

Oceano Community Services District

Financial Statements

June 30, 2015

Oceano Community Services District

BOARD OF DIRECTORS

Mary K. Lucey, President

Karen White, Vice President

Lori J. Angello, Director

Jennifer Blackburn, Director

Matthew G. Guerrero, Director

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Independent Auditors 'Report on the Financial Statements

To the Board of Directors
of Oceano Community Services District
Oceano, California

We have audited the accompanying financial statements of Oceano Community Services District (District), which comprise the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as of the year ended June 30, 2015, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Independent Auditors 'Report on the Financial Statements – Continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oceano Community Services District as of June 30, 2015 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the District adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions* as of July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 37, be presented to support the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Accounting principles generally accepted in the United States of America require that the Schedules of the District's Proportionate Share of the Net Pension Liability, and the District's Pension Contributions on pages 38 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in 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 inquires 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.



Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Caliber Audit & Attest, LLP

San Luis Obispo, California
October 27, 2016

Oceano Community Services District

**Statement of Net Position
June 30, 2015**

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash and investments	\$ 615,272	\$ 2,037,089	\$ 2,652,361
Accounts receivable, less allowance for doubtful accounts of \$7,223	-	315,343	315,343
Due from (due to) other funds	788,563	(788,563)	-
Prepaid expenses	3,422	266,065	269,487
Deposits	1,386	-	1,386
Inventory	-	30,277	30,277
Total current assets	<u>1,408,643</u>	<u>1,860,211</u>	<u>3,268,854</u>
Non-current Assets			
Joint venture deposits	-	201,255	201,255
Total noncurrent assets	<u>-</u>	<u>201,255</u>	<u>201,255</u>
Capital Assets			
Non-depreciable:			
Land	385,391	231,000	616,391
Depreciable:			
Buildings and improvements	637,168	8,168,071	8,805,239
Equipment, vehicles and machinery	214,504	767,067	981,571
Software	-	195,918	195,918
Accumulated depreciation	(726,666)	(4,863,216)	(5,589,882)
Total capital assets	<u>510,397</u>	<u>4,498,840</u>	<u>5,009,237</u>
Total assets	<u>1,919,040</u>	<u>6,560,306</u>	<u>8,479,346</u>
Deferred Outflows of Resources for Pension	<u>37,387</u>	<u>19,720</u>	<u>57,107</u>
LIABILITIES			
Current Liabilities			
Accounts payable	33,029	116,810	149,839
Accrued wages and benefits	52,604	10,081	62,685
Accrued interest payable	-	875	875
Customer deposits	3,000	38,098	41,098
Unearned revenue	-	23,034	23,034
Total current liabilities	<u>88,633</u>	<u>188,898</u>	<u>277,531</u>
Non-current liabilities:			
Due within one year	-	22,531	22,531
Due in more than one year	279,894	231,182	511,076
Total non-current liabilities	<u>279,894</u>	<u>253,713</u>	<u>533,607</u>
Total liabilities	<u>368,527</u>	<u>442,611</u>	<u>811,138</u>
Deferred Inflows of Resources for Pension	<u>33,529</u>	<u>18,933</u>	<u>52,462</u>
NET POSITION			
Invested in capital assets, net of related debt	510,397	4,385,671	4,896,068
Restricted	182,642	201,255	383,897
Unrestricted	861,332	1,531,556	2,392,888
Total net position	<u>\$ 1,554,371</u>	<u>\$ 6,118,482</u>	<u>\$ 7,672,853</u>

Oceano Community Services District

**Statement of Activities
Year Ended June 30, 2015**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenue and Changes in Net Assets</u>			
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities							
Administrative	\$ 611,050	\$ 587,255	\$ -	\$ -	\$ (23,795)	\$ -	\$ (23,795)
Fire protection	729,482	-	-	-	(729,482)	-	(729,482)
Street lighting	37,630	-	-	-	(37,630)	-	(37,630)
Total governmental activities	<u>1,378,162</u>	<u>587,255</u>	<u>-</u>	<u>-</u>	<u>(790,907)</u>	<u>-</u>	<u>(790,907)</u>
Business-type activities							
Water	2,116,520	1,899,278	-	-	-	(217,242)	(217,242)
Sewer	938,496	840,209	-	1,602	-	(96,685)	(96,685)
Garbage	49,899	117,551	-	-	-	67,652	67,652
Total business-type activities	<u>3,104,915</u>	<u>2,857,038</u>	<u>-</u>	<u>1,602</u>	<u>-</u>	<u>(246,275)</u>	<u>(246,275)</u>
Total	<u>\$ 4,483,077</u>	<u>\$ 3,444,293</u>	<u>\$ -</u>	<u>\$ 1,602</u>	<u>(790,907)</u>	<u>(246,275)</u>	<u>(1,037,182)</u>
General Revenues							
Taxes and assessments					854,256	-	854,256
Interest income					4,053	870	4,923
Rental income					26,426	113,940	140,366
Other general revenues					49,430	-	49,430
Total general revenues					<u>934,165</u>	<u>114,810</u>	<u>1,048,975</u>
Change in net position					143,258	(131,465)	11,793
Net position - July 1, 2014 as previously reported					1,766,997	6,433,940	8,200,937
Cumulative effect of change in accounting principle					(355,884)	(183,993)	(539,877)
Net position - June 30, 2015					<u>\$ 1,554,371</u>	<u>\$ 6,118,482</u>	<u>\$ 7,672,853</u>

See Notes to Financial Statements.

