Plan's total pension liability	\$ 31,771,217,402	\$ 30,829,966,631			
Plan's fiduciary net position	\$ 24,907,305,871	\$ 24,607,502,515			
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.82%			

Notes to Schedule:

Changes in assumptions

In 2018, inflation was changed from 2.75 percent to 2.50 percent and individual salary increases and overall payroll growth was reduced from 3.00 percent to 2.75 percent.

In 2017, as part of the Asset Liability Management review cycle, the discount rate was changed from 7.65% to 7.15%.

In 2016, the discount rate was changed from 7.5% (net of administrative expense) to 7.65% to correct for an adjustment to exclude administrative expense.

In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

*- Fiscal year 2015 was the 1st year of implementation, therefore only seven years are shown.

OCEANO COMMUNITY SERVICES DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
 Last 10 Years*
 As of June 30, 2021

The following table provides required supplementary information regarding the District's Pension Plan.

	2021	2020	2019	2018	2017
Contractually required contribution (actuarially determined)	\$ 122,565	\$ 101,217	\$ 83,717	\$ 73,333	\$ 65,457
Contribution in relation to the actuarially determined contributions	(954,271)	(101,217)	(83,717)	(73,333)	(65,457)
Contribution deficiency (excess)	<u>\$ (831,706)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 674,882	\$ 643,779	\$ 577,089	\$ 573,557	\$ 544,352
Contributions as a percentage of covered-employee payroll	141.40%	15.72%	14.51%	12.79%	12.02%
	2016	2015			
Contractually required contribution (actuarially determined)	\$ 52,723	\$ 49,702			
Contribution in relation to the actuarially determined contributions	(52,723)	(49,702)			
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>			
Covered-employee payroll	\$ 437,408	\$ 453,904			
Contributions as a percentage of covered-employee payroll	12.05%	10.95%			

Notes to Schedule

Valuation Date:	6/30/2014
Actuarial cost method	Entry Age Normal
Asset valuation method	5-year smoothed market
Amortization method	The unfunded actuarial accrued liability is amortized over an open 17 year period as a level percentage of payroll.
Discount rate	7.50%
Payroll growth rate	3.00%
Price inflation	2.75%
Salary increases	2.75% plus merit component based on employee classification and years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2010 using Scale AA with a 2 year setback for males and a 4 year setback for females.
Valuation Date:	6/30/2015
Discount Rate	7.65%
Valuation Date:	6/30/2016
Discount Rate	7.375%
Valuation Date:	6/30/2017
Discount Rate	7.150%
Valuation Date:	6/30/2018
Payroll growth rate	2.75%
Price inflation	2.50%
Discount Rate:	7.00%

*- Fiscal year 2015 was the 1st year of implementation, therefore only seven years are shown.

**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
Oceano Community Services District
Oceano, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Oceano Community Services District, as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Oceano Community Services District's basic financial statements and have issued our report thereon dated June 22, 2023.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of the District, 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 opinions 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies (Findings 2022-001 through 2022-002).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oceano Community Services 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*.

Oceano Community Services District's Responses to Findings

The Oceano Community Services District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Oceano Community Services District's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Renz & Haugheim LLP

Santa Maria, California
June 22, 2023

**Oceano Community Services District
Schedule of Findings and Responses
June 30, 2022**

**FINDING 2022-001
PAYROLL**

Criteria:

All employees eligible to receive vacation pay should be accruing vacation and sick leave based on their employee agreement.

Condition:

During testing of the vacation and sick leave accruals, we noted that one employee, who was responsible for payroll processing, allocated themselves 19.68 combined extra vacation and sick leave hours accrued than earned for the pay period we tested.

Cause:

Employee designated to process payroll had too much system access.

Effect:

Misappropriation of funds and overstatement of expenditures. Employee had more vacation and sick leave hours accrued than they were eligible to earn for the pay period.

Recommendation:

A designated manager should periodically review the employee leave reports and ensure that accruals are proper for each employee and that hours used match with timecards. The employee processing payroll should not have sufficient system access to add additional leave hours. The District should re-evaluate payroll controls and system permission to ensure there is proper segregation of duties.

Repeat Finding:

No.

District Corrective Action Plan:

Management worked with the District's software provider (Tyler Incode) to install a second approval to the leave accrual. The District's software system now requires one employee to initiate the accrual and a second to approve within the system to all types of leave before the accruals are applied to the employee totals.

**FINDING 2022-002
UTILITY RECEIPTS**

Criteria:

All payments for utility bills should be properly recorded to the customers account and then deposited into the District's bank account.

Condition:

During testing of utility receipts and per discussion with District staff, we found that a "bill void" was occasionally entered into the utility billing system to zero out billings previously posted to specific customer accounts. This zeroed out the balance a customer owed on their account in the exact amount that the customer paid in cash at the District. The District checked by calling affected customers who made these cash specific cash payments and were able to get verbal confirmation that the customer paid in cash at the District. The amounts the customers told the District they had paid did not make it into the District bank deposits and the revenue recorded was reversed out by the "bill void".

Cause:

District employee had permission in the utility system to make void bills without authorization.

Effect:

Misappropriation of funds from cash receipts and understatement of revenues.

Recommendation:

Employees who receive customer cash payments should not have permissions in the utility system to void a bill without management authorization. The District should re-evaluate receipt controls and system permission to ensure there is proper segregation of duties.

Repeat Finding:

No.

District Corrective Action Plan:

Management worked with the District's software provider (Tyler Incode) to install a second approval for all types of bill adjustments. The District's software system now requires one employee to initiate the type of adjustment and a second to approve within the system for all types of adjustments before any adjustment can be applied to an account.

**Oceano Community Services District
Schedule of Prior Fiscal Year Findings and Responses
June 30, 2022**

There were no prior fiscal year audit findings or questioned costs.

June 22, 2023

To the Board of Directors of the
Oceano Community Services District

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Oceano Community Services District for the fiscal year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 30, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Oceano Community Services District are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of capital assets is based on experience with other capital assets and on their standard table of useful lives. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for bad debt is based on their past experience with the Management's estimate of the net pension liability and deferred inflows and outflows related to pension are based on the CalPERS actuary's expertise experience. We evaluated the key factors and assumptions used to develop the net pension liability and deferred inflows and outflows related to pension in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the Pension Plans in Note 7.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of

audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 22, 2023.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of the Oceano Community Services District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Moss, Remy & Hartzheim LLP

Santa Maria, California

OCEANO COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2022**

**OCEANO COMMUNITY SERVICES DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Directors of Oceano Community Services District
Oceano, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the Oceano Community Services District, as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Oceano Community Services District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Oceano Community Services District, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Oceano Community Services District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Oceano Community Services District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Oceano Community Services District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Oceano Community Services District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension liability, and the schedule of pension contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 our report dated June 22, 2023, on our consideration of the Oceano Community Services 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 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.

Moss, Renz & Hartzheim LLP

Santa Maria, California
June 22, 2023

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2022

The management of the Oceano Community Services District (District) has prepared the following narrative for the readers of the District's financial statements to provide an overview and analysis of the District for the year ending June 30, 2022. The District encourages readers to consider the information together with the District's financial statements following this section.

The District is an independent special district serving a population of approximately 7,600. The District is governed by a five (5) member Board of Directors elected by voters within the District's boundaries; all Board members must reside within the District's boundaries. The District is governed by California Government Code Sections 61000 et al, as well as other specific statutes and regulations that govern its operations.

The District provides both governmental-type activities and enterprise activities. Governmental activities include fire protection services, street lighting, and recreation. Enterprise activities include water service, wastewater collection service, and garbage and recycling services.

District Services and Related Agencies

As a special District, the District's powers are authorized by the San Luis Obispo County Local Agency Formation Commission (LAFCO). Any proposed additions to the District services, modification of District boundaries, or services outside of the District boundaries must be approved in advance by LAFCO.

The following provides a brief overview of each of the District's services:

Fire Protection Services

During Fiscal Year 2021-22, the District provided fire protection services through the Five Cities Fire Authority (FCFA). The FCFA was created as a "joint exercise of powers authority" (JPA) through an agreement originally approved in 2010 and amended on May 23, 2018, June 12, 2019, and most recently on June 24, 2020, between the cities of Arroyo Grande and Grover Beach, and the District. One member of the OCSD Board of Directors is appointed to serve the District on the FCFA Board of Directors and a second member of the OCSD Board is an alternate member on the FCFA Board. Since the District does not control the operations of FCFA, the financial statements and audit of the FCFA are separate from the District.

The District pays a portion of the annual costs of FCFA services based on funding formula established in the FCFA agreement, which was modified in the third amendment. The JPA amendments were needed for several reasons, including a multi-year implementation of the FCFA "Strategic Plan." The "Strategic Plan" includes increased staffing and services levels greater than those provided in the existing JPA. The amendments included specific approval of each members annual costs during the implementation period and required either a citizen initiative or District initiated special tax measure to be placed on the 2022 primary ballot. The increase in the District costs during the implementation period was funded from reserves to the extent that the costs exceed property tax revenues received by OCSD. The amendments required the District to call for a special tax election on the March 2020 ballot for voters to

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2022

consider approving additional funding so that the District could continue to participate as a member of the FCFA. On March 3, 2020, Measure A-20 received 66.14% support, which was 11 votes short of passage. The third amendment to the FCFA JPA was approved on June 24, 2020 which extended the agreement for an additional two years and required the District to provide the community another opportunity to consider additional funding via a June 2022 ballot measure. On June 7, 2022 Measure A-22 was placed on the ballot by the Board of Directors and failed with 57.75% support. The District's membership in the FCFA will cease on July 1, 2023. The District has initiated proceedings through LAFCO to divest of its Fire Protection Services power and turn the responsibility over to the County of San Luis Obispo. The divestiture process will continue past July 1, 2023, and the District will have to provide Fire Protection Services until that process concludes. The District approved an agreement with FCFA to contract for services in the amount of \$1,150,000 for the fiscal year 2023/24.

On a related effort, the County of San Luis Obispo Board of Supervisors prepared a report on independent fire departments serving unincorporated communities throughout the County and significant constraints in generating the needed revenues to fund full-time fire departments.

Lighting Services

The District provides street lighting services in certain areas of the community. The County of San Luis Obispo and the California Department of Transportation also provide some street lighting.

