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 year ended June 30, 2018, 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 February 14, 2019.

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
February 14, 2019

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OCEANO COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

OCEANO COMMUNITY SERVICES DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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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, each major fund, and the aggregate remaining fund information of the Oceano Community Services District (the District), as of and for the fiscal year ended June 30, 2018, 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, each major fund, and the aggregate remaining information of the Oceano Community Services District, as of June 30, 2018, 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.

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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 12, 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 February 14, 2019, 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 & Hartzheim LLP

Santa Maria, California
February 14, 2019

The management of the Oceano Community Services District (OCSD) 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, 2018. The District encourages readers to consider the information together with the District's financial statements following this section.

The OCSD is an independent special district serving a population of approximately 7,300. It is governed by a five (5) member Board of Directors elected by voters within the District's boundaries, and 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 and emergency 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 and Emergency Services

The OCSD provides fire and emergency services through the Five Cities Fire Authority (FCFA). The FCFA was created as a "joint exercise of powers authority" (JPA) through an agreement approved in 2010 between the cities of Arroyo Grande and Grover Beach, and the OCSD. OCSD pays a portion of the annual costs of FCFA services based on funding formula established in the FCFA agreement. One member of the OCSD Board of Directors is appointed to serve OCSD on the FCFA Board of Directors and a second member of the OCSD Board is an alternate member on the FCFA Board. Since the OCSD does not control the operations of FCFA, the financial statements and audit of the FCFA are separate from the OCSD.

In early 2018, the three agencies entered into a Memorandum of Agreement (MOA) amending the original adopted JPA. This agreement is implementing the FCFA "Strategic Plan." The "Strategic Plan" includes increased staffing and services levels greater than those provided in the existing JPA. The FCFA Board unanimously supported implementing the "Strategic Plan" but the District's property tax allocation is insufficient to fund the increasing costs in the future years. The MOA will allow for the Strategic Plan to be implemented for fiscal year 2018/19. It provides for "good faith" negotiations to consider amendments to the JPA, including the funding formula so that the "Strategic Plan" can be implemented. The MOA also provides that if efforts to amend the existing JPA cannot be agreed upon by April 1, 2019, then any member agency may withdraw under terms provided in the MOA. Lastly, if more than one member cannot agree to JPA amendments by April 1, 2019, the agreement will be terminated by December 31, 2019. The managers have the ability to extend negotiations and termination dates on the MOA by six months.

On a related effort, the County of San Luis Obispo Board of Supervisors has been working with fire departments serving unincorporated communities throughout the County on the significant constraints in generating the needed revenues to fund full-time fire departments. The District anticipates holding a special election in March 2020 in order to determine whether the community is willing to generate the additional revenues to continue participating in the FCFA. Alternatives of a stand alone fire department and/or service from the County/ Cal Fire are also being addressed.

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, but 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. Recent Board direction was given to pursue the use of the community center for the maximum of 120 hours per year.

Water Services

The District provides water service to approximately 2,200 connections. An annual Consumer Confidence Report (CCR) is mailed to all water customers which provides 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 was increasing water in storage during the recent drought.

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 OCSD as well as those of the cities of Arroyo Grande and Grover Beach. Since the OCSD does not control the operations of SSLOCSD, the financial statements and audit of the SSLOCSD are separate from the OCSD. OCSD 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. 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 OCSD 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 four 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 the enterprise activities including operating and non-operating revenues and expenditures, current assets, non-current assets, capital assets, and current and long-term liabilities.

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 $167,877 for the Governmental Fund. $80,870 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 Activities and Business-type Activities, and subsequently, for each of the Enterprise Funds.

Statements of Net Position as of June 30, 2018 and 2017				
	Governmental Activities		Business-type Activities	
	2018	2017	2018	2017
Current and other assets	$ 814,267	$ 762,744	$ 3,318,359	$ 3,444,690
Capital assets, net	1,748,522	1,754,618	2,777,694	2,721,228
Total Assets	2,562,789	2,517,362	6,096,053	6,165,918
Deferred Outflow of Resources	21,970	17,503	211,006	155,158
Current liabilities	45,255	34,040	152,970	79,432
Non-current liabilities	169,565	161,762	600,221	561,233
Total Liabilities	214,820	195,802	753,191	640,665
Deferred inflow of resources	8,768	9,361	41,964	49,362
Net investment in capital assets	1,748,522	1,754,618	2,762,451	2,652,790
Restricted	242,685	209,536	230,866	227,837
Unrestricted	369,964	365,548	2,518,587	2,750,422
Net Position	$ 2,361,171	$ 2,329,702	$ 5,511,904	$ 5,631,049

The Net Position of the District's Governmental Activities changed in the year ending June 30, 2018 as a result of an operating surplus of $31,469.

