REQUEST FOR PROPOSAL
(RFP)

for

INDEPENDENT AUDIT SERVICES

MARCH 2026

OCEANO COMMUNITY SERVICES DISTRICT
1655 Front Street
Oceano, CA 93445
(805) 481-6730
(805) 481-6836 fax

1.0 GENERAL

1.1 Purpose

The Oceano Community Services District (District) is soliciting proposals from accounting firms that are interested in providing audit services to the District. The audit period will be for the fiscal year ending June 30, 2026, with options to renew for annual audits for the fiscal years ending June 30, 2027 and June 30, 2028.

The District intends on following Government Code section 12410.6(b) regarding auditor rotation requirements of public accounting firms providing audit services to local agencies.

1.2 Agency Description

The Oceano Community Services District (District) is a multi-purpose special district and was formed on January 1, 1981. The District is a political subdivision of the State of California and operates under a Board of Directors – General Manager form of government. The District is demographically diverse and classified as disadvantaged based on criteria established for median household income.

District Services

The District provides water, wastewater collection, solid waste, street lighting and parks and recreation services to the community, which is predominantly residential and includes a population of approximately 7,600. In the fiscal year ending June 30, 2023, the District provided fire and emergency services through the Five Cities Fire Authority (FCFA), a joint powers authority (JPA) formed in 2010 between the District and the cities of Arroyo Grande and Grover Beach. In 2022 the District initiated divestiture of fire and emergency services through the Local Formation Commission (LAFCO). Through December 31, 2025, the District contracted with FCFA for fire and emergency services and was no longer a member of the JPA. LAFCO approved the District's divesture of fire services to the County of San Luis Obispo in 2025 and the District no longer provides fire and emergency services to the community. Lastly, the District provides solid waste and recycling services through a franchise agreement with South County Sanitary Incorporated, a subsidiary of Waste Connections Incorporated, a publicly traded corporation. The District's powers also include parks and recreation and in 2023 the Board created the Oceano Parks and Recreation Committee. Other services such as streets and roads, drainage and flood control, land use planning, law enforcement, health and human services are provided by the County of San Luis Obispo or other agencies.

Real Property

In addition to water and wastewater collection infrastructure, the District's significant fixed assets includes real property leased to the County of San Luis Obispo for use as a Sheriff Substation, a community center leased to Lucia Mar Unified School District, and the historic Oceano Train Depot leased to a local non-profit organization.

Water Supply Contracts

The District purchases two sources of water pursuant to long-term contracts executed with the San Luis Obispo County Flood Control and Water Conservation District for supplies from Lopez Reservoir and the State Water Project. Water supply costs are the District's most significant expenditures, and during the recent drought, the reliability of the District's supplies proved sufficient to allow the District to increase water in storage in contrast to most agencies that realized diminishing water supplies.

Wastewater Treatment and Disposal

Wastewater treatment and disposal services for the community are the responsibility of the South San Luis Obispo County Sanitation District, an independent special district formed under provisions of the California State Health and Safety Code. The sanitation district also treats and disposes of wastewater for the cities of Arroyo Grande and Grover Beach. The sanitation district's governing board is comprised of elected officials from each of the three agencies, as provided by state statute. As an independent special district, the sanitation district is not a component unit of the District.

Employees

The District currently has nine (9) full-time employees and one (1) part-time employee – five (5) field staff, four (4) office staff and the general manager. Full-time non-management employees are represented by the Service Employees International Union (SEIU) Local 620. District employees receive pension benefits through CalPERS. The District does not provide post-retirement health benefits. Legal, engineering and computer services are provided by independent contractors.

Recent Audits - Attached

In 2025, the District addressed financial issues and the Board of Directors approved new water, wastewater, and solid waste rates, to address the budgetary deficit and by doing so to establish an operating surplus.

Outlook

Since 2017, the District has been awarded approximately $4,400,000 in grants for technical assistance and has addressed deferred infrastructure replacement and upgrades. In 2025, the District was awarded $9,400,000 to consolidate the community of Halcyon, Ken Mar Gardens, Halcyon Estates, adding 50 new connections to the water system. The grant funds allowed the District to develop a long term capital improvement program in the water system. In 2025, the Board allocated District reserves to develop a wastewater capital improvement program.

1.3 Computer and Accounting System

Tyler Technologies (Incode).

1.4 Contact Information

Any questions about this RFP should be directed to:

Carey Casciola – Business and Accounting Manager
Oceano Community Services District
P.O. Box 599
Oceano, CA 93447-599
Phone: (805) 481-6730
Fax: (805) 481-6836
Email: carey@oceanocsd.org

1.5 Submittal Requirements

Interested accounting firms shall submit one electronic copy of their Response to RFP in PDF format to the District no later than **4:00 p.m. on Friday, May 1, 2026.** All submittals should be sent to carey@oceanocsd.org.

2.0 DESIRED SERVICES

The District desires its audited annual financial report to include financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standard Board (GASB) practices. The examination by the auditors of such financial statements shall be performed in accordance with Generally Accepted Auditing Standards (GAAS) and in compliance with all laws.

The District will prepare and submit the State Controller's Annual Report for Special Districts and supplemental information for the financial statements.

2.1 Project Objectives and Anticipated Scope

The selected auditor will be required to:

1. Prior to the commencement of the audit, the auditor will review the audit program with District Staff including proposed dates for completion of audit tasks. For the initial year (fiscal year ending June 30, 2026), District staff will have the supporting schedules and documentation which the District customarily prepares for audits available for initial review by the auditor upon execution of a letter of engagement with the selected firm. In subsequent years, the District will have schedules and documentation completed by November 30th of each year.

2. The auditor will review the draft financial statements with District Staff. At this meeting the CPA will disclose all findings or situations that the auditors feel are weak or problematic. The auditor will review and assess internal controls and make recommendations to improve the current procedures. The District will receive a management letter from the auditor reflecting the above items. If any irregularities and illegal acts are identified by the auditor, the auditor

shall report their findings in writing to the General Manager, Business and Accounting Manger, and to the Board President. The auditor should anticipate preparing annual GASB #68 calculations based on information provided by CalPERS for use by the District, who will prepare adjusting journal entries for the various funds based on established allocation methodologies.

3. The auditor will prepare the financial statements for fiscal year ending June 30, 2026, by June 30, 2027, and in subsequent years, by December 30th of each year.

District staff will be available to assist the auditors by providing information, documentation, and explanations. The District will provide the trial balance, all schedules and other related items, including a MD&A.

The District will provide the auditor with reasonable work space, phone, internet and copy machine access.

The audit report shall consist of, but not be limited to the auditor's report and opinion, a management letter, statement of net position, statement of cash flows, statement of revenues, expenses and changes in net position, notes to the financial statements, any required supplementary information, and any other additional information that may be applicable or pertinent to the audit as would be customary for a complete and conforming audit by current standards and regulations.

Report preparation, editing and printing will be the auditor's responsibility.

3.0 RFP REQUIREMENTS

As previously mentioned, responses should be submitted electronically in PDF format. Required proposal elements are outlined in this section. Submittals may contain additional information, but it is necessary to maintain the specific headings or order presented below.

3.1 Firm Overview

Provide a general overview and history of your firm that describes general capabilities and practice areas. Include a list of office locations and identify the office that would be the primary point of service for District projects. Responses may also contain a description of your firm's approach to quality assurance and other key operating practices. Responses should include an affirmative statement of independence from the Oceano Community Services District and affirmative statement that the firm and assigned staff are licensed to practice in California.