Parks and Recreation Services

The District is authorized to provide parks and recreation services, however, currently has no programs at this time other than those implemented by Lucia Mar Unified School District (LMUSD). The District holds a lease with LMUSD for the Oceano Community Center and as part of the lease requirements LMUSD utilizes the community center for recreation programs. There is a section in the lease where the District may also utilize the community center. Currently the District offers individuals the opportunity to utilize the Oceano Community Center for up to 10 hours per month and 120 hours per year with discounted fees.

Water Services

The District provides water service to approximately 2,200 connections. An annual Consumer Confidence Report (CCR) is mailed to all water customers providing a summary of the District's water quality including a comparison to regulatory requirements. The California State Division of Drinking Water regulates the District's water supplies and the CCR can be found on the District website or by calling the District office.

The District's water supplies include groundwater, Lopez water and State water. Regulation of the District's groundwater supply is also subject to the stipulations and judgment adopted for the adjudication of the Santa Maria groundwater basin. Lopez and State water supplies are provided by the County of San Luis Obispo under terms of water supply contracts. The

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2022

District's water supply reliability is relatively high, and the District had been increasing water in storage during the recent drought. Nevertheless, the need to address water supply reliability continues and contract amendments for the State Water Project are being developed by the State Department of Water Resources and, separately, contract amendments for the Lopez Lake water supply were adopted by local agencies in August 2022 to establish water storage rights and enhance multi-year water resource planning.

A water rate increase was approved by the Board on October 14, 2020. The rate increase provided funding for ongoing operations, capital improvement projects, and minimum reserves. The rate increase will be phased in over five years.

Wastewater Collection Services

The District provides wastewater collection services through a network of neighborhood pipelines that flow into pipelines and facilities owned by the South San Luis Obispo County Sanitation District (SSLOCSD), which is responsible for treatment and disposal. The SSLOCSD customers include the customers of the District as well as those of the cities of Arroyo Grande and Grover Beach. Since the District does not control the operations of SSLOCSD, the financial statements and audit of the SSLOCSD are separate from the District. District operations are regulated by the Central Coast Regional Water Quality Control Board.

Solid Waste and Recycling Services

The District provides mandatory solid waste and recycling services through a franchise agreement with South County Sanitary Services Incorporated (SCSS Inc.), which is a subsidiary of Waste Connections Incorporated, a publicly traded corporation "WCN" on the New York Stock Exchange. In 2020 the Board adopted a resolution to reduce the franchise fee payment from SCSS from 10% to 5% to reduce the customers' utility bills. The District enforces illegal dumping within the community and other violations. The District has also adopted incentive programs designed to promote a cleaner community. Since the District does not control operations of SCSS or WCN, the financial statements and audits of those entities are separate from the District.

Overview of the Financial Statements

This annual report contains the following five parts.

- Management Discussion and Analysis (this section)
- The Basic Financial Statements
- Notes to the Financial Statements
- Supplementary Information - a comparison of the District's budgets to actual results
- Supplementary Information on Pension Disclosures

This management discussion and analysis is intended to provide an overview of the most relevant information affecting the District's financial affairs for the year and the District's end of the year status. The basic financial statements provide information on the governmental and

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2022

enterprise activities including operating and non-operating revenues and expenditures, current assets, non-current assets, capital assets, deferred outflows of resources, current and long-term liabilities, and deferred inflows of resources.

The notes to the financial statements provide additional detailed information and explanations on the financial statements. The budget to actual comparison illustrates differences between the board adopted budget and actual revenues, expenditures, and changes in fund balance in the General fund. The current year reflects a positive budget variance of \$165,653 for the Governmental Fund. Of this amount, \$102,096 was utilized to repay a portion of an interfund loan owed by the Governmental Fund to the Sewer Fund.

Financial Statement Analysis and Highlights

The District's Statements of Net Position is illustrated below for the Governmental and Business-type Activities, and subsequently, for each of the Enterprise Funds.

Statements of Net Position as of June 30, 2022 and 2021				
	Governmental Activities		Business-type Activities	
	2022	2021	2022	2021
Current and Other Assets	\$ 1,041,205	\$ 815,053	\$ 4,012,889	\$ 3,074,131
Capital Assets, net	1,655,130	1,732,123	2,433,432	2,626,346
Total Assets	2,696,335	2,547,176	6,446,321	5,700,477
Deferred Outflow of Resources	293,818	218,945	761,562	838,249
Current Liabilities	40,743	79,070	155,018	335,451
Non-current Liabilities	143,980	269,643	856,800	1,515,177
Total Liabilities	184,723	348,713	1,011,818	1,850,628
Deferred Inflow of Resources	131,790	5,359	341,595	20,516
Net Investment in Capital Assets	1,655,130	1,732,123	2,574,719	2,626,346
Restricted	205,830	274,079	41,412	41,091
Unrestricted	812,680	405,847	3,238,339	2,000,145
Net Position	\$ 2,673,640	\$ 2,412,049	\$ 5,854,470	\$ 4,667,582

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2022

The Net Position of the Business-type Activities remained consistent with the previous year.

Statements of Net Position as of June 30, 2022 and 2021						
	Water Fund		Wastewater Fund		Garbage Fund	
	2022	2021	2022	2021	2022	2021
Current and Other Assets	\$2,738,253	\$ 1,922,336	\$ 1,276,435	\$ 1,247,037	\$ 237,349	\$ 326,463
Capital Assets, net	1,520,265	1,470,395	1,054,121	1,154,532	333	1,419
Total Assets	4,258,518	3,392,731	2,330,556	2,401,569	237,682	327,882
Deferred Outflow of Resources	486,108	509,462	243,054	288,614	32,400	40,173
Current Liabilities	230,127	360,184	21,965	18,888	31,386	42,556
Non-current Liabilities	840,602	1,306,898	268,173	512,254	0	31,553
Total Liabilities	1,070,729	1,667,082	290,138	531,142	31,386	74,109
Deferred Inflow of Resources	218,041	12,469	109,021	7,064	14,533	983
Net investment in Capital Assets	1,520,265	1,470,395	1,054,121	1,154,532	333	1,419
Restricted	41,412	41,091	-	-	-	-
Unrestricted	1,894,179	711,156	1,120,330	997,445	223,830	291,544
Net Position	\$ 3,455,856	\$ 2,222,642	\$ 2,174,451	\$ 2,151,977	\$ 224,163	\$ 292,963

Following the District's Statements of Net Position is the Statement of Activities.

Statement of Activities for the years ending June 30, 2022 and 2021				
	Governmental Activities		Business-type Activities	
	2022	2021	2022	2021
Operating Revenues	\$ 7,878	\$ 20,528	\$ 3,591,601	\$ 3,370,805
Operating Expenditures:				
Administrative Expenditures	(686,911)	(1,023,846)		
Fire Protection	(1,147,837)	(1,155,189)		
Street Lighting	(29,241)	(35,434)		
Enterprise Funds			(1,652,605)	(2,611,027)
Net Operating Income / (Loss)	(1,856,111)	(2,193,941)	1,938,996	759,529
Ad Valorem Taxes	1,182,885	1,132,291	-	-
Other Non-operating Income	159,662	165,930	23,047	23,938
Transfers	775,155	962,791	(775,155)	(962,791)
Total Non-Operating Income	2,117,702	2,261,012	(752,108)	(938,853)
Change in Net Position	\$ 261,591	\$ 67,071	\$1,186,888	\$ (179,324)

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2022

In summary, the Governmental Activities went from a net income of \$67,071 to a net income of \$261,591 in 2022. The increase in net position is from the decrease in compensated absences (accrued leave) and the District's employer pension contributions vs accrual-basis pension costs in CalPERS (GASB 68 reporting).

The Business-type Activities went from a net loss for the prior fiscal year of \$179,324 to a net income of \$1,186,888. The increase is from the employer pension contributions vs accrual-basis pension costs in CalPERS (GASB 68 reporting). The Enterprise Funds are broken out by fund in the table below.

Statements Revenues, Expenses, and Changes in Net Position as of June 30, 2022 and 2021						
	Water Fund		Wastewater Fund		Garbage Fund	
	2022	2021	2022	2021	2022	2021
Operating Revenues	\$ 2,994,410	\$ 2,739,317	\$ 403,008	\$ 401,678	\$ 52,896	\$ 61,222
Operating Expenditures	(1,517,132)	(2,351,034)	(43,758)	(221,394)	(71,686)	(38,599)
Net Operating Income / (Loss)	1,477,278	388,283	359,250	180,284	(18,790)	22,623
Other non-operating income	152,370	174,267	11,964	18,259	0	0
Non-operating Expenditures	(13,405)	(249)	(6,624)	0	0	0
Net Non-Operating Income	138,965	174,018	5,340	18,259	0	0
Transfers , net	(383,029)	(474,647)	\$ (342,116)	\$ (425,391)	\$ (50,010)	\$ (62,753)
Net Income / (Loss)	\$ 1,233,214	\$ 87,654	\$ 22,474	\$ (226,848)	\$ (68,800)	\$ (40,130)

The increase in the net income in the Water Fund reflects the rate increase to the water revenues that went into place October 2020 and the increase from the employer pension contributions vs accrual-basis pension costs in CalPERS (GASB 68 reporting). The new rate structure has established financial stability and funds for long-term capital improvement plans and minimum reserves.

The Wastewater Fund incurred a net income of \$22,474 this year. This was from the employer pension contributions vs accrual-basis pension costs (GASB 68 reporting). The wastewater fund received approximately \$102,000 from the General Fund loan repayment to help cover the cost of the deficit which will end June 30, 2023. A Proposition 218 rate increase process will then be needed to close the structural deficit.

The Garbage Fund's net deficit increased from the prior year because in 2020 the Board adopted a resolution to reduce the franchise fee payment from SCSS from 10% to 5% to reduce the costs to customers and draw down reserves in the Garbage Fund. Then in June 2022 the Board voted to use Garbage Fund reserves for SCSS's solid waste retroactive charges for the period May 2022 to June 30, 2022, during the rate increase proposed by SCSS. The District continues to move forward on the Solid Waste Programs adopted by the Board on February 8, 2017. These programs include policies to address illegal dumping, unsanitary conditions, and related solid waste problems in the District.

Capital Assets

The District owns the community fire station, administrative offices, Sheriff's substation the former fire station, and some undeveloped land. The community fire station is provided to FCFA for their use for \$15,000 per year. The Sheriff substation is leased to the County of San Luis Obispo for \$113,400 per year. The Oceano Depot and Community Center are leased to a non-governmental agency, and the Lucia Mar Unified School District at \$1 per year each based on the multi-party agreements developed for those properties in conjunction with grants that funded the development of the community center and the preservation of the historic Oceano train depot.

