

Oceano Community Services District

Financial Statements

June 30, 2014

Oceano Community Services District

BOARD OF DIRECTORS

Matthew G. Guerrero, President

Mary K. Lucey, Vice President

Lori J. Angello, Director

Karen White, Director

Jennifer Blackburn, Director

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Independent Auditors' Report on the Financial Statements

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Oceano Community Services District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Independent Auditors' Report on the Financial Statements – Continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Oceano Community Services District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 30, be presented to support the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Caliber Audit & Attest, LLP

San Luis Obispo, California
May 19, 2015

Oceano Community Services District

*Statement of Net Position
June 30, 2014*

<i>ASSETS</i>	<u><i>Governmental Activities</i></u>	<u><i>Business-type Activities</i></u>	<u><i>Total</i></u>
<i>Current Assets</i>			
Cash and investments	\$ 352,377	\$ 1,421,271	\$ 1,773,648
Accounts receivable, less allowance for doubtful accounts of \$1,500	-	381,982	381,982
Due from (due to) other funds	772,937	(772,937)	-
Prepaid expenses	189,534	770,436	959,970
Deposits	1,656	-	1,656
Inventory	-	29,684	29,684
Total current assets	<u>1,316,504</u>	<u>1,830,436</u>	<u>3,146,940</u>
<i>Non-current Assets</i>			
Joint venture deposits	-	200,543	200,543
Total noncurrent assets	<u>-</u>	<u>200,543</u>	<u>200,543</u>
<i>Capital Assets</i>			
Non-depreciable:			
Land	385,391	231,000	616,391
Depreciable:			
Buildings and improvements	637,168	8,195,940	8,833,108
Equipment, vehicles and machinery	212,227	656,132	868,359
Software	-	195,918	195,918
Accumulated depreciation	(720,165)	(4,578,481)	(5,298,646)
Total capital assets	<u>514,621</u>	<u>4,700,509</u>	<u>5,215,130</u>
Total assets	<u>1,831,125</u>	<u>6,731,488</u>	<u>8,562,613</u>
 <i>LIABILITIES</i>			
<i>Current Liabilities</i>			
Accounts payable	36,132	150,236	186,368
Accrued wages and benefits	21,746	6,511	28,257
Accrued interest payable	-	875	875
Customer deposits	2,500	7,955	10,455
Unearned revenue	3,750	9,496	13,246
Total current liabilities	<u>64,128</u>	<u>175,073</u>	<u>239,201</u>
<i>Non-current liabilities:</i>			
Due within one year	-	47,475	47,475
Due in more than one year	-	75,000	75,000
Total non-current liabilities	<u>-</u>	<u>122,475</u>	<u>122,475</u>
Total liabilities	<u>64,128</u>	<u>297,548</u>	<u>361,676</u>
 <i>NET POSITION</i>			
Invested in capital assets, net of related debt	514,621	4,578,034	5,092,655
Restricted	164,558	200,543	365,101
Unrestricted	1,087,818	1,655,363	2,743,181
Total net position	<u>\$ 1,766,997</u>	<u>\$ 6,433,940</u>	<u>\$ 8,200,937</u>

See Notes to Financial Statements.

Oceano Community Services District

Statement of Activities
Year Ended June 30, 2014

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	Business-type Activities	Total
Governmental activities						
Administrative	\$ 610,511	\$ -	\$ -	\$ (87,385)	\$ -	\$ (87,385)
Fire protection	715,967	-	-	(715,967)	-	(715,967)
Street lighting	32,168	-	-	(32,168)	-	(32,168)
Total governmental activities	<u>1,358,646</u>	<u>-</u>	<u>-</u>	<u>(835,520)</u>	<u>-</u>	<u>(835,520)</u>
Business-type activities						
Water	2,139,613	-	-	-	143,412	143,412
Sewer	977,907	-	-	-	(76,194)	(76,194)
Garbage	47,835	-	-	-	31,646	31,646
Total business-type activities	<u>3,165,355</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,864</u>	<u>98,864</u>
Total	<u>\$ 4,524,001</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(835,520)</u>	<u>98,864</u>	<u>(736,656)</u>
General Revenues						
Taxes and assessments				787,498	-	787,498
Interest income				2,277	989	3,266
Rental income				26,748	113,940	140,688
Gain on sale of asset				-	800	800
Other general revenues				46,988	-	46,988
Total general revenues				<u>863,511</u>	<u>115,729</u>	<u>979,240</u>
Change in net position				27,991	214,593	242,584
Net position - July 1, 2013				1,739,006	6,219,347	7,958,353
Net position - June 30, 2014				<u>\$ 1,766,997</u>	<u>\$ 6,433,940</u>	<u>\$ 8,200,937</u>

See Notes to Financial Statements.