The Net Position of the Business-type Activities remained consistent with the previous year. As illustrated below current liabilities in the Water Fund held more deposits with customers for development. Many of these developments were not connected before June 30, 2018 and the connection fee revenues will be collected in the next fiscal year when the customer connects to the system.

Statements of Net Position as of June 30, 2018 and 2017						
	Water Fund		Wastewater Fund		Garbage Fund	
	2018	2017	2018	2017	2018	2017
Current and other assets	$ 1,915,099	$ 1,952,624	$ 1,530,473	$ 1,666,990	$377,590	$ 367,793
Capital assets, net	1,411,803	1,326,478	1,359,978	1,392,786	5,913	1,964
Total Assets	3,326,902	3,279,102	2,890,451	3,059,776	383,503	369,757
Deferred Outflow of Resources	115,290	85,461	83,861	61,067	11,855	8,630
Current Liabilities	178,928	609,647	10,597	35,112	914	585
Non-current liabilities	475,899	316,499	233,898	198,951	27,376	22,588
Total Liabilities	985,209	926,146	244,495	234,063	28,290	23,173
Deferred inflow of resources	20,586	24,538	13,330	16,349	8,048	8,475
Invested in capital assets, net	1,402,276	1,266,830	1,355,214	1,385,462	4,961	498
Restricted	230,866	227,837	-	-	-	-
Unrestricted	803,255	919,212	1,361,273	1,484,969	354,059	346,241
Net Position	$ 2,436,397	$ 2,413,879	$ 2,716,487	$ 2,870,431	$ 359,020	$ 346,739

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, 2018 and 2017				
	Governmental Activities		Business-type Activities	
	2018	2017	2018	2017
Operating Revenues	$ 27,280	$ 25,358	$ 2,776,890	$ 2,785,751
Operating Expenditures:				
Administrative Expenditures	(1,015,249)	(891,325)		
Fire Protection	(873,719)	(820,084)		
Street Lighting	(30,898)	(37,970)		
Enterprise Funds			(2,172,680)	(2,016,416)
Net Operating Income / (Loss)	(1,892,586)	(1,724,021)	604,210	769,335
Ad valorem taxes	1,012,251	958,154	-	-
Other non-operating income	147,612	149,197	40,837	44,755
Transfers	764,192	722,091	(764,192)	(722,091)
Total Non-Operating Income	1,924,055	1,829,442	(723,355)	(677,336)
Change in Net Position	$ 31,469	$ 105,421	$ (119,145)	$ 91,999

In summary, the Governmental Activities went from a Net Income of $105,421 in 2017 to a Net Income of $31,469 in 2018. The decrease in income is related to the increase in cost for capital outlay. This includes the office roof, website and General Fund's portion of the backhoe.

The Enterprise Funds went from a Net Income for the prior fiscal year of $91,999 to a Net Loss of $119,145. The Enterprise Funds are broken out by fund in the table below.

Statements Revenues, Expenses, and Changes in Net Position as of June 30, 2018 and 2017						
	Water Fund		Wastewater Fund		Garbage Fund	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Operating Revenues	$ 2,290,612	$ 2,290,356	$ 393,600	$ 400,898	$ 92,678	$ 94,497
Operating Expenditures and Net Transfers	2,273,374	2,104,044	580,342	544,495	80,449	85,398
Net Operating Income / (Loss)	17,238	186,312	(186,742)	(143,597)	12,229	9,099
Other non-operating income	7,661	4,813	33,070	39,675	106	267
Non-operating Expenditures	(2,381)	(4,267)	(272)	(383)	(54)	(77)
Net Non-Operating Income	5,280	546	32,798	39,292	52	190
Net Income / (Loss)	$ 22,518	$ 186,858	$ (153,944)	$ (104,305)	$ 12,281	$ 9,289

The decrease in the Water Fund net income reflects a decrease in connection fees by $137,919 that District collected in 2018. This is also illustrated by the increase of customer deposits on the Statement of Net Position by $90,299 in 2018.

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 has been 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 waste water fund receives approximately $80,000 from the General Fund loan repayment to help cover the cost of the deficit.

The Garbage Fund's Net Income increased from the prior year because in 2017 the District hired an intern to create 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 Community Center and the old fire station plus 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. Currently, the District is developing an updated capital improvement program for infrastructure replacement, which is being substantially funded with grants approved by the State of California. The District anticipates completing preparation of a capital improvement program and addressing revenue requirements for infrastructure replacement in 2019.

Debt Activities

The District's issued debt is relatively low. The only fund that had external debt is the Water Fund, which issued a revenue bond in 1979 and was paid in full in October 2017.

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, 2018, the District recorded the following interfund borrowing to adhere to resolutions adopted April 26, 2017 to ensure repayment of interfund liabilities.