3.2 Experience Summary

This section should include summaries of your firm's overall experience and qualifications performing governmental and special district audits. Responses may also include engagements in the last five years that are similar to that anticipated for our organization.

3.3 Personnel

Provide a list of key personnel within your organization that would be expected to contribute to the performance of the audit. Provide a description of individual experience/qualifications and include professional resumes, if appropriate.

If your firm would typically assign a client manager or a single point of contact for services of this type, please identify the person that you propose to fill this role.

3.4 Scope of Services

Provide the scope of audit services that your firm would propose to undertake for this engagement. The scope should be responsive to the objectives and anticipated services outline in Section 2.1 and should include information on deliverables and other proposed services.

3.5 Proposed Fees

Provide a proposed lump sum fee for complete audit services, including all anticipated direct and indirect costs, for each year of three-year performance period (FY 2025/26, FY 2026/27 and FY 2027/28), based on the scope of services presented in your proposal.

3.6 References

Provide at least three client references with complete contact information. Ideally, references would be from agencies or entities for which your firm has recently completed independent audit services that are similar to the District's.

4.0 SELECTION PROCESS

The District's objective is to select an accounting firm with the experience and resources necessary to meet the District's expressed needs.

Proposed Schedule:

Submittal Due	May 1, 2026
Selection (expected)	May 13, 2026 Regular Meeting

All responses received will be carefully reviewed by District management and the Board of Directors will approve the selected firm. The District may elect to create a short list, conduct interviews of selected firms or request additional information as part of the evaluation process.

Ultimately, the selected firm will be required to provide an engagement letter. Additionally, firms providing services will be required to comply with District's standard insurance requirements, which are attached.

The District reserves the right to reject any and all proposals submitted and to award the contract to the firm which, in the District's opinion is best qualified.

Attached:

- Financial Statements for the year ending June 30, 2023 and related auditor letters.
- Financial Statements for the year ending June 30, 2024 and related auditor letters.
- Financial Statements for the year ending June 30, 2025 and related auditor letters.
- Condition of Purchase and Insurance Requirements

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, and each major fund of the Oceano Community Services District, as of and for the fiscal year ended June 30, 2023, 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 May 28, 2024.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency (Findings 2023-001).

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*.

Oceano Community Services District's Responses to Findings

The Oceano Community Services District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Oceano Community Services District's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

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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
May 28, 2024

FINDING 2023-001
UTILITY RECEIPTS

Criteria:
All payments for utility bills should be properly recorded to the customers account and then deposited into the District's bank account.

Condition:
During testing of utility receipts and per discussion with District staff, we found that a "bill void" was occasionally entered into the utility billing system to zero out billings previously posted to specific customer accounts. This zeroed out the balance a customer owed on their account in the exact amount that the customer paid in cash at the District. The District checked by calling affected customers who made these cash specific cash payments and were able to get verbal confirmation that the customer paid in cash at the District. The amounts the customers told the District they had paid did not make it into the District bank deposits and the revenue recorded was reversed out by the "bill void". This occurred up until employment of the employee that was responsible ended in August 2022.

Cause:
District employee had permission in the utility system to make void bills without authorization.

Effect:
Misappropriation of funds from cash receipts and understatement of revenues.

Recommendation:
Employees who receive customer cash payments should not have permissions in the utility system to void a bill without management authorization. The District should re-evaluate receipt controls and system permission to ensure there is proper segregation of duties.

Repeat Finding:
Yes. See Finding 2022-002.

District Corrective Action Plan:
Management worked with the District's software provider (Tyler Incode) to install a second approval the for all types of bill adjustments. The District's software system now requires one employee to initiate the type of adjustment and a second to approve within the system for all types of adjustments before any adjustment can be applied to an account.

Oceano Community Services District
Schedule of Prior Fiscal Year Findings and Responses
June 30, 2023

FINDING 2022-001
PAYROLL

Criteria:
All employees eligible to receive vacation pay should be accruing vacation and sick leave based on their employee agreement.

Condition:
During testing of the vacation and sick leave accruals, we noted that one employee, who was responsible for payroll processing, allocated themself 19.68 combined extra vacation and sick leave hours accrued than earned for the pay period we tested.

Cause:
Employee designated to process payroll had too much system access.

Effect:
Misappropriation of funds and overstatement of expenditures. Employee had more vacation and sick leave hours accrued than they were eligible to earn for the pay period.

Recommendation:
A designated manager should periodically review the employee leave reports and ensure that accruals are proper for each employee and that hours used match with timecards. The employee processing payroll should not have sufficient system access to add additional leave hours. The District should re-evaluate payroll controls and system permission to ensure there is proper segregation of duties.

Repeat Finding:
No.

Current Status:
Implemented.

FINDING 2022-002
UTILITY RECEIPTS

Criteria:
All payments for utility bills should be properly recorded to the customers account and then deposited into the District's bank account.

Condition:
During testing of utility receipts and per discussion with District staff, we found that a "bill void" was occasionally entered into the utility billing system to zero out billings previously posted to specific customer accounts. This zeroed out the balance a customer owed on their account in the exact amount that the customer paid in cash at the District. The District checked by calling affected customers who made these cash specific cash payments and were able to get verbal confirmation that the customer paid in cash at the District. The amounts the customers told the District they had paid did not make it into the District bank deposits and the revenue recorded was reversed out by the "bill void".

Cause:
District employee had permission in the utility system to make void bills without authorization.

Effect:
Misappropriation of funds from cash receipts and understatement of revenues.

Recommendation:
Employees who receive customer cash payments should not have permissions in the utility system to void a bill without management authorization. The District should re-evaluate receipt controls and system permission to ensure there is proper segregation of duties.

Repeat Finding:
No.

Current Status:
Not implemented, see Finding 2023-001.

Moss, Levy & Hartzheim LLP
Certified Public Accountants

May 28, 2024

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 and each major fund of the Oceano Community Services District for the fiscal year ended June 30, 2023. 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 June 30, 2023. 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 disclosures affecting the financial statements were:

> The disclosures of the Pension Plans in Note 7 and the Subsequent Events in Note 10.

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.

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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 May 28, 2024.

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 & Hartzheim LLP

Santa Maria, California

OCEANO COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
JUNE 30, 2023

OCEANO COMMUNITY SERVICES DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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FINANCIAL SECTION

Moss, Levy & Hartzheim LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors of Oceano Community Services District
Oceano, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Oceano Community Services District, as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Oceano Community Services District's basic financial statements as listed in the table of contents.

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, 2023, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Oceano Community Services District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Oceano Community Services District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Oceano Community Services District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Oceano Community Services District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the General Fund budgetary comparison schedule, the schedule of proportionate share of net pension liability, and the schedule of pension contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2024, on our consideration of the Oceano Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim LLP

Santa Maria, California
May 28, 2024

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 fiscal year ending June 30, 2023. 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 7,600. 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 business-type activities. Governmental activities include fire protection services, street lighting, and recreation. Business-type activities include water service, wastewater collection service, and garbage and recycling services.