Oceano Community Services District

Balance Sheet - Governmental Fund

June 30, 2015

ASSETS	
Assets	
Cash and investments	\$ 615,272
Due from other funds	788,563
Prepaid expenses	3,422
Deposits	1,386
Total assets	<u>1,408,643</u>
Deferred Outflows of Resources for Pension	<u>37,387</u>
Total assets and deferred outflows of resources	<u><u>\$ 1,446,030</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 33,029
Accrued wages and benefits	52,604
Customer deposits	3,000
Net pension liability	279,894
Total liabilities	<u>368,527</u>
Deferred Inflows of Resources for Pension	<u>33,529</u>
Fund Balance	
Nonspendable	793,371
Restricted	182,642
Committed	-
Assigned	-
Unassigned	67,961
Total fund balance	<u>1,043,974</u>
Total liabilities and fund balance	<u><u>\$ 1,446,030</u></u>

See Notes to Financial Statements.

Oceano Community Services District

*Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Position
June 30, 2015*

Total fund balance - governmental fund \$ 1,043,974

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

Capital assets at historical cost	\$ 1,237,063	
Accumulated depreciation	<u>(726,666)</u>	
Net		<u>510,397</u>

Total net position - governmental activities \$ 1,554,371

See Notes to Financial Statements.

Oceano Community Services District

*Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund
Year Ended June 30, 2015*

<i>Revenues</i>	General Fund
Taxes and assessments	\$ 854,256
Interest income	4,053
Rental income	26,426
Administration cost allocation	587,255
Other	49,430
Total revenue	<u>1,521,420</u>
<i>Expenditures</i>	
Salaries and wages	352,528
Payroll taxes and employee benefits	32,332
Liability insurance	5,884
Repairs and maintenance	17,430
Vehicle operations and maintenance	377
Administrative services	12,369
Data processing	3,932
Dues and fees	4,910
Education	736
Legal fees	86,664
Miscellaneous	5,317
Office expense	13,221
Street lighting	37,630
Professional fees	34,010
Utilities	33,951
Public safety	729,482
Total expenditures	<u>1,370,773</u>
Excess of revenues over expenditures	150,647
Transfer for purchase of fixed assets	(3,165)
Fund balance - June 30, 2014 as previously reported	1,252,376
Cumulative effect of change in accounting principle	<u>(355,884)</u>
Fund balance - June 30, 2015	<u><u>\$ 1,043,974</u></u>

See Notes to Financial Statements.

Oceano Community Services District

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

Total net change in fund balance - governmental funds	\$ 147,482
Capital outlays - reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlays of \$3,165, and retirements of \$0, is less than depreciation expense of \$(7,389) in the period.	<u>(4,224)</u>
Change in net position - governmental activities	<u><u>\$ 143,258</u></u>

See Notes to Financial Statements.

