

OCEANO COMMUNITY SERVICES DISTRICT

AUDITED FINANCIAL STATEMENTS
June 30, 2011

OCEANO COMMUNITY SERVICES DISTRICT
ORGANIZATION
JUNE 30, 2011

The Oceano Community Services District (the District) is a multi-service special district located on the beautiful central coast of California. The District serves the 7,600 residents and business people of Oceano and Halcyon with fire protection, sewer and water services, and street lighting.

BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Lori Angello	President	2014
Matthew Guerrero	Vice President	2012
Richard Searcy	Director	2012
Mary Lucey	Director	2012
Felma Hurdle	Director	2012

DISTRICT ADMINISTRATION

Raffaele F. Montemurro, General Manager

OCEANO COMMUNITY SERVICES DISTRICT
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FINANCIAL SECTION



Independent Auditors' Report on the Financial Statements

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Oceano Community Services District (District), as of and for the fiscal year ended June 30, 2011 which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Oceano Community Services District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of Oceano Community Services District as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 24, be presented to support the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other

knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Caliber Audit + Attest, LLP

San Luis Obispo, California
March 15, 2013

OCEANO COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 747,839	\$ 892,032	\$ 1,639,871
Accounts receivable, net	25,350	497,369	522,719
Internal balances	527,078	(527,078)	-
Prepaid items	1,802	801,995	803,797
Inventory	-	33,644	33,644
Total current assets	<u>1,302,069</u>	<u>1,697,962</u>	<u>3,000,031</u>
Capital assets:			
Non depreciable:			
Land	385,391	231,000	616,391
Depreciable:			
Buildings and improvements	635,168	8,165,074	8,800,242
Equipment, vehicles, and machinery	246,557	535,967	782,524
Software	-	195,918	195,918
Accumulated depreciation	(711,491)	(3,837,918)	(4,549,409)
Total net capital assets	<u>555,625</u>	<u>5,290,041</u>	<u>5,845,666</u>
Total assets	<u>1,857,694</u>	<u>6,988,003</u>	<u>8,845,697</u>
LIABILITIES			
Current liabilities:			
Accounts payable	102,549	738,322	840,871
Accrued wages and benefits	11,334	9,368	20,702
Accrued interest payable	-	1,625	1,625
Customer deposits	-	1,484	1,484
Unearned revenue	-	9,496	9,496
Compensated absences	-	6,126	6,126
Noncurrent liabilities - due within one year	-	95,541	95,541
Total current liabilities	<u>113,883</u>	<u>861,962</u>	<u>975,845</u>
Noncurrent liabilities:			
Due in more than one year	-	279,597	279,597
Total noncurrent liabilities	<u>-</u>	<u>279,597</u>	<u>279,597</u>
Total liabilities	<u>113,883</u>	<u>1,141,559</u>	<u>1,255,442</u>
NET ASSETS			
Invested in capital assets, net of related debt	555,625	5,010,444	5,566,069
Restricted for inventory	-	33,644	33,644
Unrestricted	1,188,186	802,356	1,990,542
Total net assets	<u>\$ 1,743,811</u>	<u>\$ 5,846,444</u>	<u>\$ 7,590,255</u>

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

OCEANO COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Administrative	\$ 612,956	\$ 527,078	\$ 22,941	\$ -	\$ (62,937)	\$ -	\$ (62,937)
Fire protection	657,106	-	-	-	(657,106)	-	(657,106)
Street lighting	30,726	-	-	-	(30,726)	-	(30,726)
Total governmental activities	1,300,788	527,078	22,941	-	(750,769)	-	(750,769)
Business-type activities:							
Water	2,088,831	1,867,935	-	-	-	(220,896)	(220,896)
Sewer	954,473	654,239	-	-	-	(300,234)	(300,234)
Garbage	41,922	66,812	-	-	-	24,890	24,890
Total business-type activities	3,085,226	2,588,986	-	-	-	(496,240)	(496,240)
Total	\$ 4,386,014	\$ 3,116,064	\$ 22,941	\$ -	(750,769)	(496,240)	(1,247,009)
General Revenues							
Taxes and assessments					776,993	-	776,993
Investment income					6,905	2,638	9,543
Rental income					11,050	128,940	139,990
Other general revenues					8,585	-	8,585
Transfer of capital assets to Fire public safety JPA					(346,039)	-	(346,039)
Total general revenues					457,494	131,578	589,072
Change in net assets					(293,275)	(364,662)	(657,937)
Net assets, beginning of fiscal year					2,037,086	6,211,106	8,248,192
Net assets, end of fiscal year					\$ 1,743,811	\$ 5,846,444	\$ 7,590,255