District Services and Related Agencies

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

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

Fire Protection Services

During Fiscal Year 2022-23 the District provided 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 was appointed to serve the District on the FCFA Board of Directors and a second member of the OCSD Board was an alternate member on the FCFA Board. The District would pay a portion of the annual costs of FCFA services based on a funding formula established in the FCFA agreement, which was modified in the third amendment. 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 service levels greater than those provided in the existing JPA. The amendments included specific approval of each members annual costs during the implementation period and required either a citizen initiative or District initiated special tax measure to be placed on the 2022 primary ballot. The increase in the District costs during the implementation period was funded from reserves to the extent that the costs exceed property tax revenues received by OCSD. The amendments 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 extended the agreement for an additional two years and required the District to provide the community another opportunity to consider additional funding via a June 2022 ballot measure. On June 7, 2022 Measure A-22 was placed on the ballot by the Board of Directors and failed with 57.75% support. The District's membership in the FCFA will cease on July 1, 2023. The District has initiated proceedings through LAFCO to divest of its Fire Protection Services power and turn the responsibility over to the County of San Luis Obispo. The divestiture process will continue past July 1, 2024 and the District will have to provide Fire Protection Services until that process concludes. The District approved an agreement with FCFA to contract for services in the amount of $1,150,000 for the fiscal year 2023-24 and a second agreement of $1,706,000 ($142,167 a month) for the fiscal year 2024-25 will be brought to the Board for consideration in June 2024.

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. The Board of Supervisors will consider providing fire and emergency services to Oceano residents at their June 18, 2024 meeting.

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. 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. In fiscal year 2023-24 the Board established the Oceano Parks and Recreation Committee (OPARC) and provided $19,500 of General Funds as a grassroots effort. OPARC was awarded a grant of $15,904 from Parks CA for the Field Trips to State Praks Program at Oceano Elementary.

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 has the ability to store water in Lopez. Nevertheless, the need to address water supply reliability continues and contract amendments for the State Water Project are being developed by the State Department of Water Resources and, separately, contract amendments for the Lopez Lake water supply were adopted by local agencies in August 2022 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 has been 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 (Garbage) 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 fiscal year and the District's end of the fiscal 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.

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 $174,677 for the Governmental 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, 2023 and 2022					
	Governmental Activities			Business-type Activities	
	2023	2022		2023	2022
Current and Other Assets	$ 1,028,126	$ 1,041,205		$ 3,727,899	$ 4,012,889
Capital Assets, net	1,642,612	1,655,130		3,189,271	2,433,432
Total Assets	2,670,738	2,696,335		6,917,170	6,446,321
Deferred Outflow of Resources	265,301	293,818		584,751	761,562
Current Liabilities	117,873	40,743		281,211	155,018
Non-current Liabilities	145,818	143,980		825,171	856,800
Total Liabilities	263,691	184,723		1,106,382	1,011,818
Deferred Inflow of Resources	123,189	131,790		271,522	341,595
Net Investment in Capital Assets	1,642,612	1,655,130		3,189,271	2,966,373
Restricted	139,365	205,830		41,461	41,412
Unrestricted	767,182	812,680		2,893,285	2,846,685
Net Position	$ 2,549,159	$ 2,673,640		$ 6,124,017	$ 5,854,470

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

Statements of Net Position as of June 30, 2023 and 2022						
	Water Fund		Wastewater Fund		Garbage Fund	
	2023	2022	2023	2022	2023	2022
Current and Other Assets	$2,833,821	$2,738,253	$ 1,075,128	$ 1,276,435	$ 160,239	$ 237,349
Capital Assets, net	2,227,311	1,520,265	961,960	1,054,121	-	333
Total Assets	5,061,132	4,258,518	2,037,088	2,330,556	160,239	237,682
Deferred Outflow of Resources	373,258	486,108	186,586	243,054	24,907	32,400
Current Liabilities	297,237	230,127	21,775	21,965	28,237	31,386
Non-current Liabilities	823,273	840,602	273,969	268,173	3,180	-
Total Liabilities	1,120,510	1,070,729	295,744	290,138	31,417	31,386
Deferred Inflow of Resources	173,318	218,041	86,639	109,021	11,565	14,533
Net investment in Capital Assets	2,227,311	1,770,259	961,960	1,179,118	-	333
Restricted	41,461	41,412	-	-	-	-
Unrestricted	1,871,790	1,644,185	879,331	995,333	142,164	223,830
Net Position	$ 4,140,562	$ 3,455,856	$ 1,841,291	$ 2,174,451	$ 142,164	$ 224,163

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

Statement of Activities for the years ending June 30, 2023 and 2022				
	Governmental Activities		Business-type Activities	
	2023	2022	2023	2022
Operating Revenues	$ 3,863	$ 7,878	$ 4,167,842	$ 3,591,601
Operating Expenses:				
Administrative Expenses	(1,156,338)	(686,911)		
Fire Protection	(1,152,239)	(1,147,837)		
Street Lighting	(50,524)	(29,241)		
Enterprise Funds			(3,224,782)	(1,652,605)
Net Operating Income / (Loss)	(2,355,238)	(1,856,111)	943,060	1,938,996
Ad Valorem Taxes	1,286,944	1,182,885	-	-
Other Non-operating Income	189,814	159,662	80,486	23,047
Transfers	753,999	775,155	(753,999)	(775,155)
Total Non-Operating Income	2,230,757	2,117,702	(673,513)	(752,108)
Change in Net Position	$ (124,481)	$ 261,591	$269,547	$1,186,888

In summary, the Governmental Activities went from a net income of $261,591 to a net loss of ($124,481) in 2023. The decrease in net position this fiscal year is from the District's employer pension contributions vs. accrual-basis pension costs in CalPERs (GASB 68 reporting) of $204,897.

The Business-type Activities went from a net income for the prior fiscal year of $1,186,888 to a net income of $269,547. The decrease is from the employer pension contributions vs accrual-basis pension costs in CalPERs (GASB 68 reporting). The Enterprise Funds are broken out by fund in the table below.

Statements Revenues, Expenses, and Changes in Net Position as of June 30, 2023 and 2022						
	Water Fund		Wastewater Fund		Garbage Fund	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Operating Revenues	$ 2,946,797	$ 2,994,410	$ 408,497	$ 403,008	$ 72,392	$ 52,896
Operating Expenses	(2,680,062)	(1,517,132)	(412,586)	(43,758)	(100,695)	(71,686)
Net Operating Income / (Loss)	266,735	1,477,278	(4,089)	359,250	(28,303)	(18,790)
Other non-operating income	820,642	152,370	-	11,924	-	-
Non-operating Expenses	(21,859)	(13,405)	(9,580)	(6,624)	-	-
Net Non-Operating Income	798,783	138,965	(9,580)	5,340	-	-
Net Transfers	(380,812)	(383,029)	(319,491)	(342,116)	(53,696)	(50,010)
Net Income / (Loss)	$ 684,706	$ 1,233,214	$ (333,160)	$ 22,474	$ (81,999)	$ (68,800)

The decrease in the net income in the Water Fund reflects the decrease from the employer pension contributions vs. accrual-basis pension costs in CalPERs (GASB 68 reporting). The rate structure approved in 2020 has established financial stability and funds for long-term capital improvement plans and minimum reserves.

The Wastewater Fund incurred a deficit of ($333,160) this fiscal year. This was from the employer pension contributions vs. accrual-basis pension costs (GASB 68 reporting). A rate study and Proposition 218 rate increase is needed to close the structural deficit.