Oceano Community Services District

**Statement of Net Position - Proprietary Funds
June 30, 2015**

ASSETS	Water Fund	Sewer Fund	Garbage Fund	Total
Current Assets				
Cash and investments	\$ 785,863	\$ 992,933	\$ 258,293	\$ 2,037,089
Accounts receivable, less allowance for doubtful accounts of \$7,223	250,560	60,753	4,030	315,343
Due from other funds	-	-	60,149	60,149
Prepaid expenses	256,273	9,123	669	266,065
Inventory, at cost	27,952	2,325	-	30,277
Total current assets	<u>1,320,648</u>	<u>1,065,134</u>	<u>323,141</u>	<u>2,708,923</u>
Non-current Assets				
Joint venture deposits	201,255	-	-	201,255
Total non-current assets	<u>201,255</u>	<u>-</u>	<u>-</u>	<u>201,255</u>
Capital Assets				
Non-depreciable:				
Land	73,500	157,500	-	231,000
Depreciable:				
Buildings and improvements	4,619,988	3,548,083	-	8,168,071
Equipment, vehicles and machinery	478,126	277,019	11,922	767,067
Software	156,734	39,184	-	195,918
Accumulated depreciation	<u>(3,357,780)</u>	<u>(1,493,514)</u>	<u>(11,922)</u>	<u>(4,863,216)</u>
Total net capital assets	<u>1,970,568</u>	<u>2,528,272</u>	<u>-</u>	<u>4,498,840</u>
Total assets	<u>3,492,471</u>	<u>3,593,406</u>	<u>323,141</u>	<u>7,409,018</u>
Deferred Outflows of Resources for Pension	<u>13,894</u>	<u>4,973</u>	<u>853</u>	<u>19,720</u>
LIABILITIES AND NET POSITION				
Current Liabilities				
Accounts payable	14,559	102,113	138	116,810
Accrued wages and benefits	6,729	2,871	481	10,081
Accrued interest payable	875	-	-	875
Customer deposits	36,523	1,575	-	38,098
Unearned revenue	2,849	6,647	13,538	23,034
Due to other funds	840,802	7,910	-	848,712
Current portion of capital lease	3,719	3,812	-	7,531
Current portion of long-term liabilities	15,000	-	-	15,000
Total current liabilities	<u>921,056</u>	<u>124,928</u>	<u>14,157</u>	<u>1,060,141</u>
Non-current liabilities:				
Revenue bonds payable	60,000	-	-	60,000
Non-current portion of capital lease	15,129	15,509	-	30,638
Net pension liability	99,025	35,440	6,079	140,544
Total non-current liabilities	<u>174,154</u>	<u>50,949</u>	<u>6,079</u>	<u>231,182</u>
Total liabilities	<u>1,095,210</u>	<u>175,877</u>	<u>20,236</u>	<u>1,291,323</u>
Deferred Inflows of Resources for Pension	<u>13,340</u>	<u>4,774</u>	<u>819</u>	<u>18,933</u>
Net Position				
Invested in capital assets, net of related debt	1,876,720	2,508,951	-	4,385,671
Restricted	201,255	-	-	201,255
Unrestricted	319,840	908,777	302,939	1,531,556
Total net position	<u>\$ 2,397,815</u>	<u>\$ 3,417,728</u>	<u>\$ 302,939</u>	<u>\$ 6,118,482</u>

See Notes to Financial Statements.

Oceano Community Services District

*Statement of Revenues, Expenditures and Changes in Net Position - Proprietary Funds
Year Ended June 30, 2015*

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total</u>
Revenues				
Charges for services	\$ 1,800,326	\$ 838,930	\$ -	\$ 2,639,256
Other fees	98,952	1,279	117,551	217,782
Total operating revenues	<u>1,899,278</u>	<u>840,209</u>	<u>117,551</u>	<u>2,857,038</u>
Operating Expenses				
Salaries and wages	133,789	35,635	4,679	174,103
Payroll taxes and employee benefits	16,716	2,284	(232)	18,768
Insurance	6,579	5,017	776	12,372
Office	1,741	4,182	366	6,289
Legal and professional	69,239	2,790	2,245	74,274
Dues and fees	16,953	7,973	854	25,780
Education	2,253	315	-	2,568
Vehicle operation and maintenance	8,335	1,359	660	10,354
Repairs and maintenance	24,704	20,410	2,069	47,183
Water meters	5,977	-	-	5,977
Wheeled water expense	23,845	-	-	23,845
Lopez/flood control expense	461,167	-	-	461,167
Sanitation district fees	-	441,386	-	441,386
Supplies	15,393	5,681	831	21,905
Utilities	49,407	3,331	609	53,347
State water project expense	836,755	-	-	836,755
General and administrative overhead	286,136	264,037	37,090	587,263
Miscellaneous	(623)	(388)	(48)	(1,059)
Depreciation	153,406	144,264	-	297,670
Total operating expenses	<u>2,111,772</u>	<u>938,276</u>	<u>49,899</u>	<u>3,099,947</u>
Operating income (loss)	<u>(212,494)</u>	<u>(98,067)</u>	<u>67,652</u>	<u>(242,909)</u>
Non-operating Revenues (Expenses)				
Interest income	844	-	26	870
Rent income	34,182	79,758	-	113,940
Interest expense	(4,748)	(220)	-	(4,968)
Other income	-	1,602	-	1,602
Total non-operating revenues (expenses)	<u>30,278</u>	<u>81,140</u>	<u>26</u>	<u>111,444</u>
Change in net position	(182,216)	(16,927)	67,678	(131,465)
Net position - June 30, 2014 as previously reported	2,709,669	3,481,052	243,219	6,433,940
Cumulative effect of change in accounting principle	<u>(129,638)</u>	<u>(46,397)</u>	<u>(7,958)</u>	<u>(183,993)</u>
Net position - June 30, 2015	<u>\$ 2,397,815</u>	<u>\$ 3,417,728</u>	<u>\$ 302,939</u>	<u>\$ 6,118,482</u>

See Notes to Financial Statements.