The water and wastewater infrastructure of the District ranges drastically in age. Many of the water and wastewater system pipelines were originally constructed in the 1950's. The District completed water and wastewater system master plans in 2009 but revenue shortfalls have deferred infrastructure replacement projects. The District completed an updated water system capital improvement program for infrastructure replacement, which was substantially funded with grants approved by the State of California. The 2020 water rates include funds for long-term capital improvement plans starting with \$75,000 in 2022 and \$150,000 each year thereafter.

Debt Activities

On June 1, 2021, the District entered into a financing agreement with First Foundation Bank after issuing a "Request for Proposals" (RFP) to purchase the District's outstanding California Public Employees' Retirement System (CalPERS) Unfunded Accrued Liability (UAL) or the "CalPERS UAL Repayment Project." The District holds a contract with CalPERS and is required to make contributions to fund pension benefits for miscellaneous employees, safety employees and amortize a portion of the UAL. The total UAL as of June 30, 2021 for the District's miscellaneous plan and safety plan was \$822,745. The Board adopted Resolution 2021-02 to proceed with refinancing the UAL balances under these plans to bring the funding status of these plans to 100% funded and to enhance budget predictability by "smoothing" out the UAL payment structure over the next 15 years and to provide cash flow savings to the District. The District received two bids and locked in an interest rate of 3.46%. By lowering the interest rate, this will result in a total cash flow savings of \$328,600 through June 30, 2035. The finance agreement pledged the revenues of the Water and Wastewater Funds. An interfund agreement was also established from the General (17.5%) and Garbage (3.5%) Funds to pay back the Water and Wastewater Funds for the payment of the UAL obligation. The interfund agreement is budgeted to be paid off in FY 2023-24. The principal and interest payments to First Foundation Bank will range between \$68,000 and \$83,000 until August 1, 2035.

Internal debt, or borrowing between District funds, is more significant. Note #3 to the Financial Statements illustrates interfund liabilities. During the year ending June 30, 2022, the District

Oceano Community Services District
Management Discussion and Analysis
For the fiscal year ended June 30, 2022

recorded the interfund transfers on the following page to adhere to resolutions adopted April 26, 2017, to ensure repayment of interfund liabilities.

Interfund (Due to) / Due From	Beginning Balances – July 1, 2021	Interfund Transfers Out	Interfund Transfers In	Ending Balances – June 30, 2022
General Fund Due to Sewer Fund	\$ (197,392)	\$ 102,096	\$ - 0 -	\$ (95,296)
General Fund Due from Water Fund	366,814	- 0 -	31,365	335,449
Net General Fund Due to Other Funds	169,422	102,096	31,365	240,153
Water Fund Due to the General Fund	(366,814)	31,365	- 0 -	(335,449)
Water Fund Due to Garbage Fund	(23,181)	7,491	- 0 -	(15,690)
Sewer Fund Due from General Fund	197,392	- 0 -	102,096	95,296
Garbage Fund Due from Water Fund	23,181	- 0 -	7,491	15,690
Totals	\$ - 0 -	\$ 140,952	\$ 140,952	\$ - 0 -

Budget and Rates

The District’s budget for the year ending June 30, 2022 reflects the water system rate increase that was approved by the Board of Directors in October 2020, as adjusted based on increases in the consumer price index and wholesale water costs. The annual increases are prescribed in Ordinance 2020-01, and in accordance with California Government Code section 53756. The following illustrates the Water Fund change in net position before and after the rate increase:

Fiscal Year	Surplus/ (Deficit)
2014/15	\$ (182,216)
2015/16	93,228
2016/17	186,858
2017/18	22,518
2018/19	(187,930)
2019/20	(118,952)
2020/21	87,654
2021/22	1,233,214

With the approval of the 2020 rate increase, the District established fiscal stability and funds for capital improvement projects and minimum reserves. The increase began in November 2020 and will be phased in over five years. The District has secured approximately \$4,241,090 in grants from state agencies for the water system and related needs.

Oceano Community Services District
 Management Discussion and Analysis
 For the fiscal year ended June 30, 2022

No rate changes affected the wastewater fund for the fiscal year ending June 30, 2022. The following shows the running deficit of the Sewer Fund:

Fiscal Year	Surplus/ (Deficit)
2014/15	\$ (16,927)
2015/16	(54,103)
2016/17	(104,305)
2017/18	(153,944)
2018/19	(165,453)
2019/20	(172,445)
2020/21	(226,848)
2021/22	22,474

The operating revenue for the sewer fund needs to be addressed in the future. In addition, addressing deferred infrastructure needs of the sewer fund will also become a higher priority, which will require sewer fund rate increases in the near future.

An increase of 21.03% in garbage rates for the SCSS Inc. were approved on June 8, 2022, and inflationary adjustments went into effect on January 1, 2023 and January 1, 2024. On January 22, 2020, the Board approved a decrease to the franchise fee from 10% to 5% to reduce customers' garbage bills.

Future Outlook

Overall, the District's financial outlook has maintained a relatively stable short-term position during the year ending June 30, 2022. The primary enterprise fund challenges relate to deferred infrastructure repairs and replacement in the water and wastewater systems. Currently, the District is evaluating deferred infrastructure needs and is utilizing grants obtained from the State of California for much of this effort. Identifying costs and rate impacts to fund the deferred infrastructure were completed in 2020 and the new water rates set aside funds for long-term capital projects. The future of the fire department's operation will also be a significant District effort in the future.

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OCEANO COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
June 30, 2022

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 549,249	\$ 2,736,674	\$ 3,285,923
Restricted cash and investments	200,868		200,868
Accounts receivable, net	5,962	588,666	594,628
Prepaid items	40,337	204,322	244,659
Deposits		16,796	16,796
Inventory		27,176	27,176
Internal balances	93,686	(93,686)	
Net pension asset	151,103	391,654	542,757
Capital assets:			
Non Depreciable:			
Land	610,390	6,000	616,390
Construction in progress		141,287	141,287
Depreciable:			
Buildings and improvements	2,088,370	7,589,767	9,678,137
Equipment, vehicles and machinery	435,679	888,866	1,324,545
Software		195,918	195,918
Accumulated depreciation	(1,479,309)	(6,247,119)	(7,726,428)
Total assets	<u>2,696,335</u>	<u>6,446,321</u>	<u>9,142,656</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred pensions	293,818	761,562	1,055,380
Total deferred outflow of resources	<u>293,818</u>	<u>761,562</u>	<u>1,055,380</u>
LIABILITIES			
Accounts payable	12,793	35,046	47,839
Accrued wages and benefits	15,955	7,856	23,811
Deposits	2,500	111,591	114,091
Unearned revenue	9,495	525	10,020
Noncurrent liabilities:			
Due within one year	35,995	52,200	88,195
Due in more than one year	107,985	804,600	912,585
Total liabilities	<u>184,723</u>	<u>1,011,818</u>	<u>1,196,541</u>
DEFERRED INFLOW OF RESOURCES			
Deferred pensions	131,790	341,595	473,385
Total deferred inflow of resources	<u>131,790</u>	<u>341,595</u>	<u>473,385</u>
NET POSITION			
Net investment in capital assets	1,655,130	2,574,719	4,229,849
Restricted for:			
Capital facilities	205,830		205,830
Water joint venture agreement		41,412	41,412
Unrestricted	812,680	3,238,339	4,051,019
Total net position	<u>\$ 2,673,640</u>	<u>\$ 5,854,470</u>	<u>\$ 8,528,110</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
 STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2022

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
Administration	\$ 686,911	\$ -	\$ -	\$ 7,878
Fire protection	1,147,837			
Street lighting	29,241			
Total governmental activities	<u>1,863,989</u>			<u>7,878</u>
Business-type activities:				
Water	1,530,537	2,840,637	295,060	
Sewer	50,382	390,267	12,741	
Garbage	71,686		52,896	
Total business-type activities	<u>1,652,605</u>	<u>3,230,904</u>	<u>360,697</u>	
Total governmental	<u>\$ 3,516,594</u>	<u>\$ 3,230,904</u>	<u>\$ 360,697</u>	<u>\$ 7,878</u>

General Revenues and Transfers:

Taxes:

Property

Use of money and property

Other general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning of fiscal year

Net position - end of fiscal year

The notes to basic financial statements are an integral part of this statement.

Net (Expenses) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (679,033)	\$ -	\$ (679,033)
(1,147,837)		(1,147,837)
<u>(29,241)</u>		<u>(29,241)</u>
<u>(1,856,111)</u>		<u>(1,856,111)</u>
	1,605,160	1,605,160
	352,626	352,626
	<u>(18,790)</u>	<u>(18,790)</u>
	<u>1,938,996</u>	<u>1,938,996</u>
<u>(1,856,111)</u>	<u>1,938,996</u>	<u>82,885</u>
1,182,885		1,182,885
150,949	12,165	163,114
8,713	10,882	19,595
<u>775,155</u>	<u>(775,155)</u>	
<u>2,117,702</u>	<u>(752,108)</u>	<u>1,365,594</u>
261,591	1,186,888	1,448,479
<u>2,412,049</u>	<u>4,667,582</u>	<u>7,079,631</u>
<u>\$ 2,673,640</u>	<u>\$ 5,854,470</u>	<u>\$ 8,528,110</u>

OCEANO COMMUNITY SERVICES DISTRICT
GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2022

	General Fund
	<u> </u>
ASSETS	
Cash and investments	\$ 549,249
Restricted cash and investments	200,868
Accounts receivable	5,962
Prepaid items	40,337
Advances receivable	<u>335,461</u>
Total assets	<u><u>\$ 1,131,877</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 12,793
Accrued payroll and benefits	15,955
Deposits	2,500
Unearned revenue	9,495
Due to other funds	<u>241,775</u>
Total liabilities	<u>282,518</u>
Fund Balance:	
Nonspendable:	
Prepaid items	40,337
Advances receivable	335,461
Restricted:	
Capital facilities	205,830
Assigned:	
Infrastructure replacement	132,658
Unassigned	<u>135,073</u>
Total fund balance	<u>849,359</u>
Total liabilities and fund balance	<u><u>\$ 1,131,877</u></u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND - BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2022

Total fund balance - governmental fund	\$	849,359
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In the governmental fund, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	\$	3,134,439	
Accumulated depreciation		<u>(1,479,309)</u>	
Net			1,655,130

Long-term liabilities: In the governmental fund, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Compensated absences payable	\$	143,980	
Net pension liability (asset)		<u>(151,103)</u>	
Total			7,123

In the governmental fund, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows of \$293,818 and inflows of resources of \$(131,790) relating to pensions are reported.