The Garbage Fund's net deficit increased from the prior fiscal 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. In June 2022 the Board voted to use Garbage Fund reserves for SCSS's solid waste retroactive charges for the period May 2022 to June 30, 2022 during the rate increase proposed by SCSS. 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 within the District.

Capital Assets

The District currently owns the community fire station, administrative offices, Sheriff's substation 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 $122,175 per year. The divesture of the District's fire and emergency services will alter the substation and administrative office lease in fiscal year 2024-25.

The Oceano Depot and Community Center are leased to non-governmental agencies. The Lucia Mar Unified School District and Oceano Depot lease the properties for $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 interfund agreement was budgeted to be paid off in FY 2023-24. 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 fiscal year ending June 30, 2023, the District recorded the interfund transfers to adhere to resolutions adopted April 26, 2017 to ensure repayment of interfund liabilities.

Interfund (Due to) / Due From	Beginning Balances – July 1, 2022	Net Change	Ending Balances – June 30, 2023
General Fund Due to Sewer Fund	$ (144,117)	$ 100,011	$ (44,106)
General Fund Due to Water Fund	(97,658)	9,430	(88,228)
General Fund Due from Water Fund	335,461	(28,924)	306,537
Net General Fund Due to Other Funds	93,686	80,517	174,203
Water Fund Due from the General Fund	96,041	(7,813)	88,228
Water Fund Due from the Garbage Fund	21,141	(3,512)	17,629
Water Fund Due to the General Fund	(335,461)	28,924	(306,537)
Water Fund Due to Garbage Fund	(15,689)	7,379	(8,310)
Sewer Fund Due from General Fund	144,117	(100,011)	44,106
Sewer Fund Due from the Garbage Fund	9,760	(947)	8,813
Garbage Fund Due from Water Fund	15,689	(7,379)	8,310
Garbage Fund Due to the Water Fund	(19,524)	1,895	(17,629)
Garbage Fund Due to the Sewer Fund	(9,760)	947	(8,813)
Totals	$ - 0 -	$ - 0 -	$ - 0 -

Budget and Rates

The District's budget for the fiscal year ending June 30, 2023 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
2021/22	1,233,214
2022/23	684,706

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 $4,241,090 in grants from state agencies for the water system and related needs.

No rate changes affected the wastewater fund for the fiscal year ending June 30, 2023. 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)
2021/22	22,474
2022/23	(333,160)

The operating revenue for the sewer fund needs to be addressed in the fiscal year 2024-25. In addition, addressing deferred infrastructure needs of the sewer fund will also become a higher priority, which will require sewer fund rate increases in the near future.

An increase of 21.03% in garbage rates for the SCSS Inc. were approved on June 8, 2022, and inflationary adjustments went into effect on January 1, 2023 and January 1, 2024. 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 fiscal year ending June 30, 2023. 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 fiscal year 2024-25. The District has initiated an extension with FCFA for services as the divesture process with LAFCO continues.

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OCEANO COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
June 30, 2023

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and investments	$ 664,458	$ 2,950,523	$ 3,614,981
Restricted cash and investments	138,320		138,320
Accounts receivable, net	1,045	792,028	793,073
Prepaid items	50,100	112,611	162,711
Deposits		17,404	17,404
Inventory		29,536	29,536
Internal balances	174,203	(174,203)	
Capital assets:			
Non Depreciable:			
Land	610,390	6,000	616,390
Construction in progress		388,347	388,347
Depreciable:			
Buildings and improvements	2,154,547	8,142,161	10,296,708
Equipment, vehicles, and machinery	435,679	915,822	1,351,501
Software		195,918	195,918
Accumulated depreciation	(1,558,004)	(6,458,977)	(8,016,981)
Total assets	2,670,738	6,917,170	9,587,908
DEFERRED OUTFLOW OF RESOURCES			
Deferred pensions	265,301	584,751	850,052
Total deferred outflow of resources	265,301	584,751	850,052
LIABILITIES			
Accounts payable	50,635	41,223	91,858
Accrued wages and benefits	17,106	12,247	29,353
Deposits	2,500	173,116	175,616
Unearned revenue	10,319	525	10,844
Compensated absences - current portion	37,313		37,313
Taxable revenue bond obligation - current portion		54,100	54,100
Total current liabilities	117,873	281,211	399,084
Noncurrent liabilities:			
Compensated absences - noncurrent portion	111,940		111,940
Taxable revenue bond obligation - noncurrent portion		750,500	750,500
Net pension liability	33,878	74,671	108,549
Total noncurrent liabilities	145,818	825,171	970,989
Total liabilities	263,691	1,106,382	1,370,073
DEFERRED INFLOW OF RESOURCES			
Deferred pensions	123,189	271,522	394,711
Total deferred inflow of resources	123,189	271,522	394,711
NET POSITION			
Net investment in capital assets	1,642,612	3,189,271	4,831,883
Restricted for:			
Capital facilities	139,365		139,365
Water joint venture agreement		41,461	41,461
Unrestricted	767,182	2,893,285	3,660,467
Total net position	$ 2,549,159	$ 6,124,017	$ 8,673,176

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, 2023

		Program Revenues		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
Administration	$ 1,156,338	$ -	$ -	$ 3,863
Fire protection	1,152,239			
Street lighting	50,524			
Total governmental activities	2,359,101			3,863
Business-type activities:				
Water	2,701,921	2,878,677	808,276	
Sewer	422,166	400,259	8,238	
Garbage	100,695		72,392	
Total business-type activities	3,224,782	3,278,936	888,906	
Total primary government	$ 5,583,883	$ 3,278,936	$ 888,906	$ 3,863

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
$ (1,152,475)	$ -	$ (1,152,475)
(1,152,239)		(1,152,239)
(50,524)		(50,524)
(2,355,238)		(2,355,238)
	985,032	985,032
	(13,669)	(13,669)
	(28,303)	(28,303)
	943,060	943,060
(2,355,238)	943,060	(1,412,178)
1,286,944		1,286,944
178,053	638	178,691
11,761	79,848	91,609
753,999	(753,999)	
2,230,757	(673,513)	1,557,244
(124,481)	269,547	145,066
2,673,640	5,854,470	8,528,110
$ 2,549,159	$ 6,124,017	$ 8,673,176

OCEANO COMMUNITY SERVICES DISTRICT
GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2023

		General Fund
ASSETS		
Cash and investments	$	664,458
Restricted cash and investments		138,320
Accounts receivable		1,045
Prepaid items		50,100
Advances receivable		306,537
Total assets	$	1,160,460
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	$	50,635
Accrued payroll and benefits		17,106
Deposits		2,500
Unearned revenue		10,319
Due to other funds		132,334
Total liabilities		212,894
Fund Balance:		
Nonspendable:		
Prepaid items		50,100
Advances receivable		306,537
Restricted:		
Capital facilities		139,365
Assigned:		
Infrastructure replacement		150,574
Unassigned		300,990
Total fund balance		947,566
Total liabilities and fund balance	$	1,160,460

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, 2023

Total fund balance - governmental fund			$	947,566
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	$	3,200,616		
Accumulated depreciation		(1,558,004)		
Net				1,642,612
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	$	149,253		
Net pension liability		33,878		
Total				(183,131)
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 $265,301 and inflows of resources of $(123,189) relating to pensions are reported.				142,112
Total net position - governmental activities			$	2,549,159