Oceano Community Services District

**Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2015**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total</u>
Cash flows from operating activities:				
Receipts from customers	\$ 1,890,916	\$ 898,431	\$ 117,606	\$ 2,906,953
Payments to employees for services	(147,836)	(37,270)	(4,447)	(189,553)
Payments to suppliers	(1,272,690)	(798,830)	(36,199)	(2,107,719)
Net cash provided (used) by operating activities	<u>470,390</u>	<u>62,331</u>	<u>76,960</u>	<u>609,681</u>
Cash flows from capital and related financing activities:				
Purchases of property and equipment	(34,971)	(5,404)	-	(40,375)
Capital grant received	-	1,602	-	1,602
Payments on long-term debt	(15,000)	(15,332)	-	(30,332)
Payments on capital leases	(34,600)	-	-	(34,600)
Interest paid on long-term debt	(4,748)	(220)	-	(4,968)
Net cash provided (used) by capital and related financing activities	<u>(89,319)</u>	<u>(19,354)</u>	<u>-</u>	<u>(108,673)</u>
Cash flows from investing activities:				
Interest income	844	-	26	870
Rent income	34,182	79,758	-	113,940
Net cash provided (used) by investing activities	<u>35,026</u>	<u>79,758</u>	<u>26</u>	<u>114,810</u>
Net increase (decrease) in cash and cash equivalents	416,097	122,735	76,986	615,818
Cash and cash equivalents, beginning of year	<u>369,766</u>	<u>870,198</u>	<u>181,307</u>	<u>1,421,271</u>
Cash and cash equivalents, end of year	<u>\$ 785,863</u>	<u>\$ 992,933</u>	<u>\$ 258,293</u>	<u>\$ 2,037,089</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (212,494)	\$ (98,067)	\$ 67,652	\$ (242,909)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation/amortization	153,406	144,264	-	297,670
Changes in assets and liabilities:				
Accounts receivable	8,362	58,222	55	66,639
Inventory	191	(784)	-	(593)
Prepaid expenses	513,869	(8,978)	(520)	504,371
Deposits	(712)	-	-	(712)
Deferred outflows of resources for pension	(6,741)	(2,413)	(414)	(9,568)
Due to other funds	7,716	7,910	-	15,626
Accounts payable	(18)	(31,304)	(1,860)	(33,182)
Accrued wages	2,669	649	8	3,326
Customer deposits and unearned revenue	28,568	1,575	13,538	43,681
Net pension liability	(32,613)	(11,672)	(2,002)	(46,287)
Deferred inflows of resources for pension	8,187	2,929	503	11,619
Net cash provided by (used) by operating activities	<u>\$ 470,390</u>	<u>\$ 62,331</u>	<u>\$ 76,960</u>	<u>\$ 609,681</u>

See Notes to Financial Statements.

Oceano Community Services District

Notes to Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies

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 fire protection, street lighting, water, wastewater, and garbage franchise services.

The District complies with the United States Generally Accepted Accounting Principles (US 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. Management has elected not to include a management discussion and analysis, which is not a required part of the basic financial statements but is supplementary information normally required by United States GASB pronouncements.

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

Significant Accounting Policies:

Basis of accounting:

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These statements include separate columns for the governmental and business-type activities of the primary government. Eliminations have been made in the statement of activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the District.

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported. Basis of accounting refers to when revenues

Oceano Community Services District

Notes to Financial Statements

and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

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

Fund Financial Statements

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

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

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

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes.

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

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

Oceano Community Services District

Notes to Financial Statements

Governmental Funds

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

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

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

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

The District reports the General Fund as the only major governmental fund.

Oceano Community Services District

Notes to Financial Statements

Proprietary Funds

Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District reported its proprietary funds as major funds in the accompanying basic financial statements.

Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and cash equivalents:

For purposes of the statement of cash flows, the District has defined cash equivalents to be petty cash, equity in the District's cash and investment pool, and non-pooled investments with initial maturities of three months or less.

The District maintains its cash balance in financial institutions in the United States and abroad. The balances at the institutions in the United States are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2015, the District held cash in financial institutions in excess of federally insured limits.

Investments:

The District records investments at fair market value. Local Agency Investment Fund (LAIF) determines the fair value of their portfolio quarterly and reports a factor to the District. Changes in fair value are allocated to each participating fund.

Accounts receivable:

Accounts receivable consist of all revenues earned at year end and not yet received. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Bad debts are recognized under the allowance method of accounting which is based on expected write-offs, historical write-off patterns and other available information. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to account receivable. Major receivable balances for the governmental activities may include sales taxes, franchise taxes, grants, and other fees, if any. Business type activities report utility and franchise fees as their major receivables.

Oceano Community Services District

Notes to Financial Statements

Inventory:

Material and supplies inventory is stated at the lower of cost or market. Valuation is determined under the average cost method. Inventory consists of parts and supplies used in repairs and maintenance, capital repairs, or construction.

Capital assets:

Capital assets (including infrastructure) are recorded at cost where historical records are available and at estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair value at the date of the contribution.

Capital assets include public domain (infrastructure) capital assets consisting of certain improvements including roads, streets, sidewalks, medians, and storm drains.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the applicable governmental or business-type activities column in the government-wide financial statements. The estimated useful lives are as follows:

	<u><i>Years</i></u>
Water system	5 to 75
Sanitation system	10 to 50
Drainage	5 to 50
Administration	5 to 40

Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is included in operations.