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

OCEANO COMMUNITY SERVICES DISTRICT
 GOVERNMENTAL FUND
 BALANCE SHEET
 JUNE 30, 2011

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 747,839
Accounts receivable	25,350
Due from other funds	527,078
Deposits	<u>1,802</u>
Total assets	<u>\$ 1,302,069</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 102,549
Accrued wages and benefits	<u>11,334</u>
Total liabilities	<u>113,883</u>
Fund Balance:	
Nonspendable	-
Restricted	-
Committed	-
Assigned	-
Unassigned	<u>1,188,186</u>
Total fund balance	<u>1,188,186</u>
Total liabilities and fund balance	<u>\$ 1,302,069</u>

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

OCEANO COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total fund balance - governmental fund \$ 1,188,186

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

Capital assets at historical cost	\$	1,267,116	
Accumulated depreciation		<u>(711,491)</u>	
Net			<u>555,625</u>

Total net assets - governmental activities \$ 1,743,811

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, 2011

	General Fund
Revenues	
Taxes and assessments	\$ 776,993
Contributions	22,941
Interest income	6,905
Rental income	11,050
Administration cost allocation	527,078
Other	8,585
	<hr/>
Total revenues	1,353,552
Expenditures	
Salaries and wages	198,141
Payroll taxes and employee benefits	121,200
Liability insurance	39,550
Repairs and maintenance	19,846
Vehicle operation and maintenance	6,722
Administrative services	9,044
Data processing	9,132
Dues and fees	5,745
Education	70
Legal fees	53,784
Miscellaneous	1,598
Office expense	20,567
Street lighting	30,726
Professional fees	79,052
Supplies	76
Travel	20
Utilities	16,430
Public safety	657,106
Capital outlay	1,057
	<hr/>
Total expenditures	1,269,866
Excess of revenues over (under) expenditures	83,686
Fund balance - July 1, 2010	<hr/> 1,104,500
Fund balance - June 30, 2011	<hr/> \$ 1,188,186 <hr/>

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, 2011

Total net change in fund balance - governmental funds	\$ 83,686
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$ 0 is less than depreciation expense \$(30,922) in the period.	(30,922)
Capital outlays are reported in governmental funds 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 of capital assets the District transferred, \$1,111,519 net of \$765,480 accumulated depreciation, to the public safety JPA for fire services.	<u>(346,039)</u>
Changes in net assets - governmental activities	<u>\$ (293,275)</u>

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

OCEANO COMMUNITY SERVICES DISTRICT
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Totals</u>
ASSETS				
Current assets:				
Cash and investments	\$ 259,527	\$ 457,922	\$ 174,583	\$ 892,032
Accounts receivable, net of allowance for doubtful accounts of \$16,177	262,619	230,656	4,094	497,369
Due from other governments	-	-	-	-
Prepaid expenses	801,995	-	-	801,995
Inventory at cost	21,662	11,982	-	33,644
Total current assets	<u>1,345,803</u>	<u>700,560</u>	<u>178,677</u>	<u>2,225,040</u>
Capital assets:				
Non Depreciable:				
Land	73,500	157,500	-	231,000
Depreciable:				
Buildings and improvements	4,589,100	3,575,974	-	8,165,074
Equipment, vehicles, and machinery	381,550	142,495	11,922	535,967
Software	156,734	39,184	-	195,918
Less accumulated depreciation	<u>(2,789,589)</u>	<u>(1,036,407)</u>	<u>(11,922)</u>	<u>(3,837,918)</u>
Total net capital assets	<u>2,411,295</u>	<u>2,878,746</u>	<u>-</u>	<u>5,290,041</u>
Total assets	<u>3,757,098</u>	<u>3,579,306</u>	<u>178,677</u>	<u>7,515,081</u>
LIABILITIES				
Current liabilities:				
Accounts payable	507,649	230,673	-	738,322
Due to other funds	266,313	227,476	33,289	527,078
Accrued payroll	8,770	598	-	9,368
Accrued interest payable	1,625	-	-	1,625
Customer deposits	1,484	-	-	1,484
Unearned revenue	2,849	6,647	-	9,496
Compensated absences	6,126	-	-	6,126
Current portion of long-term liabilities	89,653	5,888	-	95,541
Total current liabilities	<u>884,469</u>	<u>471,282</u>	<u>33,289</u>	<u>1,389,040</u>
Noncurrent liabilities:				
Revenue bonds payable	120,000	-	-	120,000
Lease payable	79,903	19,976	-	99,879
Loans payable	59,718	-	-	59,718
Total noncurrent liabilities	<u>259,621</u>	<u>19,976</u>	<u>-</u>	<u>279,597</u>
Total liabilities	<u>1,144,090</u>	<u>491,258</u>	<u>33,289</u>	<u>1,668,637</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,062,021	2,852,882	-	4,914,903
Restricted for inventory	21,662	11,982	-	33,644
Unrestricted	529,325	223,184	145,388	897,897
Total net assets	<u>\$ 2,613,008</u>	<u>\$ 3,088,048</u>	<u>\$ 145,388</u>	<u>\$ 5,846,444</u>