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, 2023

	General Fund
Revenues:	
Taxes and assessments	$ 1,286,944
Public facility fee	3,863
Interest income	28,878
Rental income	149,175
Other	11,761
Total revenues	1,480,621
Expenditures:	
Salaries, wages, and directors' stipends	437,216
Payroll taxes and employee benefits	131,794
Liability insurance	35,552
Repairs and maintenance	22,413
Administrative services	12,588
Data processing	19,978
Dues and fees	30,398
Education	5,909
Legal fees	52,867
Miscellaneous	4,231
Office expense	16,675
Street lighting	32,273
Professional fees	104,799
Utilities	25,395
Public safety	1,138,148
Capital outlay	66,177
Total expenditures	2,136,413
Excess of revenues over (under) expenditures	(655,792)
Other Financing Sources (Uses):	
Transfers in	753,999
Total other financing sources (uses)	753,999
Net change in fund balance	98,207
Fund balance - July 1	849,359
Fund balance - June 30	$ 947,566

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, 2023

Total net change in fund balance - governmental fund	$	98,207
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 $66,177 are less than depreciation expense $(78,695) in the period.		(12,518)
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 $5,273.		(5,273)
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 fiscal year, the difference between accrual-basis pension costs and actual employer contributions was:		(204,897)
Changes in net position - governmental activities	$	(124,481)

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, 2023

	Water Fund	Sewer Fund	Garbage Fund	Totals
ASSETS				
Current assets:				
Cash and investments	$ 1,844,626	$ 958,289	$ 147,608	$ 2,950,523
Accounts receivable, net	726,471	61,461	4,096	792,028
Prepaid expenses	112,386		225	112,611
Inventory	27,077	2,459		29,536
Due from other funds	105,857	52,919	8,310	167,086
Total current assets	2,816,417	1,075,128	160,239	4,051,784
Noncurrent assets:				
Joint venture deposits	17,404			17,404
Non depreciable capital assets:				
Land	6,000			6,000
Construction in progress	388,347			388,347
Depreciable capital assets:				
Buildings and improvements	5,380,114	2,762,047		8,142,161
Equipment, vehicles, and machinery	586,429	312,495	16,898	915,822
Software	156,734	39,184		195,918
Accumulated depreciation	(4,290,313)	(2,151,766)	(16,898)	(6,458,977)
Total noncurrent assets	2,244,715	961,960		3,206,675
Total assets	5,061,132	2,037,088	160,239	7,258,459
DEFERRED OUTFLOW OF RESOURCES				
Deferred pensions	373,258	186,586	24,907	584,751
Total deferred outflow of resources	373,258	186,586	24,907	584,751
LIABILITIES				
Current liabilities:				
Accounts payable	38,126	1,803	1,294	41,223
Accrued wages and benefits	10,331	1,415	501	12,247
Deposits	173,116			173,116
Unearned revenue		525		525
Due to other funds	8,310		26,442	34,752
Advances payable-current portion	31,286			31,286
Taxable revenue bond obligation - current portion	36,068	18,032		54,100
Total current liabilities	297,237	21,775	28,237	347,249
Noncurrent liabilities:				
Advances payable - non-current portion	275,251			275,251
Taxable revenue bond obligation - non-current portion	500,358	250,142		750,500
Net pension liability	47,664	23,827	3,180	74,671
Total noncurrent liabilities	823,273	273,969	3,180	1,100,422
Total liabilities	1,120,510	295,744	31,417	1,447,671
DEFERRED INFLOW OF RESOURCES				
Deferred pensions	173,318	86,639	11,565	271,522
Total deferred inflow of resources	173,318	86,639	11,565	271,522
NET POSITION				
Net investment in capital assets	2,227,311	961,960		3,189,271
Restricted	41,461			41,461
Unrestricted	1,871,790	879,331	142,164	2,893,285
Total net position	$ 4,140,562	$ 1,841,291	$ 142,164	$ 6,124,017

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, 2023

	Water Fund	Sewer Fund	Garbage Fund	Totals
Operating Revenues:				
Charges for services	$ 2,878,677	$ 400,259	$ -	$ 3,278,936
Other fees	68,120	8,238	72,392	148,750
Total operating revenues	2,946,797	408,497	72,392	3,427,686
Operating Expenses:				
Salaries and wages	198,182	63,076	16,086	277,344
Payroll taxes and employee benefits	454,454	186,788	38,218	679,460
Repairs and maintenance	32,548	43,029	803	76,380
Equipment rental	2,063	5,142		7,205
Legal and professional	210,995	7,435	15,465	233,895
Dues and fees	15,669	4,159		19,828
Education	3,188	430	10,000	13,618
Water meters	23,896			23,896
Wheeled water expense	23,677			23,677
Office expense	741		986	1,727
Supplies	9,668	2,908		12,576
Utilities	34,159	1,398	622	36,179
Water supply expense	1,557,368			1,557,368
Administration			18,332	18,332
Depreciation	113,454	98,221	183	211,858
Total operating expenses	2,680,062	412,586	100,695	3,193,343
Operating income (loss)	266,735	(4,089)	(28,303)	234,343
Non-Operating Revenues (Expenses):				
Grant income	740,156			740,156
Interest income	638			638
Interest expense	(21,859)	(9,580)		(31,439)
Other non-operating revenue	79,848			79,848
Total non-operating revenues (expenses)	798,783	(9,580)		789,203
Income (loss) before transfers	1,065,518	(13,669)	(28,303)	1,023,546
Transfers:				
Transfers in		11,937		11,937
Transfers out	(380,812)	(331,428)	(53,696)	(765,936)
Total transfers	(380,812)	(319,491)	(53,696)	(753,999)
Change in net position	684,706	(333,160)	(81,999)	269,547
Net position - July 1	3,455,856	2,174,451	224,163	5,854,470
Net position - June 30	$ 4,140,562	$ 1,841,291	$ 142,164	$ 6,124,017

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, 2023

	Water Fund	Sewer Fund	Garbage Fund	Totals
Cash Flows From Operating Activities:				
Receipts from customers	$ 2,804,392	$ 404,792	$ 76,665	$ 3,285,849
Payments to suppliers	(1,836,697)	(64,849)	(28,215)	(1,929,761)
Payments to employees	(282,096)	(67,350)	(29,904)	(379,350)
Net cash provided by operating activities	685,599	272,593	18,546	976,738
Cash Flows From Capital and Related Financing Activities:				
Acquisition of capital assets	(820,800)	(5,610)		(826,410)
Net cash used by capital and related financing activities	(820,800)	(5,610)		(826,410)
Cash Flows from Noncapital Financing Activities:				
Grants received	740,156			740,156
Transfers from (to) other funds	(405,491)	(218,983)	(49,008)	(673,482)
Interfund interest paid	(2,697)			(2,697)
Principal paid on loan payable	(34,803)	(17,397)		(52,200)
Interest paid on loan payable	(19,162)	(9,580)		(28,742)
Other revenue	79,848			79,848
Net cash provided (used) by noncapital financing activities	357,851	(245,960)	(49,008)	62,883
Cash Flows From Investing Activities:				
Interest income	638			638
Net cash provided by investing activities	638			638
Net increase (decrease) in cash and cash equivalents	223,288	21,023	(30,462)	213,849
Cash and cash equivalents - July 1	1,621,338	937,266	178,070	2,736,674
Cash and cash equivalents - June 30	$ 1,844,626	$ 958,289	$ 147,608	$ 2,950,523
Reconciliation to Statement of Net Position:				
Cash and investments	$ 1,844,626	$ 958,289	$ 147,608	$ 2,950,523