Compensated absences:

The District allows permanent employees to receive compensation for vacation and sick leave. Vacation hours, which accrue from the first day of employment, can be taken immediately and are capped at a maximum which equals the total an employee is entitled to earn in two years of employment. Sick hours, which accrue from the first day of employment, can be taken immediately and are capped at a maximum of 180 days. The estimate related to compensated absences is based on vacation and sick hours available and current pay rates.

Long-term obligations:

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities fund type statement of net position. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

Oceano Community Services District

Notes to Financial Statements

Deferred outflows of resources and deferred inflows of resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents the consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then. Currently, the District has deferred outflows of resources for its pension plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time. The District has deferred inflows of resources for its pension plan.

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 District's California Public Employees' Retirement System (CalPERS) plans (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. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 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 (VD)	June 30, 2013
Measurement Date (VD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

During fiscal 2015, the District adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions as of July 1, 2014. This statement requires accrual-based measurement and recognition of the cost of pension benefits during the periods when employees render their services. Previously, the District recorded obligations for pension benefits as they were paid. Implementation of this statement effective July 1, 2014 resulted in an increase in deferred outflows of \$29,396, increase in deferred inflows of \$196,869, increase in liabilities of \$500,055, included in the accompanying Statement of Activities as a cumulative effect of change in accounting principles. The effect on the District's prior year Statement of Activities was not determinable

Net position – statement of net position:

The statement of net position utilizes a net position presentation for both the governmental and business-type activities. Business-type activities also use this same

Oceano Community Services District

Notes to Financial Statements

presentation in the fund financial statements. Net positions are categorized as invested capital assets (net of related debt), restricted, and unrestricted.

In summary, the following are the net asset categories under this statement:

Invested in capital assets, net of related debt	Groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets, reduce the balance in this category.
Restricted net position	Groups external restrictions imposed by creditors, granters, contributors, and laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
Unrestricted net position	Groups net assets of the District not restricted for any project or other purpose.

Fund balances:

Equity accounts used for governmental funds in the fund financial statements are presented differently from the statement of net position as described above. The presentation follows statements of the GASB. Presentation has changed several times in the past with the latest change effective in fiscal year 2011-12. This change is implemented according to GASB Statement No. 54. This statement categorizes governmental equities mainly based on the constraints and source of the constraints placed on the funds. The District has affirmed that the Board of Directors alone can create, change, and dispose of restricted and committed fund balances.

In summary, the following are the fund balance categories under this statement:

Nonspendable	Resources are not in spendable form or are legally required to remain intact.
Restricted	The constraint to spend the funds is imposed or legally enforced by external parties.
Committed	Constraint is created by and can only be changed by the legislative body pursuant to a formal action.
Assigned	The constraint is merely an expression of intent by the legislative body or by an authorized official.
Unassigned	No constraints.

Oceano Community Services District

Notes to Financial Statements

As of June 30, 2015, the following fund balances of governmental funds are presented in the fund financial statements:

	<u>General Fund</u>
Nonspendable:	
Long-term due from Water Fund	\$ 788,563
Prepaid expenses	3,422
Deposits	1,386
	<u>793,371</u>
Restricted	
Public facilities fees	<u>182,642</u>
Committed	<u>-</u>
Assigned	<u>-</u>
Unassigned fund balance	<u>67,961</u>
Total fund balance	<u>\$ 1,043,974</u>

Interfund transactions:

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenses/expenditures in the reimbursing fund and as reductions of expenses/expenditures in the fund that is reimbursed.

All other interfund transactions except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Oceano Community Services District

Notes to Financial Statements

Note 2. Cash and Investments

On June 30, 2015, the District had the following cash and investments on hand:

Cash on hand and in banks	\$ 1,656,906
Investments	995,455
Total	<u>\$ 2,652,361</u>

Investments authorized by the California Government Code:

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligation	5 years	None	None
U.S. Agency Securities	5 years	10 %	5%
Bankers' Acceptances	180 days	40 %	30%
Commercial Paper	270 days	25 %	10%
Negotiable Certificates of Deposit	5 years	30 %	None
Repurchase Agreements	1 year	None	None
Reverse 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	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
County Investment Pool	N/A	None	None

Oceano Community Services District

Notes to Financial Statements

Disclosures 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. In general, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk 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.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table, that shows the distribution of the District's investments by maturity:

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
San Luis Obispo County Investment Pool	\$ 971,515	\$ 971,515	\$ -	\$ -	\$ -
Local Agency Investment Fund	297	297	-	-	-
Time Deposits	23,643	-	23,643	-	-
	<u>\$ 995,455</u>	<u>\$ 971,812</u>	<u>\$ 23,643</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures relating to credit risk:

In general, 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 rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt from Disclosure	Rating as of Fiscal Year End		
				AAA	AA	Not Rated
San Luis Obispo County Investment Pool	\$ 971,515	N/A	\$ -	\$ -	\$ -	\$ 971,515
Local Agency Investment Fund	297	N/A	-	-	-	297
Time Deposits	23,643	N/A	-	-	-	23,643
	<u>\$ 995,455</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 955,455</u>

Oceano Community Services District

Notes to Financial Statements

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. There are no investments in any one issuer that represent 5% or more of total District investments.