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

OCEANO COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Water Fund	Sewer Fund	Garbage Fund	Totals
Operating Revenues:				
Charges for services	\$ 1,801,820	\$ 652,427	\$ -	\$ 2,454,247
Other fees	66,115	1,812	66,812	134,739
Total operating revenues	<u>1,867,935</u>	<u>654,239</u>	<u>66,812</u>	<u>2,588,986</u>
Operating Expenses:				
Salaries and wages	112,947	8,339	4,754	126,040
Payroll taxes and employee benefits	40,601	4,646	2,159	47,406
Insurance	2,164	1,689	-	3,853
Office expense	7,646	2,405	-	10,051
Legal and professional fees	72,466	13,493	1,720	87,679
Dues and fees	12,794	-	-	12,794
Education	105	(263)	-	(158)
Vehicle operation and maintenance	1,520	4,516	-	6,036
Repairs and maintenance	16,255	17,840	-	34,095
Water meters	50,417	-	-	50,417
Treatment and disposal	21,274	-	-	21,274
Special department expenses	423,281	-	-	423,281
Sanitation district fees	-	543,990	-	543,990
Supplies	2,167	4,684	-	6,851
Utilities	10,756	1,192	-	11,948
Bad debts	2,319	2,205	-	4,524
State water project expense	890,963	-	-	890,963
General and administrative overhead	266,313	227,476	33,289	527,078
Depreciation	129,606	120,077	-	249,683
Total operating expenses	<u>2,063,594</u>	<u>952,289</u>	<u>41,922</u>	<u>3,057,805</u>
Operating income (loss)	<u>(195,659)</u>	<u>(298,050)</u>	<u>24,890</u>	<u>(468,819)</u>
Non-Operating Revenues (Expenses):				
Interest income	2,587	-	51	2,638
Rent income	38,682	90,258	-	128,940
Property tax	-	-	-	-
Capital grants	-	-	-	-
Interest expense	(25,237)	(2,184)	-	(27,421)
Total non-operating revenues (expenses)	<u>16,032</u>	<u>88,074</u>	<u>51</u>	<u>104,157</u>
Change in net assets	(179,627)	(209,976)	24,941	(364,662)
Net assets - July 1, 2010	<u>2,792,635</u>	<u>3,298,024</u>	<u>120,447</u>	<u>6,211,106</u>
Net assets - June 30, 2011	<u>\$ 2,613,008</u>	<u>\$ 3,088,048</u>	<u>\$ 145,388</u>	<u>\$ 5,846,444</u>