	<u>162,028</u>
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Total net position - governmental activities	\$	<u><u>2,673,640</u></u>
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The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2022

	<u>General Fund</u>
Revenues:	
Taxes and assessments	\$ 1,182,885
Public facility fee	7,878
Interest income	10,009
Rental income	140,940
Other	8,713
	<hr/>
Total revenues	1,350,425
Expenditures:	
Salaries, wages and directors' stipends	435,913
Payroll taxes and employee benefits	194,683
Liability insurance	30,562
Repairs and maintenance	19,241
Administrative services	6,009
Data processing	18,994
Dues and fees	28,169
Education	5,666
Legal fees	41,518
Miscellaneous	2,872
Office expense	8,336
Street lighting	28,004
Professional fees	52,048
Utilities	22,757
Public safety	1,138,148
Interest expense	11,844
	<hr/>
Total expenditures	2,044,764
	<hr/>
Excess of revenues over (under) expenditures	(694,339)
Other Financing Sources (Uses):	
Transfers in	775,155
	<hr/>
Total other financing sources (uses)	775,155
	<hr/>
Net change in fund balance	80,816
Fund balance - July 1	768,543
	<hr/>
Fund balance - June 30	<u>\$ 849,359</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2022

Total net change in fund balance - governmental fund	\$	80,816
<p>Capital outlays are reported in the governmental fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$0 are less than depreciation expense \$(76,993) in the period.</p>		
		(76,993)
<p>In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In the governmental fund, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, vacation earned exceeded the amounts used by \$13,740.</p>		
		(13,740)
<p>In the governmental fund, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:</p>		
		<u>271,508</u>
Changes in net position - governmental activities	\$	<u><u>261,591</u></u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
June 30, 2022

	Water Fund	Sewer Fund	Garbage Fund	Totals
ASSETS				
Current assets:				
Cash and investments	\$ 1,621,338	\$ 937,266	\$ 178,070	\$ 2,736,674
Accounts receivable, net	522,541	57,756	8,369	588,666
Prepaid expenses	185,765		18,557	204,322
Inventory	24,637	2,539		27,176
Due from other funds	117,182	153,877	15,690	286,749
Total current assets	<u>2,471,463</u>	<u>1,151,438</u>	<u>220,686</u>	<u>3,843,587</u>
Noncurrent assets:				
Net pension asset	249,994	124,997	16,663	391,654
Joint venture deposits	16,796			16,796
Non depreciable capital assets:				
Land	6,000			6,000
Construction in progress	141,287			141,287
Depreciable capital assets:				
Buildings and improvements	4,827,720	2,762,047		7,589,767
Equipment, vehicles and machinery	573,228	294,662	20,976	888,866
Software	156,734	39,184		195,918
Accumulated depreciation	<u>(4,184,704)</u>	<u>(2,041,772)</u>	<u>(20,643)</u>	<u>(6,247,119)</u>
Total noncurrent assets	<u>1,787,055</u>	<u>1,179,118</u>	<u>16,996</u>	<u>2,983,169</u>
Total assets	<u>4,258,518</u>	<u>2,330,556</u>	<u>237,682</u>	<u>6,826,756</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pensions	486,108	243,054	32,400	761,562
Total deferred outflows of resources	<u>486,108</u>	<u>243,054</u>	<u>32,400</u>	<u>761,562</u>
LIABILITIES				
Current liabilities:				
Accounts payable	31,182	2,231	1,633	35,046
Accrued wages and benefits	5,576	1,811	469	7,856
Deposits	111,591			111,591
Unearned revenue		525		525
Due to other funds	15,690		29,284	44,974
Advances payable-current portion	31,286			31,286
Taxable revenue bond obligation - current portion	<u>34,802</u>	<u>17,398</u>		<u>52,200</u>
Total current liabilities	<u>230,127</u>	<u>21,965</u>	<u>31,386</u>	<u>283,478</u>
Noncurrent liabilities:				
Advances payable - non-current portion	304,175			304,175
Taxable revenue bond obligation - non-current portion	536,427	268,173		804,600
Total noncurrent liabilities	<u>840,602</u>	<u>268,173</u>		<u>1,108,775</u>
Total liabilities	<u>1,070,729</u>	<u>290,138</u>	<u>31,386</u>	<u>1,392,253</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred pensions	218,041	109,021	14,533	341,595
Total deferred inflows of resources	<u>218,041</u>	<u>109,021</u>	<u>14,533</u>	<u>341,595</u>
NET POSITION				
Net investment in capital assets	1,520,265	1,054,121	333	2,574,719
Restricted	41,412			41,412
Unrestricted	<u>1,894,179</u>	<u>1,120,330</u>	<u>223,830</u>	<u>3,238,339</u>
Total net position	<u>\$ 3,455,856</u>	<u>\$ 2,174,451</u>	<u>\$ 224,163</u>	<u>\$ 5,854,470</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2022

	Water Fund	Sewer Fund	Garbage Fund	Totals
Operating Revenues:				
Charges for services	\$ 2,840,637	\$ 390,267	\$ -	\$ 3,230,904
Other fees	153,773	12,741	52,896	219,410
Total operating revenues	<u>2,994,410</u>	<u>403,008</u>	<u>52,896</u>	<u>3,450,314</u>
Operating Expenses:				
Salaries and wages	151,298	72,098	17,096	240,492
Payroll taxes and employee benefits	(307,366)	(201,288)	(9,171)	(517,825)
Repairs and maintenance	17,449	51,730	9,426	78,605
Legal and professional	93,002	8,102	6,306	107,410
Dues and fees	12,578	4,912		17,490
Education	4,052	2,524	9,980	16,556
Water meters	22,981			22,981
Wheeled water expense	22,025			22,025
Office expense	574	309	226	1,109
Supplies	13,637	3,489		17,126
Utilities	41,302	1,471	633	43,406
Water supply expense	1,330,393			1,330,393
Administration			36,105	36,105
Depreciation	115,207	100,411	1,085	216,703
Total operating expenses	<u>1,517,132</u>	<u>43,758</u>	<u>71,686</u>	<u>1,632,576</u>
Operating income (loss)	<u>1,477,278</u>	<u>359,250</u>	<u>(18,790)</u>	<u>1,817,738</u>
Non-Operating Revenues (Expenses):				
Grant income	141,287			141,287
Interest income	321	11,844		12,165
Interest expense	(13,405)	(6,624)		(20,029)
Other non-operating revenue	10,762	120		10,882
Total non-operating revenues (expenses)	<u>138,965</u>	<u>5,340</u>		<u>144,305</u>
Income before transfers	<u>1,616,243</u>	<u>364,590</u>	<u>(18,790)</u>	<u>1,962,043</u>
Transfers:				
Transfers in	1,806		901	2,707
Transfers (out)	(384,835)	(342,116)	(50,911)	(777,862)
Total transfers	<u>(383,029)</u>	<u>(342,116)</u>	<u>(50,010)</u>	<u>(775,155)</u>
Change in net position	1,233,214	22,474	(68,800)	1,186,888
Net position - July 1	<u>2,222,642</u>	<u>2,151,977</u>	<u>292,963</u>	<u>4,667,582</u>
Net position - June 30	<u>\$ 3,455,856</u>	<u>\$ 2,174,451</u>	<u>\$ 224,163</u>	<u>\$ 5,854,470</u>

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2022

	Water Fund	Sewer Fund	Garbage Fund	Totals
Cash Flows From Operating Activities:				
Receipts from customers	\$ 2,795,124	\$ 405,266	\$ 37,129	\$ 3,237,519
Payments to suppliers	(1,653,389)	(71,130)	(79,876)	(1,804,395)
Payments to employees	(264,223)	(74,926)	(34,694)	(373,843)
Net cash provided (used) by operating activities	<u>877,512</u>	<u>259,210</u>	<u>(77,441)</u>	<u>1,059,281</u>
Cash Flows From Capital and Related Financing Activities:				
Acquisition of capital assets	(165,076)			(165,076)
Net cash used by capital and related financing activities	<u>(165,076)</u>			<u>(165,076)</u>
Cash Flows from Noncapital Financing Activities:				
Grants received	96,678			96,678
Transfers from (to) other funds	(412,209)	(235,187)	(44,944)	(692,340)
Interfund interest paid	(156)			(156)
Principal paid on loan payable	(32,802)	(16,398)		(49,200)
Interest paid on loan payable	(13,249)	(6,624)		(19,873)
Other revenue	10,762	120		10,882
Net cash provided (used) by noncapital financing activities	<u>(350,976)</u>	<u>(258,089)</u>	<u>(44,944)</u>	<u>(654,009)</u>
Cash Flows From Investing Activities:				
Interest income	320	11,844		12,164
Net cash provided by investing activities	<u>320</u>	<u>11,844</u>		<u>12,164</u>
Net increase (decrease) in cash and cash equivalents	361,780	12,965	(122,385)	252,360
Cash and cash equivalents - July 1	<u>1,259,558</u>	<u>924,301</u>	<u>300,455</u>	<u>2,484,314</u>
Cash and cash equivalents - June 30	<u>\$ 1,621,338</u>	<u>\$ 937,266</u>	<u>\$ 178,070</u>	<u>\$ 2,736,674</u>
Reconciliation to Statement of Net Position:				
Cash and investments	<u>\$ 1,621,338</u>	<u>\$ 937,266</u>	<u>\$ 178,070</u>	<u>\$ 2,736,674</u>

(Continued)

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2022

	Water Fund	Sewer Fund	Garbage Fund	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ 1,477,278	\$ 359,250	\$ (18,790)	\$ 1,817,738
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation expense	115,207	100,411	1,085	216,703
Change in assets, liabilities, deferred inflows of resources, and deferred outflows of resources:				
Receivables, net	(104,995)	2,258	(5,767)	(108,504)
Prepaid expenses	(107,125)		(18,332)	(125,457)
Inventories	(1,484)	(623)		(2,107)
Joint venture deposits	(203)			(203)
Deferred outflows	23,354	45,560	7,773	76,687
Accounts payable	13,416	2,030	1,132	16,578
Accrued wages and benefits	918	47	124	1,089
Deposits	(94,291)			(94,291)
Unearned revenues			(10,000)	(10,000)
Net pension liability (asset)	(650,135)	(351,680)	(48,216)	(1,050,031)
Deferred inflows	205,572	101,957	13,550	321,079
Net cash provided (used) by operating activities	\$ 877,512	\$ 259,210	\$ (77,441)	\$ 1,059,281

The notes to basic financial statements are an integral part of this statement.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

The Oceano Community Services District (“the District”) is a multipurpose special district established on January 1, 1981. The District is a political subdivision of the State of California and operates under a Board of Directors. The District provides water, wastewater, street lighting, and garbage franchise services.