Custodial credit risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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 governmental 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 the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The District may and has waived collateral requirements for deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in state investment pool:

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying basic financial statements at the amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Oceano Community Services District

Notes to Financial Statements

Note 3. Property Taxes

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Tax Collections – 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 on 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 taxes become 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 payments.

Tax Levy Apportionments - Due to the nature of the District-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the County Auditor-Controller based primarily on the ratio that each agency represented of the total District-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees - The State of California FY 90-91 Budget Act, authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

Tax Levies - Tax levies are limited to 1% of full market value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates - 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.

Property Valuations - Property valuations are established by the Assessor of the County of San Luis Obispo for the secured and unsecured property tax rolls and the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From the base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. 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.

Oceano Community Services District

Notes to Financial Statements

Note 4. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2015 was as follows:

	<u>Balance July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2015</u>
Governmental Activities				
Capital assets, not depreciated:				
Land	<u>\$ 385,391</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 385,391</u>
Capital assets, depreciated:				
Buildings and improvements	\$ 637,168	\$ -	\$ -	\$ 637,168
Vehicles and equipment	<u>212,227</u>	<u>3,165</u>	<u>(888)</u>	<u>214,504</u>
Total capital assets, depreciated	849,395	3,165	(888)	851,672
Less: accumulated depreciation	<u>720,164</u>	<u>7,390</u>	<u>(888)</u>	<u>726,666</u>
Net depreciable capital assets	<u>\$ 129,231</u>	<u>\$ (4,225)</u>	<u>\$ -</u>	<u>\$ 125,006</u>
Net capital assets	<u>\$ 514,622</u>	<u>\$ (4,225)</u>	<u>\$ -</u>	<u>\$ 510,397</u>
Business-Type Activities				
Capital assets, not depreciated:				
Land	<u>\$ 231,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 231,000</u>
Capital assets, depreciated:				
Buildings and improvements	\$ 8,195,940	\$ 22	\$ (27,891)	\$ 8,168,071
Software	195,918	-	-	195,918
Vehicles and equipment	<u>656,132</u>	<u>123,892</u>	<u>(12,957)</u>	<u>767,067</u>
Total capital assets, depreciated	9,047,990	123,914	(40,848)	9,131,056
Less: accumulated depreciation	<u>4,578,481</u>	<u>297,670</u>	<u>(12,935)</u>	<u>4,863,216</u>
Net depreciable capital assets	<u>\$ 4,469,509</u>	<u>\$ (173,756)</u>	<u>\$ (27,913)</u>	<u>\$ 4,267,840</u>
Net capital assets	<u>\$ 4,700,509</u>	<u>\$ (173,756)</u>	<u>\$ (27,913)</u>	<u>\$ 4,498,840</u>

Oceano Community Services District

Notes to Financial Statements

Note 5. Long Term Debt – Revenue Bonded Debt

The outstanding revenue bonded debt of the Oceano Community Services District at June 30, 2015 is:

Date of Issue	1979
Interest Rate	5.00%
Maturity Date	2020
Amount of Original Issue	<u>\$ 318,300</u>
Outstanding June 30, 2014	\$ 90,000
Issued current fiscal year	-
Redeemed current fiscal year	<u>15,000</u>
Outstanding June 30, 2015	<u><u>\$ 75,000</u></u>

The annual requirement to amortize the revenue bond payable outstanding as of June 30, 2015 is as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 15,000	\$ 3,375	\$ 18,375
2017	15,000	2,625	17,625
2018	15,000	1,875	16,875
2019	15,000	1,125	16,125
2020	<u>15,000</u>	<u>375</u>	<u>15,375</u>
	<u><u>\$ 75,000</u></u>	<u><u>\$ 9,375</u></u>	<u><u>\$ 84,375</u></u>

Oceano Community Services District
Notes to Financial Statements

Note 6. Capital Lease Obligation

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 assets acquired under capital leases totaled \$55,626 for the year ended June 30, 2015. The related accumulated depreciation was \$3,708 and the net book value was \$51,918. Depreciation expense related to the leased vehicle for the year ended June 30, 2015 was \$3,708.