(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, 2023

	Water Fund	Sewer Fund	Garbage Fund	Totals
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 266,735	$ (4,089)	$ (28,303)	$ 234,343
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation expense	113,454	98,221	183	211,858
Change in assets, liabilities, deferred inflow of resources, and deferred outflow of resources:				
Receivables, net	(203,930)	(3,705)	4,273	(203,362)
Prepaid expenses	73,379		18,332	91,711
Inventories	(2,440)	80		(2,360)
Joint venture deposits	(608)			(608)
Deferred outflows	112,850	56,468	7,493	176,811
Accounts payable	6,944	(428)	(339)	6,177
Accrued wages and benefits	4,755	(396)	32	4,391
Deposits	61,525			61,525
Net pension liability (asset)	297,658	148,824	19,843	466,325
Deferred inflows	(44,723)	(22,382)	(2,968)	(70,073)
Net cash provided by operating activities	$ 685,599	$ 272,593	$ 18,546	$ 976,738

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

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

The District complies with the 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. 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, 80, and 90.

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 leases are reported as other financing sources.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. 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. The District has no fiduciary funds.

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

The funds of the financial reporting entity are described below:

Governmental Funds

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

Proprietary Funds

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property Taxes

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 XIIIA of the State Constitution, properties are assessed at 100% of purchase price or value in 1978 whichever is later. From this base assessment, subsequent annual increases in valuation are limited to a maximum of 2 percent. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

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

E. Cash and Investments

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

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

The District maintains its cash balance in financial institutions in the United States. The balances at the institutions are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of June 30, 2023, the District held cash in financial institutions in excess of federally insured limits.

F. Accounts and Interest Receivable

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Prepaid Expenses and Inventory

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

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

H. Capital Assets

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

Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

I. Accumulated Compensated Absences

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

J. Long-Term Liabilities

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Pensions

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

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

Valuation Date:	June 30, 2021
Measurement Date:	June 30, 2022
Measurement Period:	July 1, 2021 through June 30, 2022

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.

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. 99	"Omnibus 2022"	The provisions of this statement are effective in April 2022 except for the provisions related to leases, PPPs, SBITAs, financial guarantees and derivative instruments. The provisions related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The provisions related to financial guarantees and derivative instruments are effective for fiscal years beginning after June 15, 2023.
Statement No. 100	"Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62"	The provisions of this statement are effective for fiscal years beginning after June 15, 2023.
Statement No. 101	"Compensated Absences"	The provisions of this statement are effective for fiscal years beginning after December 15, 2023.

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, 2023, is as follows:

Cash in bank and on hand	$	1,462,069
Investments		2,291,232
Total cash and investments, Statement of Net Position	$	3,753,301

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 $28,781 is measured under level 2. The District investments in negotiable certificates of deposit and treasury obligations are measured at level 1.

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations – CA and Others	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	50%	None
Placement Services Deposits	5 years	50%	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	$75,000,000

Disclosure Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market rate fluctuations is provided by the table on the following page that shows the distribution of the District's investments by maturity as of June 30, 2023.

		Remaining Maturity (in Months)			
Investment Type	Carrying Amount	12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Non-Negotiable Certificate of Deposit	$ 24,645	$ -	$ 24,645	$ -	$ -
Negotiable Certificate of Deposits	924,000	924,000			
Treasury Obligations	1,175,486	1,175,486			
Money Market Funds	138,320	138,320			
San Luis Obispo County Investment Pool	28,781	28,781			
	$ 2,291,232	$ 2,266,587	$ 24,645	$ -	$ -

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.

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of 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, 2023 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	$ 24,645	N/A	$ -	$ -	$ -	$ 24,645
Negotiable Certificate of Deposits	924,000	N/A				924,000
Treasury Obligations	1,175,486	N/A	1,175,486			
Money Market Funds	138,320	N/A				138,320
San Luis Obispo County Investment Pool	28,781					28,781
	$ 2,291,232		$ 1,175,486	$ -	$ -	$ 1,115,746

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. Deposits exceeded the FDIC limits of funds held in collateralized assets.

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

NOTE 3 – INTERFUND TRANSACTIONS

Transfers between funds during the fiscal year ended June 30, 2023, were as follows:

Interfund Transfers:

Governmental Fund:	Transfers In	Transfers Out
General	$ 753,999	$ -
Proprietary Funds:		
Water		380,812
Sewer	11,937	331,428
Garbage		53,696
	$ 765,936	$ 765,936

NOTE 3 – INTERFUND TRANSACTIONS (Continued)

Borrowing between funds during the fiscal year ended June 30, 2023, was as follows:

Advances and Due To/Due From:

Governmental Fund:	Due From	Due To	Advances Receivable	Advances Payable
General	$ -	$ 132,334	$ 306,537	$ -
Proprietary Funds:				
Water	105,857	8,310		306,537
Sewer	52,919			
Garbage	8,310	26,442		
	$ 167,086	$ 167,086	$ 306,537	$ 306,537

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2023 was as follows:

Governmental activities:

	Balance at July 1, 2022	Additions	Retirements	Balance at June 30, 2023
Capital assets not being depreciated				
Land	$ 610,390	$ -	$ -	$ 610,390
Total capital assets not being depreciated	$ 610,390	$ -	$ -	$ 610,390
Capital assets being depreciated				
Buildings and improvements	$ 2,088,370	$ 66,177	$ -	$ 2,154,547
Vehicles and equipment	435,679			435,679
Total capital assets being depreciated	2,524,049	66,177		2,590,226
Less accumulated depreciation	1,479,309	78,695		1,558,004
Total capital assets being depreciated, net	$ 1,044,740	$ (12,518)	$ -	$ 1,032,222
Net capital assets	$ 1,655,130	$ (12,518)	$ -	$ 1,642,612

Business-type activities:

	Balance at July 1, 2022	Additions	Retirements/ Transfers	Balance at June 30, 2023
Capital assets not being depreciated				
Land	$ 6,000	$ -	$ -	$ 6,000
Construction in progress	141,287	252,951	(5,891)	388,347
Total capital assets not being depreciated	$ 147,287	$ 252,951	$ (5,891)	$ 394,347
Capital assets being depreciated				
Buildings and improvements	$ 7,589,767	$ 546,503	$ 5,891	$ 8,142,161
Software	195,918			195,918
Vehicles and equipment	888,866	26,956		915,822
Total capital assets being depreciated	8,674,551	573,459	5,891	9,253,901
Less accumulated depreciation	6,247,119	211,858		6,458,977
Total capital assets being depreciated, net	$ 2,427,432	$ 361,601	$ 5,891	$ 2,794,924
Net capital assets	$ 2,574,719	$ 614,552	$ -	$ 3,189,271

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, 2023:

	Balance at July 1, 2022	Additions	Reductions	Balance at June 30, 2023	Current Portion	Long Term Portion
Governmental Activities:						
Compensated Absences	$ 143,980	$ 77,936	$ 72,663	$ 149,253	$ 37,313	$ 111,940
Net Pension Liability (Asset)	(151,103)	184,981		33,878		33,878
Total Governmental Activities	$ (7,123)	$ 262,917	$ 72,663	$ 183,131	$ 37,313	$ 145,818
Business-Type Activities:						
Taxable revenue bond obligations	$ 856,800	$ -	$ 52,200	$ 804,600	$ 54,100	$ 750,500
Net Pension Liability (Asset)	(391,654)	466,325		74,671		74,671
Total Business-Type Activities	$ 465,146	$ 466,325	$ 52,200	$ 879,271	$ 54,100	$ 825,171

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
2024	$ 54,100	$ 26,903	$ 81,003
2025	56,000	24,999	80,999
2026	57,900	23,028	80,928
2027	60,000	20,988	80,988
2028	62,100	18,876	80,976
2029-2033	320,100	60,815	380,915
2034-2036	194,400	10,179	204,579
Total	$ 804,600	$ 185,788	$ 990,388

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.