Oceano Community Services District

*Balance Sheet - Governmental Fund
June 30, 2014*

ASSETS

Cash and investments	\$ 352,377
Accounts receivable	-
Due from other funds	772,937
Prepaid expenses	189,534
Deposits	1,656
Total assets	<u>\$ 1,316,504</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 36,132
Accrued wages and benefits	21,746
Customer deposits	2,500
Unearned revenue	3,750
Total liabilities	<u>64,128</u>

Fund Balance

Nonspendable	964,127
Restricted	164,558
Committed	-
Assigned	-
Unassigned	123,691
Total fund balance	<u>1,252,376</u>

Total liabilities and fund balance	<u>\$ 1,316,504</u>
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See Notes to Financial Statements.

Oceano Community Services District

*Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Position
June 30, 2014*

Total fund balance - governmental fund \$ 1,252,376

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

Capital assets at historical cost	\$ 1,234,786	
Accumulated depreciation	<u>(720,165)</u>	
Net		<u>514,621</u>

Total net position - governmental activities \$ 1,766,997

See Notes to Financial Statements.

Oceano Community Services District

*Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund
Year Ended June 30, 2014*

	General Fund
<i>Revenues</i>	
Taxes and assessments	\$ 787,498
Interest income	2,277
Rental income	26,748
Administration cost allocation	523,126
Other	46,988
Total revenue	<u>1,386,637</u>
<i>Expenditures</i>	
Salaries and wages	257,348
Payroll taxes and employee benefits	77,725
Liability insurance	22,355
Repairs and maintenance	34,246
Vehicle operations and maintenance	378
Administrative services	12,550
Data processing	2,775
Dues and fees	10,286
Education	2,728
Legal fees	89,300
Miscellaneous	5,578
Office expense	11,654
Street lighting	32,168
Professional fees	43,068
Supplies	1,094
Utilities	34,634
Public safety	715,967
Total expenditures	<u>1,353,854</u>
Excess of revenues over expenditures	32,783
Fund balance - June 30, 2013	<u>1,219,593</u>
Fund balance - June 30, 2014	<u><u>\$ 1,252,376</u></u>

See Notes to Financial Statements.

Oceano Community Services District

*Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance of the Governmental Fund to the Statement of Activities
Year Ended June 30, 2014*

Total net change in fund balance - governmental funds	\$ 32,783
Capital outlays - reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlays of \$0, and retirements of \$5,830, is less than depreciation expense of \$(10,622) in the period.	<u>(4,792)</u>
Change in net position - governmental activities	<u>\$ 27,991</u>

See Notes to Financial Statements.

Oceano Community Services District

*Statement of Net Position - Proprietary Funds
June 30, 2014*

<i>ASSETS</i>	<u><i>Water Fund</i></u>	<u><i>Sewer Fund</i></u>	<u><i>Garbage Fund</i></u>	<u><i>Total</i></u>
<i>Current Assets</i>				
Cash and investments	\$ 369,766	\$ 870,198	\$ 181,307	\$ 1,421,271
Accounts receivable, less allowance for doubtful accounts of \$1,500	258,922	118,975	4,085	381,982
Due from other funds	-	-	60,149	60,149
Prepaid expenses	770,142	145	149	770,436
Inventory, at cost	28,143	1,541	-	29,684
Total current assets	<u>1,426,973</u>	<u>990,859</u>	<u>245,690</u>	<u>2,663,522</u>
<i>Non-current Assets</i>				
Joint venture deposits	200,543	-	-	200,543
Total non-current assets	<u>200,543</u>	<u>-</u>	<u>-</u>	<u>200,543</u>
<i>Capital Assets</i>				
Non-depreciable:				
Land	73,500	157,500	-	231,000
Depreciable:				
Buildings and improvements	4,619,966	3,575,974	-	8,195,940
Equipment, vehicles and machinery	428,644	215,566	11,922	656,132
Software	156,734	39,184	-	195,918
Accumulated depreciation	(3,217,309)	(1,349,250)	(11,922)	(4,578,481)
Total net capital assets	<u>2,061,535</u>	<u>2,638,974</u>	<u>-</u>	<u>4,700,509</u>
Total assets	<u>3,689,051</u>	<u>3,629,833</u>	<u>245,690</u>	<u>7,564,574</u>
<i>LIABILITIES AND NET POSITION</i>				
<i>Current Liabilities</i>				
Accounts payable	14,741	133,497	1,998	150,236
Accrued wages and benefits	3,896	2,142	473	6,511
Accrued interest payable	875	-	-	875
Customer deposits	7,955	-	-	7,955
Unearned revenue	2,849	6,647	-	9,496
Due to other funds	833,086	-	-	833,086
Current portion of capital lease	25,980	6,495	-	32,475
Current portion of long-term liabilities	15,000	-	-	15,000
Total current liabilities	<u>904,382</u>	<u>148,781</u>	<u>2,471</u>	<u>1,055,634</u>
<i>Non-current liabilities:</i>				
Revenue bonds payable	75,000	-	-	75,000
Total non-current liabilities	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>75,000</u>
Total liabilities	<u>979,382</u>	<u>148,781</u>	<u>2,471</u>	<u>1,130,634</u>
<i>Net Position</i>				
Invested in capital assets, net of related debt	1,945,555	2,632,479	-	4,578,034
Restricted	200,543	-	-	200,543
Unrestricted	563,571	848,573	243,219	1,655,363
Total net position	<u>\$ 2,709,669</u>	<u>\$ 3,481,052</u>	<u>\$ 243,219</u>	<u>\$ 6,433,940</u>