Capital lease obligations consist of the following at June 30, 2015:

Rabobank, 4.423% implicit rate of interest at time of signing, payable in monthly installments of \$756, due in February 2020	\$ 38,168
Less current maturities	(7,530)
Capital lease obligations, less current maturities	<u>\$ 30,638</u>

At June 30, 2015, future minimum lease payments under the capital lease obligations and the net present value of the future minimum lease payments are as follows:

<i>Fiscal Year</i> <i>Ending June 30</i>	
2016	\$ 9,067
2017	9,067
2018	9,067
2019	9,067
2020	6,045
Total future minimum lease payments	<u>42,313</u>
Less amount representing interest	<u>(4,145)</u>
Present value of future minimum lease payments	<u>\$ 38,168</u>

Note 7. Pension Plan - California Public Employees' Retirement System (CalPERS)

Plan description

All qualified permanent and probationary employees participate in the District's cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government 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

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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. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. New members employed after January 1, 2013, who do not have reciprocity with other public agency pension plans, are designated as PEPRAs Miscellaneous and are subject to the provisions of California Government Code Section 7522 et seq. and AB 197. All other members are designated as Classic employees.

The District's Safety Plan is closed to new entrants. The District executed a Joints Powers of Authority Agreement with the cities of Arroyo Grande and Grover Beach dated June 7, 2010 creating and establishing the Five Cities Fire Authority. Pursuant to the terms of the agreement, the District no longer employs safety members and the District's Safety Plan continues to exist for the purpose of providing those retirement benefits earned prior to the creation of the Five Cities Fire Authority.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

Hire date	Miscellaneous	
	Prior to January 1, 2013 (Classic)	On or after January 1, 2013 (PEPRA)
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	10.711%	6.25%

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 District's Plans are 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 Local Government is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The District's Safety Plan is closed to new entrants, and as

Oceano Community Services District

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a result, the annual contributions for the Safety Plan is the actuarially determined amount needed to finance the plan's unfunded accrued liability. For the year ended June 30, 2015 the amount of the District's contributions to the Safety Plan was \$4,099.

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

	Miscellaneous Classic	Miscellaneous PEPRA
Contributions - employer	\$ 39,522	\$ 3,067
Contributions - employee	n/a	\$ 4,306
Contributions - employee (paid by employer)	\$ 26,166	n/a

Pension liabilities, pension expenses, and deferred outflows and inflows of resources related to pensions:

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension
Miscellaneous - Classic	\$ 358,956
Miscellaneous - PEPRA	75
Safety	61,407
Total Net Pension Liability	\$ 420,438

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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 plans relative to the projected contributions of all participating employers, actuarially determined.

Oceano Community Services District

Notes to Financial Statements

The District's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous Classic</u>	<u>Miscellaneous PEPRA</u>	<u>Safety</u>
Proportion - June 30, 2013	n/a	n/a	n/a
Proportion - June 30, 2014	0.00577%	0.00000%	0.00099%
Change - Increase (Decrease)	n/a	n/a	n/a

For the year ended June 30, 2015, the Local Government recognized a negative pension expense of \$124,082, which substantially results from excess projected earnings on pension plan investments. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	(\$ 48,090)	\$ -
Differences between actual and expected experience	\$ -	\$ 34,240
Changes in assumptions	\$ -	\$ -
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	(\$ 6,891)	\$ 937
Net differences between projected and actual earnings on plan investments	\$ -	\$ 136,961
Total	<u>(\$ 54,981)</u>	<u>\$ 172,138</u>

A total of \$48,090 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	
2016	(\$ 32,114)
2017	(\$ 32,538)
2018	(\$ 34,241)
2019	-
2020	-
Thereafter	-

Oceano Community Services District

Notes to Financial Statements

Actuarial Assumptions:

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.5%	7.5%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	XXX	XXX

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate:

The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, 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 the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

Oceano Community Services District

Notes to Financial Statements

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 2018. 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 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their 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 of 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 was 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 below 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.

<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	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Oceano Community Services District

Notes to Financial Statements

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

The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, 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 or 1-percentage point higher than the current rate:

	Misc. Classic	Misc. PEPRA	Safety
<i>1% Decrease</i>	6.50%	6.50%	6.50%
Net Pension Liability	\$ 647,830	\$ 133	\$ 93,003
<i>Current Discount Rate</i>	7.50%	7.50%	7.50%
Net Pension Liability	\$ 358,956	\$ 75	\$ 61,407
<i>1% Increase</i>	8.50%	8.50%	8.50%
Net Pension Liability	\$ 119,218	\$ 26	\$ 35,374

Pension Plan Fiduciary net Position:

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

Note 8. Joint Venture

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

Oceano Community Services District

Notes to Financial Statements

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.

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 \$836,755. 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 a 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 in to 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.

Oceano Community Services District

Notes to Financial Statements

The District's current fiscal year San Luis Obispo County Flood Control and Water Conservation District expense totaled \$461,167.

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.

The District bills the wastewater processing fee through the utility bills for the South San Luis Obispo County Sanitation District. The District remits all wastewater processing fees collected to the South San Luis Obispo County Sanitation District. The billings are recorded as operating revenue, and the fees remitted to the South San Luis Obispo County Sanitation District are recorded as operating expenses in the Sewer Fund.

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 rate 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 \$723,710 to FCFA during the fiscal year ended June 30, 2015 for fire protections services. Separate financial statements may be obtained from the Five Cities Fire Authority at 140 Traffic Way in Arroyo Grande, California.