Interfund (Due to) / Due From	Beginning Balances – July 1, 2017	Interfund Borrowing Out	Interfund Borrowing In	Ending Balances – June 30, 2018
General Fund Due to Sewer Fund	$ (551,167)	$ 80,870	$ - 0 -	$ (470,297)
General Fund Due from Water Fund	489,827	- 0 -	30,520	459,307
Net General Fund Due to Other Funds	(61,340)	80,869	30,520	(10,989)
Water Fund Due to the General Fund	(489,827)	30,520	- 0 -	(459,307)
Water Fund Due to Garbage Fund	(52,890)	7,396	- 0 -	(45,496)
Sewer Fund Due from General Fund	551,167	- 0 -	80,870	470,297
Garbage Fund Due from Water Fund	52,890	- 0 -	7,395	45,495
Totals	$ - 0 -	$ 118,785	$ 118,785	$ - 0 -

Budget and Rates

The District's budget for the year ending June 30, 2018 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

Establishing fiscal stability for the Water Fund has been important so that the District can move forward with evaluating long-term infrastructure needs and a system that includes significant deferred maintenance and replacement needs. For those upcoming efforts, the District has secured approximately $375,000 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, 2018. 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)

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 repayment from the General Fund to the wastewater fund are shown below:

Year Ending	Beginning Balance	Interest Payment	Principal Payment	Total Payment	Ending Balance
June 30, 2019	$ 470,297	$ 28,217	$ 85,722	$113,940	$384,575
June 30, 2020	384,575	23,075	90,865	113,940	293,710
June 30, 2021	293,710	17,623	96,317	113,940	197,392
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 District's budget for fiscal year 2018/19 includes modifications to the District's indirect charges to the sewer fund that will reduce 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 3.25% in garbage rates for the SCSS Inc. were approved on October 28, 2015, and inflationary adjustments that will also go into effect on January 1, 2017 and January 1, 2018.

Future Outlook

Overall, the District's financial outlook has maintained a relatively stable short-term position during the year ending June 30, 2018. 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 is anticipated to be complete in 2019. Community workshops have taken place and will continue during the District's work efforts to provide residents and property owners with information on District needs, estimated fiscal impacts and to obtain community input. The future of the fire departments operation will also be a significant District effort during 2019 and 2020.

OCEANO COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	$ 547,815	$ 2,573,372	$ 3,121,187
Restricted cash and investments	239,704		239,704
Accounts receivable, net	9,969	424,253	434,222
Prepaid items	27,769	78,940	106,709
Deposits		206,809	206,809
Inventory		23,995	23,995
Internal balances	(10,990)	10,990	
Capital assets:			
Non Depreciable:			
Land	610,390	6,000	616,390
Construction in progress		139,786	139,786
Depreciable:			
Buildings and improvements	2,088,370	6,924,112	9,012,482
Equipment, vehicles and machinery	260,613	845,068	1,105,681
Software		195,918	195,918
Accumulated depreciation	(1,210,851)	(5,333,190)	(6,544,041)
Total assets	2,562,789	6,096,053	8,658,842
DEFERRED OUTFLOW OF RESOURCES			
Deferred pensions	21,970	211,006	232,976
Total deferred outflow of resources	21,970	211,006	232,976
LIABILITIES			
Accounts payable	23,991	29,401	53,392
Accrued wages and benefits	8,769	4,347	13,116
Deposits	3,000	119,222	122,222
Unearned revenue	9,495		9,495
Noncurrent liabilities:			
Due within one year		8,565	8,565
Due in more than one year	169,565	591,656	761,221
Total liabilities	214,820	753,191	968,011
DEFERRED INFLOW OF RESOURCES			
Deferred pensions	8,768	41,964	50,732
Total deferred inflow of resources	8,768	41,964	50,732
NET POSITION			
Net investment in capital assets	1,748,522	2,762,451	4,510,973
Restricted for:			
Capital facilities	242,685		242,685
Water joint venture agreements and debt service		206,809	206,809
Debt service		24,057	24,057
Unrestricted	369,964	2,518,587	2,888,551
Total net position	$ 2,361,171	$ 5,511,904	$ 7,873,075

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, 2018

		Program Revenues		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
Administration	$ 1,015,249	$ -	$ -	$ 27,280
Fire protection	873,719			
Street lighting	30,898			
Total governmental activities	1,919,866			27,280
Business-type activities:				
Water	1,912,302	2,216,031	74,581	
Sewer	231,005	391,562	2,038	
Garbage	29,373		92,678	
Total business-type activities	2,172,680	2,607,593	169,297	
Total governmental	$ 4,092,546	$ 2,607,593	$ 169,297	$ 27,280