NOTE 7 – PENSION PLANS (Continued)

A. General Information about the Pension Plans (Continued)

Contribution rates are based on the Actuarial Valuation Report as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. The Plans' provisions and benefits in effect at June 30, 2023, are summarized as follows:

	Miscellaneous		Safety
Hire Date	Classic Member Hired Prior to January 1, 2013*	New Member Hired On or after January 1, 2013	Classic Member Hired Prior to January 1, 2013*
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	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	10.32% + $61,567	7.47% + $5,752	$15,246

* 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 $1,384 for the Safety Plan and $71,133 for the Miscellaneous Plan for the fiscal year ended June 30, 2023.

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

At June 30, 2023, the District reported net pension assets for its proportionate shares of the net position liability (asset) of each Plan as follows:

	Proportionate Share of Net Pension Liability (Asset)
Miscellaneous	$ 98,206
Safety	10,343
Total	$ 108,549

The net pension liability (asset) was measured as of June 30, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 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, 2022, the District's proportionate share of the net pension liability (asset) for each Plan as of June 30, 2021 and June 30, 2022 was as follows:

	Miscellaneous	Safety
Proportion-June 30, 2021	-0.02574%	-0.00154%
Proportion-June 30, 2022	0.00210%	0.00015%
Change-Increase (Decrease)	0.02784%	0.00169%

NOTE 7 – PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2023, the District recognized pension expense of $850,476. Pension expense represents the change in the net pension liability (asset) 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, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,400	$ 1,433
Changes in assumptions	11,106	
Net difference between projected and actual earnings on retirement plan investments	19,622	
Adjustment due to differences in proportion	382,916	292,502
Changes in proportion and differences between District contributions and proportionate share of contributions	361,491	100,776
District contributions subsequent to the measurement date	72,517	
	$ 850,052	$ 394,711

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.

$72,517 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, 2024.

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

Fiscal year ending June 30	Amount
2024	$ 155,617
2025	138,971
2026	76,237
2027	11,999
	$ 382,824

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous and Safety
Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Acturial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Projected Salary Increase	Varies by Entry Age and Service
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.30% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details, please refer to the 2021 experience study report that can be found on the CalPERS website.

NOTE 7 – PENSION PLANS (Continued)

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

Changes in Assumptions

The discount rate changed from 7.15% to 6.90% and the inflation rate changed from 2.50% to 2.30%.

Long-term Expected Rate of Return

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points. The expected real rates of return by asset class are as follows:

Asset Class	New Strategic Allocation	Real Return (a,b)
Global Equity - cap-weighted	30.0%	4.45%
Global Equity - non-cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporations	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%
Total	100.0%	

(a) An expected inflation of 2.30% was used for this period.

(b) Figures are based on the 2021 Asset Liability Management Study.

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Subsequent Events

On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for fiscal year 2020-21. Based on the thresholds specified in CalPERS' Funding Risk Mitigation policy, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate used for funding purposes of 0.20%, from 7.00% to 6.80%. Since CalPERS was in the final stages of the four-year Asset Liability Management (ALM) cycle, the board elected to defer any changes to the asset allocation until the ALM process concluded, and the board could make its final decision on the asset allocation in November 2021.

On November 17, 2021, the board adopted a new strategic asset allocation. The new asset allocation along with the new capital market assumptions, economic assumptions and administrative expense assumption support a discount rate of 6.90% (net of investment expense but without a reduction for administrative expense) for financial reporting purposes. This includes a reduction in the price inflation assumption from 2.50% to 2.30% as recommended in the November 2021 CalPERS' Experience Study and Review of Actuarial Assumptions. This study also recommended modifications to retirement rates, termination rates, mortality rates and rates of salary increases that were adopted by the board. These new assumptions are reflected in the GASB Statement No. 68 accounting valuation reports for the June 30, 2022, measurement date.

NOTE 7 – PENSION PLANS (Continued)

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

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

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 6.90 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 (5.90 percent) or 1 percentage point higher (7.90 percent) than the current rate:

	Discount Rate -1% 5.90%	Current Discount Rate 6.90%	Discount Rate +1% 7.90%
Net Pension Asset - Miscellaneous	$ 572,480	$ 98,206	$ (292,004)
Net Pension Asset - Safety	71,216	10,343	(39,407)
Net Pension Asset - Total	$ 643,696	$ 108,549	$ (331,411)

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, 2023, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2023.

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.

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.

NOTE 8 – JOINT VENTURES (Continued)

State Water Project (Continued)

The District's current fiscal year State water project expense totaled $1,026,248. 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 $531,120.

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, 2023 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's participation in the FCFA JPA was terminated as of July 1, 2023. Negotiations as to a final settlement payment to between the District and FCFA and currently ongoing.

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, 2023, 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, 2023, 2022 and 2021. 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, 2023, 2022, and 2021.

NOTE 9 – RISK MANAGEMENT AND CONTINGENCIES (Continued)

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, 2023.

Construction Contingency

The District has no construction contingencies as of June 30, 2023.

NOTE 10 – SUBSEQUENT EVENTS

Oceano Community Services District's participation in the Five Cities Fire Authority (FCFA) joint powers agreement ended as of July 1, 2023. Negotiations are currently ongoing as to a final settlement between the two agencies for the District's withdrawal. On June 22, 2023 the Board approved a one year contract with (FCFA) for fire and emergency services for the community for the fiscal year ending June 30, 2024 in the amount of $1,150,000 paid with quarterly payments of $287,500. The District is working on a plan with San Luis Obispo County for the 2024-25 fiscal year with an anticipated annual cost of $1,706,000 to be paid in monthly amounts of $142,167 until the LAFCO process is completed and the County takes over responsibility for Oceano's fire services. In addition, the County will no longer pay the District rent for the use of the South Sheriff's Station and the District will owe the county $116,000 annually for the District's office building.