Note 10. Contingencies

The District has received federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under the terms of the grants, it is believed that any requirement would not be material.

Note 11. Subsequent Events

The date to which events occurring after June 30, 2015 have been evaluated for possible adjustment to the financial statements or disclosure is October 27, 2016, which is the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

Oceano Community Services District

Required Supplementary Information

**General Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Year Ended June 30, 2015**

	<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	\$ 770,235	\$ 770,235	\$ 854,256	\$ 84,021
Interest income	1,630	1,630	4,053	2,423
Rental income	25,800	25,800	26,426	626
Administration cost allocation	588,706	588,706	587,255	(1,451)
Other	43,737	43,737	49,430	5,693
Total revenue	<u>1,430,108</u>	<u>1,430,108</u>	<u>1,521,420</u>	<u>91,312</u>
Operating Expenses				
Salaries and wages	336,737	338,237	352,528	14,291
Payroll taxes and employee benefits	113,356	113,356	32,332	(81,024)
Liability insurance	17,100	17,100	5,884	(11,216)
Repairs and maintenance	26,044	26,044	17,430	(8,614)
Vehicle operations and maintenance	1,600	66,900	377	(66,523)
Administrative services	18,000	18,000	12,369	(5,631)
Data processing	4,700	4,700	3,932	(768)
Dues and fees	11,630	11,630	4,910	(6,720)
Education	3,500	3,500	736	(2,764)
Legal fees	55,000	55,000	86,664	31,664
Miscellaneous	9,250	9,250	5,317	(3,933)
Office expense	11,450	11,450	13,221	1,771
Street lighting	34,617	41,117	37,630	(3,487)
Professional fees	45,695	45,695	34,010	(11,685)
Supplies	1,000	1,000	-	(1,000)
Utilities	34,816	34,816	33,951	(865)
Public safety	723,710	723,710	729,482	5,772
Total operating expenses	<u>1,448,205</u>	<u>1,521,505</u>	<u>1,370,773</u>	<u>(150,732)</u>
Excess of revenues over (under) expenditures	<u>\$ (18,097)</u>	<u>\$ (91,397)</u>	150,647	<u>\$ 242,044</u>
Transfer for purchase of fixed assets			(3,165)	
Fund balance - June 30, 2014 as previously reported			1,252,376	
Cumulative effect of change in accounting principle			<u>(355,884)</u>	
Fund balance - June 30, 2015			<u>\$ 1,043,974</u>	

Oceano Community Services District

Required Supplementary Information
Schedule of The District's Proportionate Share of the Net Pension Liability
Last 10 Years*
As of June 30, 2015
(June 30, 2014 Measurement Date)

	<u>Misc. Classic</u>	<u>Misc. PEPRRA</u>	<u>Safety</u>
Proportion of the net pension liability	0.00577%	0.00000%	0.00099%
Proportionate share of the net pension liability	\$ 358,956	\$ 75	\$ 61,407
Covered - employee payroll - See Notes	\$ 248,988	\$ 64,272	N/A
Proportionate share of the net pension liability as percentage of covered-employee payroll	144.17%	0.12%	N/A
Plan's fiduciary net pension as a percentage of the total	83.52%	82.88%	73.97%
Plan's proportionate share of aggregate employer	\$ 49,177	\$ 10	\$ 4,940

Notes to schedule:

Benefit changes - None.

Changes in assumptions - None.

Other - The District's Safety Plan is closed to new entrants. The District executed a Joints Powers of Authority Agreement with the cities of Arroyo Grande and Grover Beach dated June 7, 2010 creating and establishing the Five Cities Fire Authority. Pursuant to the terms of the agreement, the District no longer employs safety members and the District's Safety Plan continues to exist for the purpose of providing those retirement benefits earned prior to the creation of the Five Cities Fire Authority.

***Fiscal year 2015 was the first year of implementation; therefore, only one year is shown.**

Oceano Community Services District

**Required Supplementary Information
Schedule of Pension Contribution Supplementary Information
Last 10 Years*
As of June 30, 2015**

	<u>Misc. Classic</u>	<u>Misc. PEPR</u>	<u>Safety</u>
Contractually required contribution (actuarially determined)	\$ 18,682	\$ 7,252	\$ 3,462
Contributions in relation to the actuarially determined contributions	\$ (18,682)	\$ (7,252)	\$ (3,462)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 248,988	\$ 64,272	N/A
Contributions as a percentage of covered-employee payroll	7.50%	11.28%	N/A

Notes to schedule:

Valuation Date:	6/30/2013
Measurement Date:	6/30/2014
Reporting Date:	6/30/2015

Methods and assumptions used to determine contribution rates:

Single and agent employers example	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	3.5%
Salary increases	4.5%, average, including inflation of 3.0%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Retirement age	57 years
Mortality	RP-2000 Healthy Annuitant Mortality Table

***Fiscal year 2015 was the first year of implementation; therefore, only one year is shown.**