General Revenues:
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
$ (987,969)	$ -	$ (987,969)
(873,719)		(873,719)
(30,898)		(30,898)
(1,892,586)		(1,892,586)
	378,310	378,310
	162,595	162,595
	63,305	63,305
	604,210	604,210
(1,892,586)	604,210	(1,288,376)
1,012,251		1,012,251
141,411	36,205	177,616
6,201	4,632	10,833
764,192	(764,192)	
1,924,055	(723,355)	1,200,700
31,469	(119,145)	(87,676)
2,329,702	5,631,049	7,960,751
$ 2,361,171	$ 5,511,904	$ 7,873,075

OCEANO COMMUNITY SERVICES DISTRICT
GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2018

		General Fund
ASSETS		
Cash and investments	$	547,815
Restricted cash and investments		239,704
Accounts receivable		9,969
Prepaid items		27,769
Due from other funds		459,307
Total assets	$	1,284,564
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE		
Liabilities:		
Accounts payable	$	23,991
Accrued payroll and benefits		8,769
Deposits		3,000
Unearned revenue		9,495
Due to other funds		470,297
Total liabilities		515,552
Fund Balance:		
Nonspendable:		
Prepaid items		27,769
Restricted:		
Capital facilities		242,685
Assigned:		
Equipment replacement		47,511
Infrastructure replacement		100,568
Unassigned		350,479
Total fund balance		769,012
Total liabilities, deferred inflows of resources, and fund balance	$	1,284,564

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, 2018

Total fund balance - governmental fund			$	769,012
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	$	2,959,373		
Accumulated depreciation		(1,210,851)		
Net				1,748,522
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	$	56,427		
Net pension liability		113,138		
Total				(169,565)
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 and inflows of resources relating to pensions are reported.				13,202
Total net position - governmental activities			$	2,361,171

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, 2018

	General Fund
Revenues:	
Taxes and assessments	$ 1,012,251
Public facility fee	27,280
Interest income	1,746
Rental income	139,665
Other	6,201
Total revenues	1,187,143
Expenditures:	
Salaries, wages and directors' stipends	445,550
Payroll taxes and employee benefits	149,091
Liability insurance	21,372
Repairs and maintenance	35,647
Administrative services	25,260
Data processing	14,803
Dues and fees	26,895
Education	2,857
Legal fees	86,621
Miscellaneous	3,342
Office expense	10,712
Street lighting	30,898
Professional fees	58,176
Utilities	50,729
Public safety	873,719
Capital outlay	42,285
Interest expense	33,070
Total expenditures	1,911,027
Excess of revenues over (under) expenditures	(723,884)
Other Financing Sources (Uses):	
Transfers in	789,192
Transfers out	(25,000)
Total other financing sources (uses)	764,192
Net change in fund balance	40,308
Fund balance - July 1	728,704
Fund balance - June 30	$ 769,012

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

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
For the Fiscal Year Ended June 30, 2018

Total net change in fund balance - governmental fund	$	40,308
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 $42,285 is less than depreciation expense $(48,381) in the period.		(6,096)
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 $428.		(428)
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:		(2,315)
Changes in net position - governmental activities	$	31,469

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, 2018

	Water Fund	Sewer Fund	Garbage Fund	Totals
ASSETS				
Current assets:				
Cash and investments	$ 1,256,650	$ 998,591	$ 318,131	$ 2,573,372
Accounts receivable, net	352,144	58,260	13,849	424,253
Prepaid expenses	77,949	877	114	78,940
Inventory	21,547	2,448		23,995
Due from other funds		470,297	45,496	515,793
Total current assets	1,708,290	1,530,473	377,590	3,616,353
Noncurrent assets:				
Joint venture deposits	206,809			206,809
Non depreciable capital assets:				
Land	6,000			6,000
Construction in progress	63,918	75,868		139,786
Depreciable capital assets:				
Buildings and improvements	4,346,635	2,577,477		6,924,112
Equipment, vehicles and machinery	535,367	288,725	20,976	845,068
Software	156,734	39,184		195,918
Accumulated depreciation	(3,696,851)	(1,621,276)	(15,063)	(5,333,190)
Total noncurrent assets	1,618,612	1,359,978	5,913	2,984,503
Total assets	3,326,902	2,890,451	383,503	6,600,856
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pensions	115,290	83,861	11,855	211,006
Total deferred outflows of resources	115,290	83,861	11,855	211,006
LIABILITIES				
Current liabilities:				
Accounts payable	28,044	1,280	77	29,401
Accrued wages and benefits	2,655	1,390	302	4,347
Customer deposits	113,972	5,250		119,222
Due to other funds-current portion	28,904			28,904
Capital lease - current portion	5,353	2,677	535	8,565
Total current liabilities	178,928	10,597	914	190,439
Noncurrent liabilities:				
Due to other funds - non-current portion	475,899			475,899
Capital lease - non-current portion	4,174	2,087	417	6,678
Net pension liability	326,208	231,811	26,959	584,978
Total noncurrent liabilities	806,281	233,898	27,376	1,067,555
Total liabilities	985,209	244,495	28,290	1,257,994
DEFERRED INFLOWS OF RESOURCES				
Deferred pensions	20,586	13,330	8,048	41,964
Total deferred inflows of resources	20,586	13,330	8,048	41,964
NET POSITION				
Net investment in capital assets	1,402,276	1,355,214	4,961	2,762,451
Restricted	230,866			230,866
Unrestricted	803,255	1,361,273	354,059	2,518,587
Total net position	$ 2,436,397	$ 2,716,487	$ 359,020	$ 5,511,904