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

OCEANO COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Totals</u>
Cash Flows From Operating Activities:				
Receipts from customers	\$ 1,828,392	\$ 503,468	\$ 66,380	\$ 2,398,240
Payments to employees for services	(149,789)	(14,870)	(6,913)	(171,572)
Payments to suppliers	<u>(1,642,368)</u>	<u>(413,693)</u>	<u>(2,803)</u>	<u>(2,058,864)</u>
Net cash provided (used) by operating activities	<u>36,235</u>	<u>74,905</u>	<u>56,664</u>	<u>167,804</u>
Cash Flows From Capital and Related Financing Activities:				
Acquisition and construction of property, plant, and equipment	-	-	-	-
Capital projects expensed	-	-	-	-
Principal payments on long-term debt	(83,179)	(5,120)	-	(88,299)
Capital grants received	-	-	-	-
Interest paid on long-term debt	<u>(25,237)</u>	<u>(2,184)</u>	<u>-</u>	<u>(27,421)</u>
Net cash provided (used) by capital and related financing activities	<u>(108,416)</u>	<u>(7,304)</u>	<u>-</u>	<u>(115,720)</u>
Cash Flows From Investing Activities:				
Interest income	2,587	-	51	2,638
Rent income	<u>38,682</u>	<u>90,258</u>	<u>-</u>	<u>128,940</u>
Net cash provided by investing activities	<u>41,269</u>	<u>90,258</u>	<u>51</u>	<u>131,578</u>
Net increase (decrease) in cash and cash investments	(30,912)	157,859	56,715	183,662
Cash and investments, July 1, 2010	<u>290,439</u>	<u>300,063</u>	<u>117,868</u>	<u>708,370</u>
Cash and investments, June 30, 2011	<u>\$ 259,527</u>	<u>\$ 457,922</u>	<u>\$ 174,583</u>	<u>\$ 892,032</u>

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

OCEANO COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (195,659)	\$ (298,050)	\$ 24,890	\$ (468,819)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation expense	129,606	120,077	-	249,683
Change in assets and liabilities:				
Deposits with CCWA	184,246	-	-	184,246
Accounts receivable	(24,532)	(146,631)	(432)	(171,595)
Due from other governments	-	103,729	-	103,729
Prepaid expenditures	(799,831)	1,689	-	(798,142)
Deposits	-	-	-	-
Inventories	7,641	-	-	7,641
Accounts payable	479,828	72,640	(440)	552,028
Due to other funds	266,313	227,476	32,646	526,435
Accrued payroll	3,209	(1,885)	-	1,324
Accrued interest payable	(125)	-	-	(125)
Customer deposits	(15,011)	(4,140)	-	(19,151)
Compensated absences	550	-	-	550
Net cash provided (used) by operating activities	<u>\$ 36,235</u>	<u>\$ 74,905</u>	<u>\$ 56,664</u>	<u>\$ 167,804</u>

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

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The District complies with the United States Generally Accepted Accounting Principles (US GAAP) and all relevant Government Accounting Standards Board (GASB) pronouncements. These technical pronouncements establish criteria for determining the District's activities and functions that are included in the financial statements of a governmental unit. The proprietary funds apply Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) unless those principles conflict with or contradict GASB pronouncements, in which case GASB prevails. Management has elected not to include a management discussion and analysis, which is not a required part of the basic financial statements but is supplementary information normally required by United States GASB pronouncements.

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

B. Basis of Accounting, Measurement Focus, and Financial Statements Presentation

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

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

Government-wide Financial Statements

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

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

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

Fund Financial Statements

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

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

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting, Measurement Focus, and Financial Statements Presentation (Continued)

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

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

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

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

Governmental Funds

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

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

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

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

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

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting, Measurement Focus, and Financial Statements Presentation (Continued)

Enterprise Funds

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

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

C. Investments

Investments are stated at fair value.

D. Receivables

Proprietary Fund receivables are shown net of an allowance for uncollectible accounts. Allowances of uncollectibles were \$11,142 for Water utility charges, and \$5,035 for Sewer utility charges as of June 30, 2011. Utility Customers are billed every other month.

E. Prepaid Items

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

F. Inventory

Inventory is valued at the lower of cost (first-in, first-out basis) or market.

G. Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair value at the date of the contribution. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and infrastructure capitalization threshold of \$100,000 and estimated useful life in excess of two years.