See Notes to Financial Statements.

Oceano Community Services District

Statement of Revenues, Expenditures and Changes in Net Position - Proprietary Funds
Year Ended June 30, 2014

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total</u>
Revenues				
Charges for services	\$ 2,051,062	\$ 884,479	\$ -	\$ 2,935,541
Other fees	231,963	17,234	79,481	328,678
Total operating revenues	<u>2,283,025</u>	<u>901,713</u>	<u>79,481</u>	<u>3,264,219</u>
Operating Expenses				
Salaries and wages	115,122	37,954	6,057	159,133
Payroll taxes and employee benefits	46,037	13,007	1,887	60,931
Insurance	7,365	3,960	984	12,309
Office	6,039	5,142	-	11,181
Legal and professional	91,947	4,665	1,115	97,727
Dues and fees	10,945	5,919	731	17,595
Education	1,702	4,004	-	5,706
Vehicle operation and maintenance	13,259	2,345	978	16,582
Repairs and maintenance	35,159	39,571	1,441	76,171
Water meters	10,018	-	-	10,018
Wheeled water expense	17,029	-	-	17,029
Lopez/flood control expense	392,481	-	-	392,481
Sanitation district fees	-	493,363	-	493,363
Supplies	32,208	4,478	753	37,439
Utilities	33,267	3,280	608	37,155
State water project expense	897,564	-	-	897,564
General and administrative overhead	270,922	219,169	32,416	522,507
Miscellaneous	281	-	865	1,146
Depreciation	150,658	140,366	-	291,024
Total operating expenses	<u>2,132,003</u>	<u>977,223</u>	<u>47,835</u>	<u>3,157,061</u>
Operating income (loss)	<u>151,022</u>	<u>(75,510)</u>	<u>31,646</u>	<u>107,158</u>
Non-operating Revenues (Expenses)				
Interest income	974	-	15	989
Rent income	34,182	79,758	-	113,940
Interest expense	(7,610)	(684)	-	(8,294)
Gain on sale of asset	-	800	-	800
Total non-operating revenues (expenses)	<u>27,546</u>	<u>79,874</u>	<u>15</u>	<u>107,435</u>
Change in net position	178,568	4,364	31,661	214,593
Net position - June 30, 2013	<u>2,531,101</u>	<u>3,476,688</u>	<u>211,558</u>	<u>6,219,347</u>
Net position - June 30, 2014	<u>\$ 2,709,669</u>	<u>\$ 3,481,052</u>	<u>\$ 243,219</u>	<u>\$ 6,433,940</u>

See Notes to Financial Statements.