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, 2018

	Water Fund	Sewer Fund	Garbage Fund	Totals
Operating Revenues:				
Charges for services	$ 2,216,031	$ 391,562	$ -	$ 2,607,593
Other fees	74,581	2,038	92,678	169,297
Total operating revenues	2,290,612	393,600	92,678	2,776,890
Operating Expenses:				
Salaries and wages	149,429	45,086	6,900	201,415
Payroll taxes and employee benefits	50,001	24,468	3,600	78,069
Repairs and maintenance	71,441	22,285	3,731	97,457
Legal and professional	102,886	1,900	2,589	107,375
Dues and fees	9,309	3,057		12,366
Education	2,118	570	9,980	12,668
Water meters	10,247			10,247
Wheeled water expense	25,807			25,807
Office expense	376		33	409
Supplies	13,830	4,198	431	18,459
Utilities	13,442	1,125	148	14,715
Water supply expense	1,312,433			1,312,433
Miscellaneous	10	374	429	813
Depreciation	148,592	127,670	1,478	277,740
Total operating expenses	1,909,921	230,733	29,319	2,169,973
Operating income (loss)	380,691	162,867	63,359	606,917
Non-Operating Revenues (Expenses):				
Interest income	3,029	33,070	106	36,205
Interest expense	(2,381)	(272)	(54)	(2,707)
Other non-operating revenue	4,632			4,632
Total non-operating revenues (expenses)	5,280	32,798	52	38,130
Income before transfers	385,971	195,665	63,411	645,047
Transfers:				
Transfers in	26,807	7,813	1,562	36,182
Transfers (out)	(390,260)	(357,422)	(52,692)	(800,374)
Total transfers	(363,453)	(349,609)	(51,130)	(764,192)
Change in net position	22,518	(153,944)	12,281	(119,145)
Net position (deficit) - July 1	2,413,879	2,870,431	346,739	5,631,049
Net position (deficit) - June 30	$ 2,436,397	$ 2,716,487	$ 359,020	$ 5,511,904

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, 2018

	Water Fund	Sewer Fund	Garbage Fund	Totals
Cash Flows From Operating Activities:				
Receipts from customers	$ 2,370,290	$ 395,732	$ 96,070	$ 2,862,092
Payments to suppliers	(1,564,029)	(61,993)	(17,284)	(1,643,306)
Payments to employees	(183,020)	(57,586)	(8,578)	(249,184)
Net cash provided (used) by operating activities	623,241	276,153	70,208	969,602
Cash Flows From Capital and Related Financing Activities:				
Acquisition of capital assets	(233,916)	(94,863)	(5,427)	(334,206)
Principal paid on capital debt	(50,121)	(2,560)	(514)	(53,195)
Interest paid on capital debt	(1,671)	(272)	(54)	(1,997)
Net cash provided (used) by capital and related financing activities	(285,708)	(97,695)	(5,995)	(389,398)
Cash Flows from Noncapital Financing Activities:				
Transfers from (to) other funds	(401,367)	(268,738)	(43,736)	(713,841)
Interfund interest paid	(1,086)			(1,086)
Other revenue	4,632			4,632
Net cash provided (used) by noncapital financing activities	(397,821)	(268,738)	(43,736)	(710,295)
Cash Flows From Investing Activities:				
Interest income	3,029	33,070	106	36,205
Net cash provided (used) by investing activities	3,029	33,070	106	36,205
Net increase (decrease) in cash and cash equivalents	(57,259)	(57,210)	20,583	(93,886)
Cash and cash equivalents - July 1	1,313,909	1,055,801	297,548	2,667,258
Cash and cash equivalents - June 30	$ 1,256,650	$ 998,591	$ 318,131	$ 2,573,372
Reconciliation to Statement of Net Position:				
Cash and investments	$ 1,256,650	$ 998,591	$ 318,131	$ 2,573,372