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

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the applicable governmental or business-type activities column in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. The estimated useful lives are as follows:

Water system	5 to 75 years
Sanitation system	10 to 50 years
Drainage	5 to 50 years
Fire department	5 to 40 years
Administration	5 to 40 years

H. Long-term Obligations

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

I. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Sick and vacation pay is accrued in the government-wide, governmental fund, and proprietary fund statements.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Fund Balances

The fund financial statements utilize a fund balance presentation. Fund balances are categorized as nonspendable, restricted, committed, assigned, and unassigned.

- Nonspendable – to reflect amounts that cannot be spent because they are (1) not in spendable form, such as prepaid items, inventories, and long-term receivables for which the payment of proceeds are not restricted or committed with respect to the nature of the specific expenditures of that fund, or (2) legally or contractually required to remain intact;
- Restricted – to reflect amounts that are restricted by external parties such as creditors or imposed by grants, laws, or regulations of other governments or imposed by law through constitutional provisions or enabling legislation;
- Committed – to reflect amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the entity's "highest level of decision-making authority," which the District considers to be the Districts Board;
- Assigned – to reflect amounts that have been allocated by action of the District Board in which the District's intent is to use funds for a specific purpose; and
- Unassigned – to reflect amounts that constitute the residual balances that have no restrictions placed on them.

Net Assets

The government-wide activity and proprietary funds utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted, and unrestricted.

- Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduces the balance in this category;
- Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors, and laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation;
- Unrestricted Net Assets – This category represents net assets of the District, not restricted for any project or other purpose.

K. Interfund Transactions

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

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

L. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the FASB, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

M. Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 - CASH AND INVESTMENTS

On June 30, 2011, the District had the following cash and investments on hand:

Cash on hand and in banks	\$ 872,878
Investments	<u>766,993</u>
Total cash and investments	<u>\$ 1,639,871</u>

Cash and investments listed above are presented on the accompanying basic financial statements as follows:

Cash and investments, statement of net assets	<u>\$ 1,639,871</u>
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NOTE 2 - CASH AND INVESTMENTS (Continued)

Investments Authorized by the California Government Code

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	10%	5%
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
County Investment Pool	N/A	None	None

Disclosures Relating to Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
San Luis Obispo County Investment Pool	\$ 716,807	\$ 716,807	\$ -	\$ -	\$ -
Local Agency Investment Fund	295	295	-	-	-
Time Deposits	<u>49,891</u>	<u>22,480</u>	<u>27,411</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 766,993</u>	<u>\$ 760,362</u>	<u>\$ 21,411</u>	<u>\$ -</u>	<u>\$ -</u>

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 - CASH AND INVESTMENTS (Continued)

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

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
San Luis Obispo County Investment Pool	\$ 716,807	N/A	\$ -	\$ -	\$ -	\$ 716,807
Local Agency Investment Fund	295		-	-	-	295
Time Deposits	<u>49,891</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>49,891</u>
Total	<u>\$ 766,993</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 766,993</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments.

Custodial Credit Risk

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

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

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

Investment in State Investment Pool

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

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 - PROPERTY TAXES

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

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

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

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

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

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

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

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 385,391	\$ -	\$ -	\$ 385,391
Total capital assets, not being depreciated	<u>\$ 385,391</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 385,391</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 672,878	\$ -	\$ 37,710	\$ 635,168
Vehicles and equipment	1,320,366	-	1,073,809	246,557
Total capital assets, being depreciated	<u>1,993,244</u>	<u>-</u>	<u>1,111,519</u>	<u>881,725</u>
Less accumulated depreciation	<u>1,446,049</u>	<u>30,922</u>	<u>765,480</u>	<u>711,491</u>
Net depreciable capital assets	<u>\$ 547,195</u>	<u>\$ (30,922)</u>	<u>\$ 346,039</u>	<u>\$ 170,234</u>
Net capital assets	<u>\$ 932,586</u>	<u>\$ (30,922)</u>	<u>\$ 346,039</u>	<u>\$ 555,625</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 231,000	\$ -	\$ -	\$ 231,000
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>\$ 231,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 231,000</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,165,074	\$ -	\$ -	\$ 8,165,074
Software	195,918	-	-	195,918
Vehicles and equipment	535,967	-	-	535,967
Total capital assets, being depreciated	<u>8,896,959</u>	<u>-</u>	<u>-</u>	<u>8,896,959</u>
Less accumulated depreciation	<u>3,588,235</u>	<u>249,683</u>	<u>-</u>	<u>3,837,918</u>
Net depreciable capital assets	<u>\$ 5,308,724</u>	<u>\$ (249,683)</u>	<u>\$ -</u>	<u>\$ 5,059,041</u>
Net capital assets	<u>\$ 5,539,724</u>	<u>\$ (249,683)</u>	<u>\$ -</u>	<u>\$ 5,290,041</u>

