



Moss, Levy & Hartzheim LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Oceano Community Services District
Oceano, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Oceano Community Services District, as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Oceano Community Services District's basic financial statements and have issued our report thereon dated January 21, 2022.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of the District, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oceano Community Services District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Levy & Hartzheim LLP

Santa Maria, California
January 21, 2022



January 21, 2022

To the Board of Directors of the
Oceano Community Services District

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

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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

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

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

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

The disclosure of the Pension Plans in Note 7.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

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

Disagreements with Management

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

Management Representations

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

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

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

Very truly yours,

Moss, Levy & Hutzgretin LLP

Santa Maria, California

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

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

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Directors of Oceano Community Services District
Oceano, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Oceano Community Services District (the District), as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, the budgetary comparison information on page 41, the schedule of proportionate share of net pension liability on page 42, and the schedule of pension contributions on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries of the basis financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2022, on our consideration of the Oceano Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Levy & Hartshorn LLP

Santa Maria, California
January 21, 2022

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

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

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

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

District Services and Related Agencies

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

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

Emergency Medical and Fire Protection Services

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

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

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

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

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

Lighting Services

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

Parks and Recreation Services

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

Water Services

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

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

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

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

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

Wastewater Collection Services

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

Solid Waste and Recycling Services

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

Overview of the Financial Statements

This annual report contains the following five parts.

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

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

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

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

Financial Statement Analysis and Highlights

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Assets

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

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

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

Debt Activities

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

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

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

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

Budget and Rates

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

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

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

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

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

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

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

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

Future Outlook

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

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

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

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

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

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

General Revenues and Transfers:

Taxes:

Property

Use of money and property

Other general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning of fiscal year

Net position - end of fiscal year

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

Net (Expenses) Revenue and Changes in Net Position

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

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

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

B. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

Basis of Accounting

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting (Continued)

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Basis of Presentation

Government-wide Statements:

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

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

Fund Financial Statements:

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

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

Proprietary Funds

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property Taxes

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

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

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

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

E. Cash and Investments

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

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The District maintains its cash balance in financial institutions in the United States. The balances at the institutions are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2021, the District held cash in financial institutions in excess of federally insured limits.

F. Accounts and Interest Receivable

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Prepaid Expenses and Inventory

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

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

H. Capital Assets

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

Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

I. Accumulated Compensated Absences

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

J. Long-Term Liabilities

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oceano Community Services District California Public Employees' Retirement System (CalPERS) Miscellaneous, Miscellaneous PEPRAs, and Safety Fire Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

L. Deferred Outflows and Inflows of Resources

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

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

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

M. Interfund Transactions

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

N. Equity Classifications

Government-Wide Statements

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

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

Governmental Fund Statements

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Equity Classifications (continued)

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

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

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

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

O. Future Accounting Pronouncements

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Use of Estimates

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

NOTE 2 – CASH AND INVESTMENTS

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

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

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

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

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

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

Disclosure Relating to Interest Rate Risk

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

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

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosure Relating to Interest Rate Risk (Continued)

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

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

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

Disclosures Relating to Credit Risk

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

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

Concentration of Credit Risk

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

Custodial Credit Risk

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

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

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

NOTE 3 – INTERFUND TRANSACTIONS

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

Interfund Transfers:

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

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

Advances and Due To/Due From:

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

NOTE 4 – CAPITAL ASSETS

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

Governmental activities:

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

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

NOTE 4 – CAPITAL ASSETS (Continued)

Business-type activities:

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

NOTE 5 – LONG-TERM LIABILITIES

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

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

NOTE 6 – TAXABLE REVENUE BOND OBLIGATIONS

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

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

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

NOTE 7 – PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions

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

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Classic Plan members with five years of total service are eligible to retire at age 50 and new members/PEPRA Plan members with five years of total service are eligible to retire at age 52, with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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

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

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

Contributions

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

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

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

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

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

NOTE 7 – PENSION PLANS (Continued)

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

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

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

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

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

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

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

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

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

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

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

NOTE 7 – PENSION PLANS (Continued)

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

Actuarial Assumptions

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

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

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

Discount Rate

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

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

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

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

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

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

NOTE 7 – PENSION PLANS (Continued)

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

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

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

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

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

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

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

Pension Plan Fiduciary Net Position

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

C. Payable to the Pension Plan

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

NOTE 8 – JOINT VENTURES

State Water Project

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

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

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

NOTE 8 – JOINT VENTURES (Continued)

State Water Project (Continued)

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

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

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

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

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

South San Luis Obispo County Sanitation District

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

Five Cities Fire Authority

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

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

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

NOTE 9 – RISK MANAGEMENT AND CONTINGENCIES

Risk Management

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

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

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

Legal Contingency

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

Construction Contingency

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

NOTE 10 – EXCESS EXPENDITURES OVER APPROPRIATIONS

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

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REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

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

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

Notes to Schedule:

Changes in assumptions

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

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

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

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

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

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

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

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

Notes to Schedule

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

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