(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, 2018

	Water Fund	Sewer Fund	Garbage Fund	Totals
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$ 380,691	$ 162,867	$ 63,359	606,917
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation expense	148,592	127,670	1,478	277,740
Change in assets, liabilities, deferred inflows of resources, and deferred outflows of resources:				
Receivables, net	(10,621)	(2,068)	3,392	(9,297)
Prepaid expenses	(8,455)	72		(8,383)
Inventories	2,225	433		2,658
Joint venture deposits	(2,883)			(2,883)
Deferred outflows	(29,829)	(22,794)	(3,225)	(55,848)
Accounts payable	6,983	(28,989)	57	(21,949)
Accrued wages and benefits	956	158	249	1,363
Customer deposits	90,299	4,200		94,499
Net pension liability	49,235	37,623	5,325	92,183
Deferred inflows	(3,952)	(3,019)	(427)	(7,398)
Net cash provided (used) by operating activities	$ 623,241	$ 276,153	$ 70,208	$ 969,602

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

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 United States 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property Taxes

The 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 XIIIA 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 of 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, 2018, 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.

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. Initial issue bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method. Amortization of bond premiums or discounts and deferred amounts on refunding are included in interest expense.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the period when the debt is issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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, 2016
Measurement Date:	June 30, 2017
Measurement Period:	July 1, 2016 through June 30, 2017

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 8 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 8 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.

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 City'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:

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

Statement No. 83	"Certain Asset Retirement Obligations"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 88	"Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
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, 2019.
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, 2018.

P. Use of Estimates

The financial statements have been prepared in accordance with 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, 2018, is as follows:

Cash in bank and on hand	$	307,196
Investments		3,053,695
Total cash and investments, Statement of Net Position	$	3,360,891

The District categorizes its fair value measurements within the fair value hierarchy established by 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 had investments in the San Luis Obispo County Investment Pool, money market funds, and bank time deposits, however, these external pools or deposits 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
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.

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, 2018.

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosure Relating to Interest Rate Risk (Continued)

		Remaining Maturity (in Months)			
Investment Type	Carrying Amount	12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Non-Negotiable Certificate of Deposit	$ 24,057	$ -	$ -	$ 24,057	$ -
Money market	334,192	334,192			
San Luis Obispo County Investment Pool	2,695,446	2,695,446			
	$ 3,053,695	$ 3,029,638	$ -	$ 24,057	$ -

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, 2018 for each investment type.

				Rating as of Fiscal Year End		
Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	Aa	Not Rated
Non-Negotiable Certificate of Deposit	$ 24,057	N/A	$ -	$ -	$ -	$ 24,057
Money market	334,192	N/A				334,192
San Luis Obispo County Investment Pool	2,695,446					2,695,446
	$ 3,053,695		$ -	$ -	$ -	$ 3,053,695

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.

NOTE 3 – INTERFUND TRANSACTIONS

Transfers between funds during the fiscal year ended June 30, 2018, were as follows:

Interfund Transfers:

	Transfers In	Transfers Out
Governmental Fund:		
General	$ 789,192	$ 25,000
Proprietary Funds:		
Water	26,807	390,260
Sewer	7,813	357,422
Garbage	1,562	52,692
	$ 825,374	$ 825,374

Due To/Due From:

	Due From	Due To
Governmental Fund:		
General	$ 459,307	$ 470,297
Proprietary Funds:		
Water		504,803
Sewer	470,297	
Garbage	45,496	
	$ 975,100	$ 975,100

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2018 was as follows:

Governmental activities:

	Balance at July 1, 2017	Additions	Retirements	Balance at June 30, 2018
Capital assets not being depreciated				
Land	$ 610,390	$ -	$ -	$ 610,390
Total capital assets not being depreciated	$ 610,390	$ -	$ -	$ 610,390
Capital assets being depreciated				
Buildings and improvements	$ 2,052,181	$ 36,189	$ -	$ 2,088,370
Vehicles and equipment	254,517	6,096		260,613
Total capital assets being depreciated	2,306,698	42,285	-	2,348,983
Less accumulated depreciation	1,162,470	48,381		1,210,851
Total capital assets being depreciated, net	$ 1,144,228	$ (6,096)	$ -	$ 1,138,132
Net capital assets	$ 1,754,618	$ (6,096)	$ -	$ 1,748,522

NOTE 4 – CAPITAL ASSETS (Continued)

Business-type activities:

	Balance at July 1, 2017	Additions	Retirements	Balance at June 30, 2018
Capital assets not being depreciated				
Land	$ 6,000	$ -	$ -	$ 6,000
Construction in progress	23,244	116,542		139,786
Total capital assets not being depreciated	$ 29,244	$ 116,542	$ -	$ 145,786
Capital assets being depreciated				
Buildings and improvements	$ 6,793,281	$ 130,831	$ -	$ 6,924,112
Software	195,918			195,918
Vehicles and equipment	758,235	86,833		845,068
Total capital assets being depreciated	7,747,434	217,664		7,965,098
Less accumulated depreciation	5,055,450	277,740		5,333,190
Total capital assets being depreciated, net	$ 2,691,984	$ (60,076)	$ -	$ 2,631,908
Net capital assets	$ 2,721,228	$ 56,466	$ -	$ 2,777,694

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, 2017:

	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018	Current Portion	Long Term Portion
Governmental Activities:						
Compensated Absences	$ 55,999	$ 31,212	$ 30,784	$ 56,427	$ -	$ 56,427
Net Pension Liability	105,763	14,290	6,915	113,138		113,138
Total Governmental Activities	$ 161,762	$ 45,502	$ 37,699	$ 169,565	$ -	$ 169,565
Business-Type Activities:						
Capital Lease	$ 23,438	$ -	$ 8,195	$ 15,243	$ 8,565	$ 6,678
Water Revenue Bond	45,000		45,000			
Net Pension Liability	492,795	158,601	66,418	584,978		584,978
Total Business-Type Activities	$ 561,233	$ 158,601	$ 119,613	$ 600,221	$ 8,565	$ 591,656

NOTE 6 – WATER REVENUE BONDS

In 1979, prior to the District's formation and while the water system was governed by the County of San Luis Obispo, revenue bonds were issued in the amount of $318,300 for water system improvements. The bonds were issued at a 5% interest rate and a 40-year term until maturity in the fiscal year ended June 30, 2020. As of June 30, 2018 the outstanding bonded debt is $0 after the Board decided to pay off the remaining balance early.

NOTE 7 – 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, 2018 the outstanding principal payable was $15,243. The future minimum lease payments under the capital lease obligations and the net present value of the future minimum lease payments are as follows:

Vehicle Capital Lease	
For the Fiscal Year Ending June 30	Amount
2019	$ 9,067
2020	6,801
Total future minimum lease payments	15,868
Less amount representing interest	(625)
Present value of future minimum lease payments	$ 15,243

NOTE 8 – 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 statue 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, 2016. The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
Hire Date	Classic Member Hired Prior to January 1, 2013*	New Member Hired On or after January 1, 2013
Benefit formula	2.0% @ 55	2% @ 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	1.46% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.50%
Required employer contribution rates	8.418% + $22,717	6.533% + $73

NOTE 8 – PENSION PLANS (Continued)

A. General Information about the Pension Plans (Continued)

	Safety
Hire Date	Classic Member Hired Prior to January 1, 2013*
Benefit formula	2% @ 50
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50-55
Monthly benefits, as a % of eligible compensation	2.0-2.7%
Required employee contribution rates	N/A
Required employer contribution rates	$ 5,700

* 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 $5,700 for the Safety Plan and $67,633 for the Miscellaneous Plan for the fiscal year ended June 30, 2018.

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

At June 30, 2017, 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	$ 607,200
Safety	90,916
Total	$ 698,116

The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 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, 2017, the District's proportionate share of the net pension liability for each Plan as of June 30, 2016 and June 30, 2017 was as follows:

	Miscellaneous	Safety
Proportion-June 30, 2016	0.01492%	0.00155%
Proportion-June 30, 2017	0.01540%	0.00152%
Change-Increase (Decrease)	0.00048%	-0.00003%

For the fiscal year ended June 30, 2018, the District recognized pension expense of $105,188. 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.

NOTE 8 – PENSION PLANS (Continued)

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

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,698	$ 11,997
Changes in assumptions	114,638	8,747
Net difference between projected and actual earnings on retirement plan investments	25,823	
Adjustment due to differences in proportion	17,484	10,115
Changes in proportion and differences between District contributions and proportionate share of contributions		19,873
District contributions subsequent to the measurement date	73,333	
	$ 232,976	$ 50,732

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.

$73,333 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, 2019.

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:

Fiscal year ending June 30,	Amount
2018	$ 17,332
2019	66,710
2020	40,178
2021	(15,309)
	$ 108,911

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous and Safety
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Acturial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3%
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)

(1) Net of pension plan investment and administrative expenses including inflation

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

NOTE 8 – PENSION PLANS (Continued)

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

Change in Assumptions

In December 2016, as part of the Asset Liability Management (ALM) review cycle, the CalPERS Board approved to lower the financial reporting discount rate for PERF C from 7.65% to 7.15%.

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 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.

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100.0%		

(a) An expected inflation of 2.5% was used for this period.
(b) An expected inflation of 3.0% was used for this period.