The District complies with the U. S. Generally Accepted Accounting Principles (GAAP) and all relevant Government Accounting Standards Board (GASB) pronouncements. These technical pronouncements establish criteria for determining the District’s activities and functions that are included in the financial statements of a governmental unit. The proprietary funds apply Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) unless those principles conflict with or contradict GASB pronouncements, in which case GASB prevails. There are no component units included in this report which meet the criteria of GASB Statement No. 14 as amended by GASB Statements No. 39, 61, 80, and 90.

B. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

On the government-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item “b” below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds are accounted for using a “current financial resources” measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. All proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or non-current) associated with the operation of these funds are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District defines available to be within 60 days of fiscal year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for principal and interest on long term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent that they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds for governmental long-term debt and acquisitions under leases are reported as other financing sources.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest, and charges for services. Certain indirect costs are included in program expenses reported for individual functions and activities.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the District may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position are available to finance program expenditures. The District’s policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting (Continued)

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. 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 revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Basis of Presentation

Government-wide Statements:

The Statement of Net Position and the Statement of Activities display information about the District. These statements include the financial activities of the overall District government. Eliminations have been made to minimize the double counting of internal activities. Government activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

The fund financial statements provide information about the District's funds. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred inflows of resources, liabilities, deferred outflows of resources, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. All District funds are considered major funds.

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows for all proprietary funds. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total 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 liability is incurred.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund - This is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The fund provides for public administration and overall management as it pertains to the District as a whole as well as the District's street lighting services. It also accounts for the District's fire protection services as agreed upon with the Five Cities Fire Authority Joint Powers Authority.

Proprietary Funds

Enterprise Funds: Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Water Fund - This fund accounts for the operation and maintenance of the District's water distribution, treatment, and monitoring systems.

Sewer Fund - This fund is used to account for all activities of operating sewer services and maintaining the sewer lines.

Garbage Fund - This fund is used to account for the garbage franchise services.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property Taxes

San Luis Obispo County levies, bills, and collects property taxes and special assessments for the District. Property taxes levied are recorded as revenue in the fiscal year of levy, due to the adoption of the “alternate method of property tax distribution,” known as the Teeter Plan, by the District and the County. The Teeter Plan authorizes the Auditor/Controller of the County to allocate 100% of the secured property taxes billed, excluding unitary tax (whether paid or unpaid). The County remits tax monies to the District every month and twice a month in December and April. The final amount which is “teetered” is remitted in August each year.

Tax collections are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls, which constitute a lien against the property, may be paid in two installments; the first is due November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the tax becomes delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payment.

Property valuations are established by the Assessor of the County for the secured and unsecured property tax rolls. Under the provisions of Article XIII A of the State Constitution, properties are assessed at 100% of purchase price or value in 1978 whichever is later. From this base assessment, subsequent annual increases in valuation are limited to a maximum of 2 percent. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax levy dates are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property, as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

E. Cash and Investments

The District pools the cash of all funds, except for monies deposited with fiscal agent in accordance with related bond indentures. The cash and investments balance in each fund represents that fund’s equity share of the District’s cash and investment pool. For purposes of the statement of cash flows, the District has defined cash and cash equivalents to be change and petty cash funds, equity in the District’s cash and investment pool, and restricted non-pooled investments with initial maturities of three months or less.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, 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 District maintains its cash balance in financial institutions in the United States. The balances at the institutions are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2022, the District held cash in financial institutions in excess of federally insured limits.

F. Accounts and Interest Receivable

In the government-wide statements, receivables consist of all revenues earned at fiscal year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts if applicable, and estimated refunds due. Major receivable balances for the governmental activities may include sales taxes, property taxes, grants, and other fees, if any. Business-type activities report utilities as their major receivables.

In the fund financial statements, material receivables in governmental funds may include revenue accruals such as franchise tax, grants, service charges and other similar intergovernmental revenues that are both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned and if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at fiscal year-end and not yet received. Utility accounts receivable and interest earnings comprise the majority of proprietary fund receivables.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Prepaid Expenses and Inventory

Inventory is valued at the lower of cost or market using the first-in, first-out (FIFO) method. The cost is recorded as an expenditure/expense in the funds at the time individual inventory items are purchased rather than when consumed. This is then adjusted by physical inventory at fiscal year-end. Inventory in the enterprise funds consist principally of materials and supplies for utility operations.

Payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

H. Capital Assets

The accounting treatment over property, plant, and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations. The presentation and recording of governmental assets are described below.

Government-Wide Statements

In the government-wide financial statements, capital assets with a historical cost of \$5,000 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, if any, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets.

With the implementation of GASB Statement No. 34, the District has recorded all its public domain (infrastructure) capital assets on the government-wide statements.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Water system	5-75 years
Sanitation system	10-50 years
Drainage	5-50 years
Administration	5-40 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are capitalized when purchased.

I. Accumulated Compensated Absences

Compensated absences comprise unused vacation leave, sick leave, and compensatory time off, which are accrued as earned. Vacation hours, which accrue from the first day of employment, can be taken immediately and are capped at 320 hours. Upon termination, all accumulated vacation hours up to 320 hours are paid out. Sick leave, which accrue from the first day of employment can be taken immediately and can be accrued up to 180 days or 1,440 hours. Upon termination, all accumulated vacation hours up to 180 days are paid out. Payments will be based on the pay rate at the time of termination. The District's liability for the current and long-term portions of compensated absences is shown in the government-wide Statement of Net Position for both governmental funds and proprietary funds. Only proprietary funds reflect the long-term portion in the fund financials report, Statement of Net Position. The short-term portion is reflected for both governmental and proprietary funds in the fund financial statements. Computation was based on rates in effect as of the fiscal year-end.

J. Long-Term Liabilities

In the government-wide financial statements, long-term liabilities are presented for both governmental and proprietary fund types. In the fund financial statements, only the proprietary funds show long-term liabilities.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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 Oceano Community Services District California Public Employees' Retirement System (CalPERS) Miscellaneous, Miscellaneous PEPRA, and Safety Fire Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. 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.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report the following timeframes are used:

Valuation Date:	June 30, 2020
Measurement Date:	June 30, 2021
Measurement Period:	July 1, 2020 through June 30, 2021

L. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 7 for a detailed listing of the deferred outflows of resources the District has recognized.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 7 for a detailed listing of the deferred inflows of resources the District has recognized.

M. Interfund Transactions

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

N. Equity Classifications

Government-Wide Statements

GASB Statement No. 63 requires that the difference between assets and the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is *net investment in capital assets* consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. *Restricted net position* is the portion of the net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. *Unrestricted net position* consists of net position that does not meet the definition of net investments in capital assets or restricted net position.

Governmental Fund Statements

Fund balance is the difference between the assets and liabilities reported in the governmental funds. In compliance with GASB Statement No. 54, the District has established the following fund balance classifications:

Non-spendable – The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – The restricted fund balance classification includes amounts that reflect constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Equity Classifications (continued)

Committed – The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (legislation, resolution, ordinance, etc.) it employed to previously commit those amounts. Committed fund balance should also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – The assigned fund balance classification includes amounts that are constrained by the government's intent to be used for specific purposes, but that are neither restricted nor committed. Such intent is to be established by (a) the Board of Directors itself or (b) the General Manager to which the Board of Directors has delegated the authority to assign amounts to be used for specific purposes.

Unassigned – The unassigned fund balance classification includes amounts that do not fall into one of the above four categories. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned for specific purposes within the General Fund.

When an expenditure is incurred for which both restricted and unrestricted fund balances are available, it is District's policy that the restricted fund balance be spent first followed by committed, then assigned, and, if applicable, unassigned.

O. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 91	"Conduit Debt Obligations"	The provisions of this statement are effective for fiscal years beginning after December 15, 2021.
Statement No. 93	"Replacement of Interbank Offered Rates"	The provisions of this statement except for paragraphs 11b, 13, and 14 are effective for fiscal years beginning after June 15, 2020. Paragraph 11b is effective for fiscal years beginning after December 31, 2021. Paragraphs 13 and 14 are effective for fiscal years beginning after June 15, 2021.
Statement No. 94	"Public-Private and Public-Public Partnerships and Availability Payment Arrangements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2022.
Statement No. 96	"Subscription-Based Information Technology Arrangements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2022.
Statement No. 99	"Omnibus 2022"	The provisions of this statement are effective in April 2022 except for the provisions related to leases, PPPs, SBITAs, financial guarantees and derivative instruments. The provisions related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The provisions related to financial guarantees and derivative instruments are effective for fiscal years beginning after June 15, 2023.
Statement No. 100	"Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62"	The provisions of this statement are effective for fiscal years beginning after June 15, 2023.
Statement No. 101	"Compensated Absences"	The provisions of this statement are effective for fiscal years beginning after December 15, 2023.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by Management. Actual results could differ from these amounts.

NOTE 2 – CASH AND INVESTMENTS

The composition of cash and investments as of June 30, 2022, is as follows:

Cash in bank and on hand	\$ 934,143
Investments	2,552,648
Total cash and investments, Statement of Net Position	<u>\$ 3,486,791</u>

The District categorizes its fair value measurements within the fair value hierarchy established by U.S. Generally Accepted Accounting Principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investment in the San Luis Obispo County Investment Pool of \$2,327,164 is measured under level 2. The District had investments in the money market funds and bank time deposits that are measured at amortized cost are not required to be measured under Level 1, 2 or 3.

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types the District has that are authorized for the District by the California Government Code or the District's investment policy, where more restrictive, that addresses interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations – CA and Others	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	30%	None
Placement Services Deposits	5 years	30%	None
Repurchase and Reserve			
Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
State Registered Warrants, Notes or			
Bonds	N/A	None	None
Notes and Bonds for other Local			
California Agencies	5 years	None	None
Local Agency Investment Fund	5 years	None	\$75,000,000

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District's interest rate risk is mitigated is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosure Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market rate fluctuations is provided by the table on the following page that shows the distribution of the District's investments by maturity as of June 30, 2022.