Oceano Community Services District

**Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2014**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total</u>
Cash flows from operating activities:				
Receipts from customers	\$ 2,269,965	\$ 899,443	\$ 79,609	\$ 3,249,017
Payments to employees for services	(163,907)	(50,292)	(7,944)	(222,143)
Payments to suppliers	(1,767,765)	(833,314)	(97,910)	(2,698,989)
Net cash provided (used) by operating activities	<u>338,293</u>	<u>15,837</u>	<u>(26,245)</u>	<u>327,885</u>
Cash flows from capital and related financing activities:				
Purchases of property and equipment	(10,206)	(146,310)		(156,516)
Proceeds from sale of property and equipment	-	800	-	800
Payments on long-term debt	(15,000)	(7,223)	-	(22,223)
Payments on capital leases	(28,892)	-	-	(28,892)
Interest paid on long-term debt	(7,610)	(684)	-	(8,294)
Net cash provided (used) by capital and related financing activities	<u>(61,708)</u>	<u>(153,417)</u>	<u>-</u>	<u>(215,125)</u>
Cash flows from investing activities:				
Interest income	974	-	15	989
Rent income	34,182	79,758	-	113,940
Net cash provided (used) by investing activities	<u>35,156</u>	<u>79,758</u>	<u>15</u>	<u>114,929</u>
Net increase (decrease) in cash and cash equivalents	311,741	(57,822)	(26,230)	227,689
Cash and cash equivalents, beginning of year	<u>58,025</u>	<u>928,020</u>	<u>207,537</u>	<u>1,193,582</u>
Cash and cash equivalents, end of year	<u>\$ 369,766</u>	<u>\$ 870,198</u>	<u>\$ 181,307</u>	<u>\$ 1,421,271</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 151,022	\$ (75,510)	\$ 31,646	\$ 107,158
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation/amortization	150,658	140,366	-	291,024
Changes in assets and liabilities:				
Accounts receivable	13,060	(2,270)	128	10,918
Inventory	12,760	777	-	13,537
Prepaid expenses	(35,748)	26,763	178	(8,807)
Deposits	(673)	-	-	(673)
Due to other funds	62,399	-	(60,149)	2,250
Accounts payable	(12,937)	(74,959)	1,587	(86,309)
Accrued wages	(2,748)	670	365	(1,713)
Customer deposits and unearned revenue	500	-	-	500
Net cash provided by (used) by operating activities	<u>\$ 338,293</u>	<u>\$ 15,837</u>	<u>\$ (26,245)</u>	<u>\$ 327,885</u>

See Notes to Financial Statements.

Oceano Community Services District

Notes to Financial Statements

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

Reporting Entity:

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

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

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

Significant Accounting Policies:

Basis of accounting:

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

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

Government-wide Financial Statements

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

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

Oceano Community Services District

Notes to Financial Statements

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

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

Fund Financial Statements

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

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

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

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

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

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

Oceano Community Services District

Notes to Financial Statements

Governmental Funds

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

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

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

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

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

Oceano Community Services District

Notes to Financial Statements

Proprietary Funds

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

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

Use of estimates:

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

Cash and cash equivalents:

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

The District maintains its cash balance in financial institutions in the United States and abroad. The balances at the institutions in the United States are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2014, the District held cash in financial institutions in excess of federally insured limits.

Investments:

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

Accounts receivable:

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

Oceano Community Services District

Notes to Financial Statements

Inventory:

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

Capital assets:

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

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

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

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

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

Compensated absences:

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

Long-term obligations:

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

Oceano Community Services District

Notes to Financial Statements

Net position – statement of net position:

The statement of net position utilizes a net position presentation for both the governmental and business-type activities. Business-type activities also use this same presentation in the fund financial statements. Net positions are categorized as invested capital assets (net of related debt), restricted, and unrestricted.

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

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

Fund balances:

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

Oceano Community Services District

Notes to Financial Statements

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

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

As of June 30, 2014, the following fund balances of governmental funds are presented in the fund financial statements:

	<u>General Fund</u>
Nonspendable:	
Long-term due from Water Fund	\$ 772,937
Prepaid expenses	189,534
Deposits	1,656
	<u>964,127</u>
Restricted	
Public facilities fees	<u>164,558</u>
Committed	<u>-</u>
Assigned	<u>-</u>
Unassigned fund balance	<u>123,691</u>
Total fund balance	<u>\$ 1,252,376</u>

Interfund transactions:

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

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

Oceano Community Services District

Notes to Financial Statements

Note 2. Cash and Investments

On June 30, 2014, the District had the following cash and investments on hand:

Cash on hand and in banks	\$ 1,624,778
Investments	148,870
Total	<u>\$ 1,773,648</u>

Investments authorized by the California Government Code:

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

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

Oceano Community Services District

Notes to Financial Statements

Disclosures relating to interest rate risk:

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

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

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
San Luis Obispo County Investment Pool	\$125,062	\$125,062	\$ -	\$ -	\$ -
Local Agency Investment Fund	297	297	-	-	-
Time Deposits	23,511	-	23,511	-	-
	<u>\$148,870</u>	<u>\$125,359</u>	<u>\$23,511</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures relating to credit risk:

In general, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt from Disclosure	Rating as of Fiscal Year End		
				AAA	AA	Not Rated
San Luis Obispo County Investment Pool	\$125,062	N/A	\$ -	\$ -	\$ -	\$125,062
Local Agency Investment Fund	297	N/A	-	-	-	297
Time Deposits	23,511	N/A	-	-	-	23,511
	<u>\$148,870</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$148,870</u>

Oceano Community Services District

Notes to Financial Statements

Concentration of credit risk:

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

Custodial credit risk:

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

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

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

Investment in state investment pool:

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

Oceano Community Services District

Notes to Financial Statements

Note 3. Property Taxes

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

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

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

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

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

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

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

Oceano Community Services District

Notes to Financial Statements

Note 4. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2014 was as follows:

	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
<i>Governmental Activities</i>				
Capital assets, not depreciated:				
Land	\$ 385,391	\$ -	\$ -	\$ 385,391
Capital assets, depreciated:				
Buildings and improvements	\$ 635,168	\$ 2,000	\$ -	\$ 637,168
Vehicles and equipment	239,988	3,830	(31,591)	212,227
Total capital assets, depreciated	875,156	5,830	(31,591)	849,395
Less: accumulated depreciation	741,134	10,622	(31,591)	720,165
Net depreciable capital assets	\$ 134,022	\$ (4,792)	\$ -	\$ 129,230
Net capital assets	\$ 519,413	\$ (4,792)	\$ -	\$ 514,621
<i>Business-Type Activities</i>				
Capital assets, not depreciated:				
Land	\$ 231,000	\$ -	\$ -	\$ 231,000
Capital assets, depreciated:				
Buildings and improvements	\$ 8,195,940	\$ -	\$ -	\$ 8,195,940
Software	195,918	-	-	195,918
Vehicles and equipment	512,110	156,516	(12,494)	656,132
Total capital assets, depreciated	8,903,968	156,516	(12,494)	9,047,990
Less: accumulated depreciation	4,299,951	291,024	(12,494)	4,578,481
Net depreciable capital assets	\$ 4,604,017	\$ (134,508)	\$ -	\$ 4,469,509
Net capital assets	\$ 4,835,017	\$ (134,508)	\$ -	\$ 4,700,509

Oceano Community Services District

Notes to Financial Statements

Note 5. Long Term Debt – Revenue Bonded Debt

The outstanding revenue bonded debt of the Oceano Community Services District at June 30, 2014 is:

Date of Issue	1979
Interest Rate	5.00%
Maturity Date	2020
Amount of Original Issue	<u>\$ 318,300</u>
Outstanding June 30, 2013	\$ 105,000
Issued current fiscal year	-
Redeemed current fiscal year	<u>15,000</u>
Outstanding June 30, 2014	<u>\$ 90,000</u>

The annual requirement to amortize the revenue bond payable outstanding as of June 30, 2014 is as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2015	\$ 15,000	\$ 4,125	\$ 19,125
2016	15,000	3,375	18,375
2017	15,000	2,625	17,625
2018	15,000	1,875	16,875
2019	15,000	1,125	16,125
Thereafter	<u>15,000</u>	<u>375</u>	<u>15,375</u>
	<u>\$ 90,000</u>	<u>\$ 13,500</u>	<u>\$ 103,500</u>

Note 6. Capital Lease Obligations

The District acquired a license for Tyler Software under capital lease obligations. The capital lease obligations have been recorded in the accompanying financial statements at the present value of future minimum lease payments. The cost of assets acquired under capital leases totaled \$195,918 for the year ended June 30, 2014. The related accumulated depreciation was \$83,965 and the net book value was \$111,953. Depreciation expense related to the leased software for the year ended June 30, 2014 was \$27,988.