NOTE 5 – LONG-TERM DEBT

A. Revenue Bonded Debt

The outstanding revenue bonded debt of the Oceano Community Services District at June 30, 2011, is:

Date Of Issue	Interest Rate	Maturity Date	Amount of Original Issue	Outstanding July 1, 2010	Issued Current Fiscal Year	Redeemed Current Fiscal Year	Outstanding June 30, 2011
1979	5.00%	2020	\$ 318,300	\$ 140,000	\$ -	\$ 10,000	\$ 130,000

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 – LONG-TERM DEBT (Continued)

The annual requirement to amortize the revenue bond payable outstanding as of June 30, 2011, is as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 10,000	\$ 6,250	\$ 16,250
2013	15,000	5,625	20,625
2014	15,000	4,875	19,875
2015	15,000	4,125	19,125
2016	15,000	3,375	18,375
2017-2020	<u>60,000</u>	<u>6,000</u>	<u>66,000</u>
Totals	<u>\$ 130,000</u>	<u>\$ 30,250</u>	<u>\$ 160,250</u>

B. CSCDA Water Loan Payable

The District had been advanced \$703,205 on a loan under the Safe Water Drinking Bond Law of 1976 from the State of California. The loan has an interest rate of 6.35% and requires principal and interest payments of \$31,289 on June 1 and December 1 of every year through June 2013.

The following is a schedule of payments to be made under the loan:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 56,100	\$ 6,478	\$ 62,578
2013	<u>59,719</u>	<u>2,859</u>	<u>62,578</u>
Totals	<u>\$ 115,819</u>	<u>\$ 9,337</u>	<u>\$ 125,156</u>

C. Capital lease

On February 25, 2010, the District acquired a license for Tyler Software under the provision of a capital lease with Diversified Lenders, Inc. in the amount of \$195,918 with an interest rate of 6%. The lease expires in June 2015. The lease is being recorded as a capital asset and the amortization of the leased property is included in depreciation expense.

The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments at June 30, 2011, were as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 29,441	\$ 7,076	\$ 36,517
2013	31,288	5,229	36,517
2014	33,252	3,265	36,517
2015	<u>35,338</u>	<u>1,179</u>	<u>36,517</u>
Total	<u>\$ 129,319</u>	<u>\$ 16,749</u>	<u>\$ 146,068</u>

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 – LONG-TERM DEBT (Continued)

D. Changes in long-term liabilities

The following is a summary of long-term liabilities activity for the fiscal year ended June 30, 2011:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
<i>Business-type activities:</i>					
Revenue bonds payable	\$ 140,000	\$ -	\$ 10,000	\$ 130,000	\$ 10,000
Capital lease	154,918	-	25,599	129,319	29,441
Loan payable	<u>168,519</u>	<u> </u>	<u>52,700</u>	<u>115,819</u>	<u>56,100</u>
Business-type activity long-term liabilities	<u>\$ 463,437</u>	<u>\$ -</u>	<u>\$ 88,299</u>	<u>\$ 375,138</u>	<u>\$ 95,541</u>

NOTE 6 - DISTRICT EMPLOYEES' RETIREMENT PLAN/DEFINED BENEFIT PENSION PLAN (FULL TIME EMPLOYEES)

California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7% of their salary. The District makes the required contributions for all employees hired prior to October 1997. Employees hired after October 1997 are responsible for their 7% employee portion of contribution. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year 2010-2011, was 8.241% for miscellaneous employees of annual payroll. The contribution requirements of Plan members are established by State statutes. The District's contributions to CalPERS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$59,285, \$87,316, and \$99,123, respectively, and equal 100% of the required contributions for each fiscal year.