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Non-Negotiable Certificate of Deposit	\$ 24,616	\$ -	\$ 24,616	\$ -	\$ -
Money Market	200,868	200,868			
San Luis Obispo County Investment Pool	2,327,164	2,327,164			
	<u>\$ 2,552,648</u>	<u>\$ 2,528,032</u>	<u>\$ 24,616</u>	<u>\$ -</u>	<u>\$ -</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The District has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations. Presented below is the minimum rating required by (where applicable) the California Government Code, the investment policy, or debt agreements, and the actual rating as of the fiscal year ended June 30, 2022 for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	Aa	Not Rated
Non-Negotiable Certificate of Deposit	\$ 24,616	N/A	\$ -	\$ -	\$ -	\$ 24,616
Money Market	200,868	N/A				200,868
San Luis Obispo County Investment Pool	2,327,164					2,327,164
	<u>\$ 2,552,648</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,552,648</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The District minimizes its credit risk by investing only in the safest types of securities or investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Deposits are insured up to \$250,000.

The investment in the San Luis Obispo County Investment Pool is not required to be collateralized. The fair value of securities in the pool is based on quoted market prices. The San Luis Obispo County Treasurer's Office performs a monthly fair market valuation of all securities held against carrying costs. Reports of valuations and financial statements are available to participants on the San Luis Obispo County Treasurer's website.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – INTERFUND TRANSACTIONS

Transfers between funds during the fiscal year ended June 30, 2022, were as follows:

Interfund Transfers:

<u>Governmental Fund:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 775,155	\$ -
<u>Proprietary Funds:</u>		
Water	1,806	384,835
Sewer		342,116
Garbage	901	50,911
	<u>\$ 777,862</u>	<u>\$ 777,862</u>

Borrowing between funds during the fiscal year ended June 30, 2022, was as follows:

Advances and Due To/Due From:

<u>Governmental Fund:</u>	<u>Due From</u>	<u>Due To</u>	<u>Advances Receivable</u>	<u>Advances Payable</u>
General	\$ -	\$ 241,775	\$ 335,461	\$ -
<u>Proprietary Funds:</u>				
Water	117,182	15,690		335,461
Sewer	153,877			
Garbage	15,690	29,284		
	<u>\$ 286,749</u>	<u>\$ 286,749</u>	<u>\$ 335,461</u>	<u>\$ 335,461</u>

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2022 was as follows:

Governmental activities:

	<u>Balance at July 1, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2022</u>
Capital assets not being depreciated				
Land	\$ 610,390	\$ -	\$ -	\$ 610,390
Total capital assets not being depreciated	<u>\$ 610,390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 610,390</u>
Capital assets being depreciated				
Buildings and improvements	\$ 2,088,370	\$ -	\$ -	\$ 2,088,370
Vehicles and equipment	435,679			435,679
Total capital assets being depreciated	2,524,049			2,524,049
Less accumulated depreciation	1,402,316	76,993		1,479,309
Total capital assets being depreciated, net	<u>\$ 1,121,733</u>	<u>\$ (76,993)</u>	<u>\$ -</u>	<u>\$ 1,044,740</u>
Net capital assets	<u>\$ 1,732,123</u>	<u>\$ (76,993)</u>	<u>\$ -</u>	<u>\$ 1,655,130</u>

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 – CAPITAL ASSETS (Continued)

Business-type activities:

	Balance at July 1, 2021	Additions	Retirements/ Transfers	Balance at June 30, 2022
Capital assets not being depreciated				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Construction in progress		141,287		141,287
Total capital assets not being depreciated	<u>\$ 6,000</u>	<u>\$ 141,287</u>	<u>\$ -</u>	<u>\$ 147,287</u>
Capital assets being depreciated				
Buildings and improvements	\$ 7,577,290	\$ 12,477	\$ -	\$ 7,589,767
Software	195,918			195,918
Vehicles and equipment	877,554	11,312		888,866
Total capital assets being depreciated	<u>8,650,762</u>	<u>23,789</u>		<u>8,674,551</u>
Less accumulated depreciation	<u>6,030,416</u>	<u>216,703</u>		<u>6,247,119</u>
Total capital assets being depreciated, net	<u>\$ 2,620,346</u>	<u>\$ (192,914)</u>	<u>\$ -</u>	<u>\$ 2,427,432</u>
Net capital assets	<u>\$ 2,626,346</u>	<u>\$ (51,627)</u>	<u>\$ -</u>	<u>\$ 2,574,719</u>

NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of changes in the District's long-term liabilities for the fiscal year ended June 30, 2022:

	Balance at July 1, 2021	Additions	Reductions	Balance at June 30, 2022	Current Portion	Long Term Portion
Governmental Activities:						
Compensated Absences	\$ 130,240	\$ 75,774	\$ 62,034	\$ 143,980	\$ 35,995	\$ 107,985
Net Pension Liability (Asset)	171,963		323,066	(151,103)		
Total Governmental Activities	<u>\$ 302,203</u>	<u>\$ 75,774</u>	<u>\$ 385,100</u>	<u>\$ (7,123)</u>	<u>\$ 35,995</u>	<u>\$ (43,118)</u>
Business-Type Activities:						
Taxable revenue bond obligations	\$ 906,000	\$ -	\$ 49,200	\$ 856,800	\$ 52,200	\$ 804,600
Net Pension Liability (Asset)	658,377		1,050,031	(391,654)		(391,654)
Total Business-Type Activities	<u>\$ 1,564,377</u>	<u>\$ -</u>	<u>\$ 1,099,231</u>	<u>\$ 465,146</u>	<u>\$ 52,200</u>	<u>\$ 412,946</u>

NOTE 6 – TAXABLE REVENUE BOND OBLIGATIONS

On June 3, 2021, the District issued \$906,000 in taxable revenue bonds in order to pay off the unfunded accrued liability with CalPERS on the District's pension plans. The taxable revenue obligations were issued at an interest rate of 3.46% per annum and mature on August 1, 2035. Net revenues of the Water and Sewer funds were pledged as the security for the obligations. Debt service payments are due semi-annually on August 1 and February 1. The future minimum payment obligations for the taxable revenue bonds are as follows:

Fiscal Year Ending	Principal	Interest	Total
2023	\$ 52,200	\$ 28,742	\$ 80,942
2024	54,100	26,903	81,003
2025	56,000	24,999	80,999
2026	57,900	23,028	80,928
2027	60,000	20,988	80,988
2028-2032	321,200	71,909	393,109
2033-2036	255,400	17,961	273,361
Total	<u>\$ 856,800</u>	<u>\$ 214,530</u>	<u>\$ 1,071,330</u>

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 7 – PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the District’s separate Safety and Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit plans administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS 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 employment. Classic Plan members with five years of total service are eligible to retire at age 50 and new members/PEPRA Plan members with five years of total service are eligible to retire at age 52, with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

Contribution rates are based on the Actuarial Valuation Report as of June 30, 2020. The Plans’ provisions and benefits in effect at June 30, 2022, are summarized as follows:

	Miscellaneous		Safety
	Classic Member Hired Prior to January 1, 2013*	New Member Hired On or after January 1, 2013	Classic Member Hired Prior to January 1, 2013*
Hire Date			
Benefit formula	2.0% @ 55	2% @ 62	2% @ 50
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-63	52-67	50-55
Monthly benefits, as a % of eligible compensation	1.46% to 2.418%	1.0% to 2.5%	2.0-2.7%
Required employee contribution rates	7.00%	6.75%	N/A
Required employer contribution rates	10.34% + \$53,432	7.59% + \$5,575	\$13,815

* A new employee may transfer into the Classic Member formula if he/she comes from another agency participating in the CalPERS or reciprocal retirement system and did not have more than a six month break in service.

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. 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 District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$0 for the Safety Plan and \$68,835 for the Miscellaneous Plan for the fiscal year ended June 30, 2022.

B. Pension Liabilities (Assets), Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

At June 30, 2022, the District reported net pension assets for its proportionate shares of the net position liability (asset) of each Plan as follows:

	Proportionate Share of Net Pension Liability (Asset)
Miscellaneous	\$ (488,705)
Safety	(54,052)
Total	<u>\$ (542,757)</u>

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 7 – PENSION PLANS (Continued)

B. Pension Liabilities (Assets), Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The net pension liability (asset) was measured as of June 30, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2021, the District's proportionate share of the net pension liability (asset) for each Plan as of June 30, 2020 and June 30, 2021 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion-June 30, 2020	0.01731%	0.00150%
Proportion-June 30, 2021	<u>-0.02574%</u>	<u>-0.00154%</u>
Change-Increase (Decrease)	<u><u>-0.04305%</u></u>	<u><u>-0.00304%</u></u>

For the fiscal year ended June 30, 2022, the District recognized pension expense of \$854,936. Pension expense represents the change in the net pension liability (asset) during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ (64,038)	\$ -
Net difference between projected and actual earnings on retirement plan investments	458,785	
Adjustment due to differences in proportion	17,665	464,948
Changes in proportion and differences between District contributions and proportionate share of contributions	574,133	8,437
District contributions subsequent to the measurement date	<u>68,835</u>	
	<u>\$ 1,055,380</u>	<u>\$ 473,385</u>

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

\$68,835 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2023.

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

<u>Fiscal year ending June 30</u>	<u>Amount</u>
2023	\$ 125,945
2024	131,297
2025	129,172
2026	126,746
	<u>\$ 513,160</u>

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 7 – PENSION PLANS (Continued)

B. Pension Liabilities (Assets), Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous and Safety</u>
Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return (1)	7.00%
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.75% thereafter

- (1) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of Sale MP 2016. For more details on this table please refer to the December 2017 experience study report.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on testing the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB No. 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2022. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2021-22 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short term (first 10 years) and the long term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits were calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table on the following page reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 7 – PENSION PLANS (Continued)

B. Pension Liabilities (Assets), Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	<u>100.0%</u>		

(a) An expected inflation of 2.00% was used for this period.