NOTE 8 – PENSION PLANS (Continued)

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

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:

	Miscellaneous	Safety
1% Decrease	6.15%	6.15%
Net Pension Liability	$ 943,161	$ 132,927
Current Discount Rate	7.15%	7.15%
Net Pension Liability	$ 607,200	$ 90,916
1% Increase	8.15%	8.15%
Net Pension Liability	$ 328,950	$ 56,574

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, 2018, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2018.

NOTE 9 – 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.

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.

NOTE 9 – JOINT VENTURES (Continued)

State Water Project (Continued)

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 $871,102. 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. The District's current fiscal year San Luis Obispo County Flood Control and Water Conservation District expense totaled $441,331.

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 $808,530 to FCFA during the fiscal year ended June 30, 2017 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 – 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, 2018, 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.

NOTE 10 – RISK MANAGEMENT AND CONTINGENCIES (CONTINUED)

Risk Management (Continued)

- 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, 2018, 2017 and 2016. 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, 2018, 2017, and 2016.

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, 2018.

Construction Contingency

The District has no construction contingencies as of June 30, 2018.

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, 2018

	Budgeted Amounts: Original	Budgeted Amounts: Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes and assessments	$ 935,000	$ 935,000	$ 1,012,251	$ 77,251
Public facility fee	15,000	15,000	27,280	12,280
Interest income			1,746	1,746
Rental income	140,640	140,640	139,665	(975)
Other	1,500	1,500	6,201	4,701
Total revenues	1,092,140	1,092,140	1,187,143	95,003
Expenditures:				
Salaries, wages and director stipends	422,091	422,091	445,550	(23,459)
Payroll taxes and employee benefits	143,595	143,595	149,091	(5,496)
Liability insurance	24,100	24,100	21,372	2,728
Repairs and maintenance	33,850	33,850	35,647	(1,797)
Administrative services	12,688	12,688	25,260	(12,572)
Data processing	13,325	13,325	14,803	(1,478)
Dues and fees	24,150	24,150	26,895	(2,745)
Education	6,625	6,625	2,857	3,768
Legal fees	86,000	86,000	86,621	(621)
Miscellaneous	200	200	3,342	(3,142)
Office expense	9,350	9,350	10,712	(1,362)
Street lighting	43,000	43,000	30,898	12,102
Professional fees	39,500	39,500	58,176	(18,676)
Utilities	50,650	50,650	50,729	(79)
Public safety	806,464	875,629	873,719	1,910
Capital outlay		74,717	42,285	32,432
Interest expense	33,070	33,070	33,070	
Total expenditures	1,748,658	1,892,540	1,911,027	(18,487)
Excess of revenues over (under) expenditures	(656,518)	(800,400)	(723,884)	76,516
Other Financing Sources (Uses)				
Transfers in	758,703	778,701	789,192	10,491
Transfers out	(80,870)	(105,870)	(25,000)	80,870
Total other financing sources (uses)	677,833	672,831	764,192	91,361
Net change in fund balance	21,315	(127,569)	40,308	167,877
Fund balance - July 1	728,704	728,704	728,704	
Fund balance - June 30	$ 750,019	$ 601,135	$ 769,012	$ 167,877

OCEANO COMMUNITY SERVICES DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
Last 10 Years*
As of June 30, 2018

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

	2018	2017	2016	2015
Proportion of the net pension liability	0.00704%	0.00692%	0.00649%	0.00676%
Proportionate share of the net pension liability	$ 698,116	$ 598,558	$ 445,280	$ 420,438
Covered payroll	$ 544,352	$ 437,408	$ 453,904	$ 312,044
Proportionate share of the net pension liability as percentage of covered payroll	128.25%	136.84%	98.10%	134.74%
Plan's total pension liability	$37,161,348,332	$33,358,627,624	$31,771,217,402	$30,829,966,631
Plan's fiduciary net position	$27,244,095,376	$24,705,532,291	$24,907,305,871	$24,607,502,515
Plan fiduciary net position as a percentage of the total pension liability	73.31%	74.06%	78.40%	79.82%

Notes to Schedule:
<u>Changes in assumptions</u>
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 four years are shown.

OCEANO COMMUNITY SERVICES DISTRICT
SCHEDULE OF CONTRIBUTIONS
Last 10 Years*
As of June 30, 2018

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

	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 73,333	$ 65,457	$ 52,723	$ 49,702
Contribution in relation to the actuarially determined contributions	(73,333)	(65,457)	(52,723)	(49,702)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered- employee payroll	$ 573,557	$ 544,352	$ 437,408	$ 453,904
Contributions as a percentage of covered-employee payroll	12.79%	12.02%	12.05%	10.95%

Notes to Schedule

Valuation Date: 6/30/2016

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2017/2018 were derived from the June 30, 2017 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2016 funding valuation report.
Inflation	2.75%
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.

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