Oceano Community Services District

Notes to Financial Statements

Capital lease obligations consist of the following at June 30, 2014:

Diversified Lenders, Inc, 6.10% implicit rate of interest at time of signing, payable in 60 monthly installments of \$3,043, due in June 2015	\$ 32,475
Less current maturities	<u>(32,475)</u>
Capital lease obligations, less current maturities	<u>\$ -</u>

At June 30, 2014, future minimum lease payments under the capital lease obligations and the net present value of the future minimum lease payments are as follows:

<i>Fiscal Year</i>	
<u>Ending June 30</u>	
2014	\$ 33,474
Total future minimum lease payments	33,474
Less amount representing interest	<u>(999)</u>
Present value of future minimum lease payments	<u>\$ 32,475</u>

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

Plan Description

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

Funding Policy

Active plan members hired on or prior to December 31, 2012 are required to contribute 7.000% of their salary. The District makes the required contributions for these employees. Active plan members hired after December 31, 2012 are required to contribute 6.250% of their salary. The District currently does not make the required contributions for these employees. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year 2013-2014 for employees hired on or prior to December 31, 2012 and after December 31, 2012 was 9.949% and 6.250%, respectively.

Oceano Community Services District

Notes to Financial Statements

The contribution requirements of Plan members are established by State statutes. The District's contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$40,033, \$55,612, and \$46,081, respectively, and equal 100% of the required contributions for each fiscal year. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service from 3.30% to 14.20%, and (c) 3.00% per year payroll growth adjustments. Both (a) and (b) included an inflation component of 2.75%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen year period (smoothed market value).

Note 8. Joint Venture

State Water Project:

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

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

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

The District is required to make payments under its Water Supply agreement and its Water Treatment and Local Facilities agreement from the revenues of its water system. The District has agreed in its agreements to fix, prescribe and collect rates and charges for its water system which will be at least sufficient to yield each fiscal year's

Oceano Community Services District

Notes to Financial Statements

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 \$897,564. All of the District's disbursements were paid to the SLOFCD, which is obligated to pay to DWR and CCWA the District's proportionate share of costs to those agencies.

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

The District's current fiscal year San Luis Obispo County Flood Control and Water Conservation District expense totaled \$392,481.

South San Luis Obispo County Sanitation District:

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

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

Oceano Community Services District

Notes to Financial Statements

Five Cities Fire Authority:

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

The FCFA governing board consists of one member appointed from each participating entity and shall be appointed as determined by the respective City Council or Board of Directors. All financial decisions are made by this three-member board. The District contributed \$709,520 to FCFA during the fiscal year ended June 30, 2014 for fire protections services. Separate financial statements may be obtained from the Five Cities Fire Authority at 140 Traffic Way in Arroyo Grande, California.

Note 10. Contingencies

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

Note 11. Subsequent Events

The date to which events occurring after June 30, 2014 have been evaluated for possible adjustment to the financial statements or disclosure is May 19, 2015, which is the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

Oceano Community Services District

**General Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Year Ended June 30, 2014**

	<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	\$ 757,850	\$ 762,218	\$ 787,498	\$ 25,280
Interest income	2,030	2,030	2,277	247
Rental income	26,820	26,820	26,748	(72)
Administration cost allocation	596,390	569,939	523,126	(46,813)
Other	42,232	42,239	46,988	4,749
Total revenue	<u>1,425,322</u>	<u>1,403,246</u>	<u>1,386,637</u>	<u>(16,609)</u>
Operating Expenses				
Salaries and wages	308,042	310,418	257,348	(53,070)
Payroll taxes and employee benefits	111,933	98,846	77,725	(21,121)
Liability insurance	24,765	24,765	22,355	(2,410)
Repairs and maintenance	22,349	32,949	34,246	1,297
Vehicle operations and maintenance	350	550	378	(172)
Administrative services	18,000	18,000	12,550	(5,450)
Data processing	3,500	5,000	2,775	(2,225)
Dues and fees	6,985	12,106	10,286	(1,820)
Education	3,000	3,500	2,728	(772)
Legal fees	62,774	63,774	89,300	25,526
Miscellaneous	7,950	6,952	5,578	(1,374)
Office expense	15,943	13,412	11,654	(1,758)
Street lighting	33,000	33,000	32,168	(832)
Professional fees	64,150	48,575	43,068	(5,507)
Supplies	1,000	1,000	1,094	94
Utilities	13,050	17,700	34,634	16,934
Public safety	709,520	709,520	715,967	6,447
Total operating expenses	<u>1,406,311</u>	<u>1,400,067</u>	<u>1,353,854</u>	<u>(46,213)</u>
Excess of revenues over (under) expenditures	<u>\$ 19,011</u>	<u>\$ 3,179</u>	32,783	<u>\$ 29,604</u>
Fund balance - July 1, 2013			<u>1,219,593</u>	
Fund balance - June 30, 2014			<u>\$ 1,252,376</u>	