(b) An expected inflation of 2.92% was used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability (Asset) to Changes in Discount Rate

The following represents the District's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.15 percent, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.15 percent) or 1 percentage point higher (8.15 percent) than the current rate:

	Discount Rate -1% 6.15%	Current Discount Rate 7.15%	Discount Rate +1% 8.15%
Net Pension Asset - Miscellaneous	\$ (71,171)	\$ (488,705)	\$ (833,874)
Net Pension Asset - Safety	(1,130)	(54,052)	(97,521)
Net Pension Asset - Total	<u>\$ (72,301)</u>	<u>\$ (542,757)</u>	<u>\$ (931,395)</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately-issued CalPERS financial reports.

C. Payable to the Pension Plan

At June 30, 2022, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2022.

NOTE 8 – JOINT VENTURES

State Water Project

In 1991, the District approved participation in the State Water Project (SWP). As a result, the District entered into two contracts with the San Luis Obispo County Flood Control and Water Conservation District (SLOFCD). One agreement is entitled "Water Supply Agreement" and the other is entitled "Water Treatment and Local Facilities Agreement."

The Water Supply Agreement is for the SWP source of supply, which is an allocation of 750 acre feet per year. The Water Supply Agreement incorporates by reference the SLOFCD agreement with the California Department of Water Resources (DWR), which is termed the "Master Water Supply Agreement." The District is obligated to pay its proportionate share of the cost of the SWP facilities owned by the California Department of Water Resources (DWR) that is used to convey the District's source of supply to the "Lopez Turnout," plus a proportionate share of the SLOFCD costs. The Lopez Turnout connects the SWP facilities to Lopez facilities enabling State Water deliveries to the District. The District's prorated share of operating, maintenance, pumping, and other related costs are charged as an operating expense in the Water Fund. The portion of the costs that is fixed in nature must be paid regardless of water deliveries. Variable costs are paid based on actual water deliveries.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 8 – JOINT VENTURES (Continued)

State Water Project (Continued)

The Water Treatment and Local Facilities agreement is for treatment of the SWP supply and for construction associated with the Lopez Turnout, a local facility. The Water Treatment and Local Facilities agreement incorporates by reference the SLOFCD agreement with the Central Coast Water Authority termed the "Master Water Treatment Agreement." The District is obligated to pay its proportionate share of treatment facilities owned and operated by CCWA, and for the cost of local facilities specifically benefitting the District – the Lopez Turnout. The portion of the costs that is fixed in nature must be paid regardless of water deliveries. Variable costs are paid based on actual water deliveries.

The District is required to make payments under its Water Supply agreement and its Water Treatment and Local Facilities agreement from the revenues of its water system. The District has agreed in its agreements to fix, prescribe and collect rates and charges for its water system which will be at least sufficient to yield each fiscal year's net revenues equal to 125% of the sum of (1) the payment required pursuant to the agreements, and (2) debt service on any existing participant obligation for which revenues are also pledged.

On October 1, 1992, CCWA sold \$177,120,000 in revenue bonds at a true interest cost of 6.64% to enable CCWA to finance a portion of the costs of constructing a water treatment plant to treat SWP water for use by various participating water purveyors and users within Santa Barbara and San Luis Obispo Counties, local facilities needed to deliver such water to the participating water purveyors and users, and certain other local improvements to the water systems of some of the participating purveyors. In November 1996, CCWA sold \$198,015,000 of revenue bonds at a true interest cost of 5.55% to defease CCWA's \$177,120,000 1992 revenue bonds and to pay certain costs of issuing the bonds. The 1996 bonds were issued in two series: Series A of \$173,015,000 and Series B of \$25,000,000. The Series B bonds are subject to mandatory redemption from amounts transferred from the Construction Fund and the Reserve Fund upon completion of the construction of the CCWA facilities.

The District's current fiscal year State water project expense totaled \$809,075. All of the District's disbursements were paid to the SLOFCD, which is obligated to pay to DWR and CCWA the District's proportionate share of costs to those agencies.

The District also contracts with SLOFCD for an annual allocation of 303 acre feet of water from the Lopez project, issued voter-approved general obligation bonds for the purpose of building Lopez Dam, a storage reservoir, water treatment plant, and other facilities to provide a primary municipal water supply. The District has entered into a water supply agreement wherein the District has agreed to pay annually, regardless of water deliveries, a prorated percentage of certain costs. In addition, the District also pays the San Luis Obispo County Flood Control and Water Conservation District a prorated share of operating, maintenance, pumping, and related operating costs which are charge as an operating expense in the Water Fund. The District's current fiscal year San Luis Obispo County Flood Control and Water Conservation District expense totaled \$521,318.

South San Luis Obispo County Sanitation District

The District does not own and operate a separate wastewater treatment plant facility. The Oceano Community Services District's waste is transported through District-owned and District-maintained lines for processing at the South San Luis Obispo County Sanitation District plant.

Five Cities Fire Authority

The District is a member of the Five Cities Fire Authority (FCFA), a joint powers authority between the Cities of Arroyo Grande, Grover Beach, and the Oceano Community Services District. FCFA was formed on July 9, 2010, for the purpose of providing a more efficient fire protection service within the City limits of Arroyo Grande and Grover Beach, as well as the towns of Oceano and Halcyon. Each member contributes its pro-rated share of operating costs to FCFA based on a funding formula calculated annually. In 2015, it was determined that adherence to the funding formula had not occurred in prior years. Any recalculation of prior year funding, and adjustments that may be made to remedy differences between actual funding and funding that would have adhered to the agreement establishing the joint powers authority is indeterminable at this time.

The FCFA governing board consists of one member appointed from each participating entity and shall be appointed as determined by the respective City Council or Board of Directors. All financial decisions are made by this three-member board. The District contributed \$1,138,148 to FCFA during the fiscal year ended June 30, 2022 for fire protections services. Separate financial statements may be obtained from the Five Cities Fire Authority at 140 Traffic Way in Arroyo Grande, California.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 9 – RISK MANAGEMENT AND CONTINGENCIES

Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the California Association of Mutual Water Companies Joint Powers Risk and Insurance Management Authority (JPRIMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for small California water agencies. The purpose of the JPRIMA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At June 30, 2022, the District participated in the liability and property programs of the JPRIMA as follows:

- General and auto liability: The District has a \$500 deductible for general and auto liability. The District purchased additional excess coverage layers: \$5 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.
- Employee dishonesty coverage and public officials' liability up to \$1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, computer fraud coverages.
- Property loss/Boiler and Machinery is paid based on the replacement cost or actual cash value for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis, to a combined total of \$4 million subject to a \$1,000 deductible per occurrence for most equipment.
- Workers' compensation insurance provides coverage with a self-insured retention limit of \$1 million for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2021, 2020 and 2019. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2022, 2021, and 2020.

Legal Contingency

In the opinion of management and legal counsel, the disposition of any pending litigation will not have an anticipated material effect on the City's financial statements as of June 30, 2022.

Construction Contingency

The District has no construction contingencies as of June 30, 2022.

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REQUIRED SUPPLEMENTARY INFORMATION

OCEANO COMMUNITY SERVICES DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive (Negative)</u>
Revenues:				
Taxes and assessments	\$ 1,139,701	\$ 1,139,701	\$ 1,182,885	\$ 43,184
Public facility fee	15,000	15,000	7,878	(7,122)
Interest income			10,009	10,009
Rental income	140,940	140,940	140,940	
Other	2,848	2,848	8,713	5,865
	<u>1,298,489</u>	<u>1,298,489</u>	<u>1,350,425</u>	<u>51,936</u>
Expenditures:				
Salaries, wages, and director stipends	458,040	458,040	435,913	22,127
Payroll taxes and employee benefits	149,025	149,025	194,683	(45,658)
Liability insurance	29,600	29,600	30,562	(962)
Repairs and maintenance	27,625	27,625	19,241	8,384
Administrative services	8,450	8,450	6,009	2,441
Data processing	18,500	18,500	18,994	(494)
Dues and fees	26,055	26,055	28,169	(2,114)
Education	7,600	7,600	5,666	1,934
Legal fees	92,000	92,000	41,518	50,482
Miscellaneous	515	515	2,872	(2,357)
Office expense	11,345	11,345	8,336	3,009
Street lighting	30,000	30,000	28,004	1,996
Professional fees	58,115	65,615	52,048	13,567
Utilities	26,800	26,800	22,757	4,043
Public safety	1,138,148	1,138,148	1,138,148	
Interest expense			11,844	(11,844)
	<u>2,081,818</u>	<u>2,089,318</u>	<u>2,044,764</u>	<u>44,554</u>
Excess of revenues over (under) expenditures	<u>(783,329)</u>	<u>(790,829)</u>	<u>(694,339)</u>	<u>96,490</u>
Other Financing Sources (Uses)				
Transfers in	830,936	830,936	775,155	(55,781)
Transfers out	(124,944)	(124,944)		124,944
	<u>705,992</u>	<u>705,992</u>	<u>775,155</u>	<u>69,163</u>
Net change in fund balance	(77,337)	(84,837)	80,816	165,653
Fund balance - July 1	<u>768,543</u>	<u>768,543</u>	<u>768,543</u>	
Fund balance - June 30	<u>\$ 691,206</u>	<u>\$ 683,706</u>	<u>\$ 849,359</u>	<u>\$ 165,653</u>

OCEANO COMMUNITY SERVICES DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 Last 10 Years*
 As of June 30, 2022

The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net pension liability	-0.01004%	0.00763%	0.00741%	0.00715%	0.00704%
Proportionate share of the net pension liability (asset)	\$ (542,757)	\$ 830,340	\$ 759,574	\$ 689,459	\$ 698,116
Covered payroll	\$ 674,882	\$ 643,799	\$ 577,089	\$ 573,557	\$ 544,352
Proportionate share of the net pension liability as a percentage of covered payroll	-80.42%	128.98%	131.62%	120.21%	128.25%
Plan's total pension liability	\$46,174,942,264	\$43,702,930,887	\$ 41,426,453,489	\$ 38,944,855,364	\$ 37,161,348,332
Plan's fiduciary net position	\$40,766,653,876	\$32,822,501,335	\$ 31,179,414,067	\$ 29,308,589,559	\$ 27,244,095,376
Plan fiduciary net position as a percentage of the total pension liability	88.29%	75.10%	75.26%	75.26%	73.31%
	<u>2017</u>	<u>2016</u>	<u>2015</u>		
Proportion of the net pension liability	0.00692%	0.00649%	0.00676%		
Proportionate share of the net pension liability (asset)	\$ 598,558	\$ 445,280	\$ 420,438		
Covered payroll	\$ 437,408	\$ 453,904	\$ 312,044		
Proportionate share of the net pension liability as a percentage of covered payroll	136.84%	98.10%	134.74%		
Plan's total pension liability	\$ 33,358,627,624	\$ 31,771,217,402	\$ 30,829,966,631		
Plan's fiduciary net position	\$ 24,705,532,291	\$ 24,907,305,871	\$ 24,607,502,515		
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	79.82%		

Notes to Schedule:

There were no changes in assumptions or benefit terms for the fiscal year ended June 30, 2022.