NOTE 7 – JOINT VENTURE

In 1991, the District approved participation in the State Water Project (SWP). As a result, the District joined in the formation of the Central Coast Water Authority (CCWA) in August 1991. The purpose of the CCWA is to provide for financing, construction, operation, and maintenance of certain (non-state owned) facilities required to deliver water from SWP to certain water purveyors and users in San Luis Obispo and Santa Barbara Counties.

Each participant, including the District, has entered into a water supply agreement in order to provide for development, financing, construction, operation, and maintenance of the CCWA project. The purpose of the water supply agreement is to assist in carrying out the purposes of CCWA with respect to the CCWA project by: (1) requiring CCWA to sell, and the Project participants to buy, a specified amount of water from CCWA; and (2) assigning the Project participant's entitlement rights from the SWP to CCWA. Although the District does have ongoing financial obligation to the water supply agreement with CCWA, it has been determined that the District does not own an equity interest in the project.

OCEANO COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 – JOINT VENTURE (Continued)

Each project participant is required to pay to CCWA an amount equal to its share of the total cost of “fixed project costs” and certain other costs in proportion established in the water supply agreement. This includes the project participant’s share of payments to the State Department of Water Resources (DWR) under the State Water Supply Contract (including capital, operation, maintenance, power, and replacement costs of the DWR facilities), debt service on CCWA bonds, and all CCWA operating and administrative costs.

Each project participant is required to make payments under its water supply agreement solely from the revenues of its water system. Each participant has agreed in its water supply agreement 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 water supply agreement, and (2) debt service on any existing participant obligation for which revenues are also pledged.

CCWA is composed of eight members, all of which are public agencies. CCWA was organized and exists under a joint exercise of power agreement amount the various participating public agencies. The Board of Directors is made up of one representative from each participating entity. Voters on the Board are apportioned between the entities based upon each entity’s pro rata share of the water provided by the project. The District’s share of the project, based upon number of acre feet of water, is 0.766%. Operating and capital expenses are allocated to the member based upon various formulas recognizing the benefits of the various project components to each member.

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 State water for use by various participating water purveyors and users within Santa Barbara and San Luis Obispo Counties, a transmission system to deliver such water to the participating water purveyors and users, and certain 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 \$890,963.

NOTE 8 - CONTINGENCIES

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

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive (Negative)</u>
Revenues:				
Taxes and assessments	\$ 766,753	\$ 766,753	\$ 776,993	\$ 10,240
Contributions	-	-	22,941	22,941
Interest income	4,435	4,435	6,905	2,470
Rental income	10,200	10,200	11,050	850
Administration cost allocation	589,100	589,100	527,078	(62,022)
Other	45,985	45,985	8,585	(37,400)
Total revenues	<u>1,416,473</u>	<u>1,416,473</u>	<u>1,353,552</u>	<u>(62,921)</u>
Expenditures:				
Salaries and wages	194,000	194,000	198,141	(4,141)
Payroll taxes and employee benefits	70,200	70,200	121,200	(51,000)
Liability insurance	6,150	6,150	39,550	(33,400)
Repairs and maintenance	19,400	19,400	19,846	(446)
Vehicle operation and maintenance	-	-	6,722	(6,722)
Administrative services	21,401	21,401	9,044	12,357
Data processing	36,518	36,518	9,132	27,386
Dues and fees	2,550	2,550	5,745	(3,195)
Education	19,750	19,750	70	19,680
Legal fees	47,746	47,746	53,784	(6,038)
Miscellaneous	10,055	10,055	1,598	8,457
Office expense	24,500	24,500	20,567	3,933
Street lighting	39,000	39,000	30,726	8,274
Professional fees	53,000	53,000	79,052	(26,052)
Supplies	-	-	76	(76)
Travel	2,250	2,250	20	2,230
Utilities	20,000	20,000	16,430	3,570
Public safety fire	657,106	657,106	657,106	-
Capital outlay	61,517	61,517	1,057	60,460
Total expenditures	<u>1,285,143</u>	<u>1,285,143</u>	<u>1,269,866</u>	<u>15,277</u>
Excess of revenues over (under) expenditures	<u>\$ 131,330</u>	<u>\$ 131,330</u>	83,686	<u>\$ (47,644)</u>
Fund balance - July 1, 2010			<u>1,104,500</u>	
Fund balance - June 30, 2011			<u>\$ 1,188,186</u>	