*- Fiscal year 2015 was the 1st year of implementation, therefore only eight years are shown.

OCEANO COMMUNITY SERVICES DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
 Last 10 Years*
 As of June 30, 2022

The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 68,835	\$ 122,565	\$ 101,217	\$ 83,717	\$ 73,333
Contribution in relation to the actuarially determined contributions	(68,835)	(954,271)	(101,217)	(83,717)	(73,333)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (831,706)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 682,293	\$ 674,882	\$ 643,779	\$ 577,089	\$ 573,557
Contributions as a percentage of covered payroll	10.09%	141.40%	15.72%	14.51%	12.79%
	<u>2017</u>	<u>2016</u>	<u>2015</u>		
Contractually required contribution (actuarially determined)	\$ 65,457	\$ 52,723	\$ 49,702		
Contribution in relation to the actuarially determined contributions	(65,457)	(52,723)	(49,702)		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Covered payroll	\$ 544,352	\$ 437,408	\$ 453,904		
Contributions as a percentage of covered payroll	12.02%	12.05%	10.95%		

Notes to Schedule

There were no changes in assumptions or benefit terms for the fiscal year ended June 30, 2022.

*- Fiscal year 2015 was the 1st year of implementation, therefore only eight years are shown.

Conditions of Purchase

1. The only terms that will be honored are those issued by the Oceano Community Services District (District).
2. No acknowledgment of this order is required. If this purchase order is the result of a written bid or quotation, the purchase order shall serve as acceptance thereof. If this purchase order is the result of an informal oral or written quote, acceptance will be assumed unless otherwise advised within (10) days of the date of the order. Unless otherwise specified, the U.S. Mail shall be the accepted means of communication.
3. Purchase order numbers shall appear on all invoices, packages, crates, boxes, etc.
4. Invoices must include only items shown on this order. In the event any item included on this order is not delivered, please notify the District at once as to the reason for the delay and the date we can expect delivery. Do not include any item which is back ordered on your invoice. Any invoice or claim on this contract must be presented within 1 year from delivery of goods or services.
5. Changes of any kind are not authorized without permission from the District.
6. The District reserves the right to cancel any or all items not shipped within the time specified on the order.
7. No charges for transportation, containers, packing, etc. will be allowed unless specified on the order.
8. All material furnished must be as specified and will be subject to inspection and approval of the District after delivery. The right is reserved to reject and return at the risk and expense of the supplier such portion of any shipment which may be defective or fail to comply with specifications without invalidating the remainder of the order. Rejected material will be held for disposition at the expense and risk of the seller. Manufacturer's warranty shall apply to all materials incorporated into work.
9. This order is subject to sales tax, exempt from federal tax. Certificate of exemption will be provided upon request.
10. All goods and/or services shall be in compliance with all federal, state and local law including but not limited to OSHA and CAL OSHA.
11. The seller shall provide the District with a Material Safety Data Sheet for each product containing substances on the List of Hazardous Substances published by the California Administrative Code, Title S, Section 5194. These sheets must be sent to Oceano Community Services District at P O Box 599, Oceano, CA 93475-0599. Please reference the above purchase order number.

INSURANCE REQUIREMENTS

INDEMNIFICATION

To the fullest extent permitted by law, CONTRACTOR shall indemnify, defend and hold harmless the District and its officers, agents, employees, and volunteers from and against all claims, demands, damages, liabilities, loss, costs, and expense (including attorney's fees and costs of litigation) of every nature arising out of or in connection with Contractor's performance or attempted performance of work hereunder or its failure to comply with any of its obligations contained in the agreement, except such loss or damage which was caused by sole negligence or willful misconduct of the District.

LIMITATION OF LIABILITY

Notwithstanding anything to contrary in the Agreement, and to the extent permitted by applicable law, the maximum liability, if any, of either Party for any damages, including without limitation, agreement damages and damages of property, whether arising from breach of agreement, breach of warranty, negligence, strict liability, or other tort, is limited to an amount not to exceed the aggregate of TWO TIMES THE FACE VALUE OF THE AGREEMENT, which shall be the sole and exclusive remedy under the Agreement. In no event shall either Party be liable for indirect, incidental, special, punitive, or consequential damages of any kind (including without limitation downtime, property damage, loss of profit or revenue, loss of data, damage to goodwill) howsoever caused or arising from the Agreement or the breach of the Agreement, whether in indemnity, tort, contract, or otherwise. Nothing in the Agreement excludes or limits liability for death or personal injury caused by a party's gross negligence or willful misconduct.

INSURANCE COVERAGE

Contractor shall procure and maintain for the duration of the contract insurance against claims for injuries to persons or damages to property which may arise from or in connection with the performance of the work hereunder by the Contractor, its agents, representatives, or employees.

MINIMUM SCOPE AND LIMIT OF INSURANCE

Coverage shall be at least as broad as:

1. Commercial General Liability (CGL); Insurance Services Office (ISO) Form CG 0001 covering CGL on an "occurrence" basis for bodily injury and property damage, including products-completed, operations, personal injury and advertising injury, with limits no less than \$1,000,000 per occurrence. If a general aggregate limit applies either the general aggregate limit shall apply separately to this project/location or the general aggregate limit shall be twice the required occurrence limit.

2. Automobile Liability: ISO Form Number CA 0001 covering, Code 1 (any auto), or if Contractor has no owned autos, Code 8 (hired) and 9 (non-owned), with limit no less than \$1,000,000 per accident for bodily injury and property damages.
3. Worker Compensation insurance as required by the State of California, with Statutory Limits, and Employer's Liability insurance with limit of no less than \$1,000,000 per accident for bodily injury or disease. If Contractor will provide leased employees, or is an employee leasing or temporary staffing firm or a professional employer organization (PEO), coverage shall also include an Alternate Employer Endorsement (providing scope of coverage equivalent to ISO policy form WC 00 03 O1 A) naming the District as the Alternate Employer, and the endorsement form shall be modified to provide that District will receive not less than thirty (30) days advance written notice of cancellation of this coverage provision. If applicable to Contractor's operations, coverage also shall be arranged to satisfy the requirements of any federal workers or workmen's compensation law or any federal occupational disease law.
(Not required if Contractor provides written verification it has no employees)

If the contractor maintains higher limits than the minimums shown above, the District requires and shall be entitled to coverage for the higher limits maintained by the contractor.

OTHER INSURANCE PROVISIONS

The insurance policies are to contain, or be endorsed to contain, the following provisions:

Additional Insured Status:

The District, its officers, officials, employees, and volunteers are to be covered as insureds on the auto policy with respect to liability arising out of automobiles owned, leased, hired or borrowed by, or on behalf of the Contractor; and on the CGL policy with respect to liability arising out of work or operations performed by or on behalf of the Contractor including materials, parts, or equipment furnished in connection with such work or operations. General liability coverage can be provided in the form of an endorsement to the Contractor's insurance (at least as broad as ISO Form CG 20 10, 11 85 or both CG 20 10 and CG 23 37 forms if later revisions used).

Primary Coverage

For any claims related to this contract, the Contractor's insurance coverage shall be primary insurance as respects the District, its officers, officials, employees, and volunteers. Any insurance of self-insurance maintained by the District, its officers, officials, employees, or volunteers shall be excess of the Contractor's insurance and shall not contribute with it.

Notice of Cancellation

Each insurance policy required above shall state that coverage shall not be canceled, except after thirty (30) days prior written notice (10 days for non-payment) has been given to the District.

Failure to Maintain Insurance

Contractor's failure to maintain or to provide acceptable evidence that it maintains the required insurance shall constitute a material breach of the Contract upon which the District immediately

may withhold payments due to Contractor, and/or suspend or terminate this Contract. The District, at its sole discretion, may obtain damages from Contractor resulting from said breach.

Waiver of Subrogation

Contractor hereby grants to District a waiver of any right to subrogation which any insurer of said Contractor may acquire against the District by virtue of the payment of any loss under such insurance. Contractor agrees to obtain any endorsement that may be necessary to affect this waiver of subrogation, but this provision applies regardless of whether or not the District has received a waiver of subrogation endorsement from the insurer.

Deductibles and Self-Insured Retentions

Any deductibles or self-insured retentions must be declared to and approved by the District. The District may require the Contractor to provide proof of ability to pay losses and related investigation, claim administration, and defense expenses within the retention.

Acceptability of Insurers

Insurance is to be placed with insurers with a current A.A. Best's rating of no less than A:VII, unless otherwise acceptable to the District.

Claims Made Policies

If any of the required policies provide coverage on a claims-made basis:

1. The Retroactive Date must be shown and must be before the date of the contract or the beginning of contract work;
2. Insurance must be maintained and evidence of insurance must be provided for at least five (5) years after completion of the contract of work;
3. If coverage is canceled or non-renewed, and not replaced with another claims-made policy form with a Retroactive date prior to the contract effective date, the Contractor must purchase "extended reporting" coverage for a minimum of five (5) years.

Separation of Insured's

All liability policies shall provide cross-liability coverage as would be afforded by the standard ISO (Insurance Services Office, Inc.) separate of insured's provision with no insured versus insured exclusions or limitation.

Verification of Coverage

Contractor shall furnish the District with original certificates and mandatory endorsements or copies of the applicable policy language effecting coverage required by this clause. All certificates and endorsements are to be received and approved by the District before work commences. However, failure to obtain the required documents prior to the work beginning shall not waive the Contractor's obligation to provide them. The District reserves the right to required complete, certified copies of all required insurance policies, including endorsements required by these specifications, at any time.

Certificates and copies of any required endorsements shall be sent to:

Oceano Community Services District
P.O. Box 599
Oceano, CA 93475-0599

Subcontractors

Contractor shall require and verify that all subcontractors maintain insurance meeting all the requirements stated herein.

Special Risks or Circumstances

District reserves the right to modify these requirements, including limits, based on the nature of the risk, prior experience, insurer, coverage, or other special circumstances.