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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, 2023

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
Revenues:				
Taxes and assessments	$ 1,185,922	$ 1,185,922	$ 1,286,944	$ 101,022
Public facility fee	15,000	15,000	3,863	(11,137)
Interest income			28,878	28,878
Rental income	149,175	149,175	149,175	
Other	2,897	2,897	11,761	8,864
Total revenues	1,352,994	1,352,994	1,480,621	127,627
Expenditures:				
Current:				
Salaries, wages, and director stipends	470,500	470,500	437,216	33,284
Payroll taxes and employee benefits	170,492	170,492	131,794	38,698
Liability insurance	32,000	32,000	35,552	(3,552)
Repairs and maintenance	28,325	28,325	22,413	5,912
Administrative services	30,200	30,200	12,588	17,612
Data processing	19,200	19,200	19,978	(778)
Dues and fees	28,650	28,650	30,398	(1,748)
Education	7,900	7,900	5,909	1,991
Legal fees	75,000	75,000	52,867	22,133
Miscellaneous	600	600	4,231	(3,631)
Office expense	11,345	11,345	16,675	(5,330)
Street lighting	32,000	32,000	32,273	(273)
Professional fees	66,335	88,392	104,799	(16,407)
Utilities	27,300	27,300	25,395	1,905
Public safety	1,138,148	1,138,148	1,138,148	
Capital outlay		60,000	66,177	(6,177)
Total expenditures	2,137,995	2,220,052	2,136,413	83,639
Excess of revenues over (under) expenditures	(785,001)	(867,058)	(655,792)	211,266
Other Financing Sources (Uses)				
Transfers in	900,029	900,029	753,999	(146,030)
Transfers out	(109,441)	(109,441)		109,441
Total other financing sources (uses)	790,588	790,588	753,999	(36,589)
Net change in fund balance	5,587	(76,470)	98,207	174,677
Fund balance - July 1	849,359	849,359	849,359	
Fund balance - June 30	$ 854,946	$ 772,889	$ 947,566	$ 174,677

OCEANO COMMUNITY SERVICES DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
Last 10 Years*
As of June 30, 2023

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

	2023	2022	2021	2020	2019
Proportion of the net pension liability	0.00094%	-0.01004%	0.00763%	0.00741%	0.00715%
Proportionate share of the net pension liability (asset)	$ 108,549	$ (542,757)	$ 830,340	$ 759,574	$ 689,459
Covered payroll	$ 682,293	$ 674,882	$ 643,799	$ 577,089	$ 573,557
Proportionate share of the net pension liability as a percentage of covered payroll	15.91%	-80.42%	128.98%	131.62%	120.21%
Plan's total pension liability	$49,525,975,138	$46,174,942,264	$43,702,930,887	$ 41,426,453,489	$ 38,944,855,364
Plan's fiduciary net position	$37,975,170,163	$40,766,653,876	$32,822,501,335	$ 31,179,414,067	$ 29,308,589,559
Plan fiduciary net position as a percentage of the total pension liability	76.68%	88.29%	75.10%	75.26%	75.26%

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

Notes to Schedule:

Changes in assumptions
In the reporting fiscal year ended June 30, 2023, the discount rate was reduced from 7.15% to 6.90% and price inflation was reduced from 2.50% to 2.30%.

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

OCEANO COMMUNITY SERVICES DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
Last 10 Years*
As of June 30, 2023

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

	2023	2022	2021	2020	2019
Contractually required contribution (actuarially determined)	$ 72,517	$ 68,835	$ 122,565	$ 101,217	$ 83,717
Contribution in relation to the actuarially determined contributions	(72,517)	(68,835)	(954,271)	(101,217)	(83,717)
Contribution deficiency (excess)	$ -	$ -	$ (831,706)	$ -	$ -
Covered payroll	$ 674,032	$ 682,293	$ 674,882	$ 643,779	$ 577,089
Contributions as a percentage of covered payroll	10.76%	10.09%	141.40%	15.72%	14.51%

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

Notes to Schedule

There were no changes in assumptions or benefit terms for the fiscal year ended June 30, 2023.

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

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, 2024, 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 May 23, 2025.

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
May 23, 2025

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Oceano Community Services District
Schedule of Findings and Responses
June 30, 2024

There were no findings or questioned costs in the fiscal year ended June 30, 2024.

FINDING 2023-001
UTILITY RECEIPTS

Criteria:
All payments for utility bills should be properly recorded to the customers account and then deposited into the District's bank account.

Condition:
During testing of utility receipts and per discussion with District staff, we found that a "bill void" was occasionally entered into the utility billing system to zero out billings previously posted to specific customer accounts. This zeroed out the balance a customer owed on their account in the exact amount that the customer paid in cash at the District. The District checked by calling affected customers who made these cash specific cash payments and were able to get verbal confirmation that the customer paid in cash at the District. The amounts the customers told the District they had paid did not make it into the District bank deposits and the revenue recorded was reversed out by the "bill void". This occurred up until employment of the employee that was responsible ended in August 2022.

Cause:
District employee had permission in the utility system to make void bills without authorization.

Effect:
Misappropriation of funds from cash receipts and understatement of revenues.

Recommendation:
Employees who receive customer cash payments should not have permissions in the utility system to void a bill without management authorization. The District should re-evaluate receipt controls and system permission to ensure there is proper segregation of duties.

Repeat Finding:
Yes. See Finding 2022-002.

Current Status:
Implemented.

Oceano Community Services District

Audited Financial Statements

For Fiscal Year Ended

June 30, 2024

OCEANO COMMUNITY SERVICES DISCTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

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FINANCIAL SECTION

Moss, Levy & Hartzheim LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors of Oceano Community Services District
Oceano, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the Oceano Community Services District, as of and for the fiscal year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Oceano Community Services District's basic financial statements as listed in the table of contents.

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, 2024, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Oceano Community Services District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Oceano Community Services District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Oceano Community Services District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Oceano Community Services District's ability to continue as a going concern for a reasonable period of time.

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We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension liability, and the schedule of pension contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2025, on our consideration of the Oceano Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim LLP

Santa Maria, California
May 23, 2025

The Oceano Community Services District (District) has prepared the following narrative summarizing the District's financial statements to provide an overview and analysis of District finances for the fiscal year ending June 30, 2024. 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 7,600. The District is governed by a five member Board of Directors, elected by voters within five distinct geographic divisions within the District's LAFCO-defined service area; all Board members must reside within the District's boundaries, and must reside within the division they are elected to represent. The District is governed by California Government Code Sections 61000 et al, as well as other specific statutes and regulations that govern its operations.

The District provides both governmental-type activities and enterprise activities. Governmental activities include fire protection services, street lighting, and recreation. Enterprise activities include water service, wastewater collection service, and solid waste 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 service provisions outside of the District boundaries must be approved in advance by LAFCO.

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

Fire Protection Services

During Fiscal Year 2023-24 the District provided fire protection services through a one-year contract with 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 was appointed to represent the District on the FCFA Board of Directors and a second member of the OCSD Board was an alternate member on the FCFA Board. The District would pay a portion of the annual costs of FCFA services based on a funding formula established in the FCFA agreement, which was modified in the third amendment. The JPA amendments were needed for several reasons, including a multi-year implementation of the FCFA "Strategic Plan." The "Strategic Plan" included increased staffing and service levels greater than those provided in the existing JPA. The amendments included specific approval of each member's annual costs during the implementation period and as a result of FCFA escalating costs exceeding District property tax revenue, the amendment required either a citizen initiative or District initiated special tax measure to be placed on the 2022 primary ballot. The increase in the District costs during the implementation period was funded from reserves to the extent that the costs exceed property tax revenues received by OCSD. The FCFA JPA amendments 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 and the required 66.67% vote. The third amendment to the FCFA JPA was approved on June 24, 2020 which extended the agreement for an additional two years and required the District to provide the community another opportunity to consider additional funding via a June 2022 ballot measure. On June 7, 2022 Measure A-22 was placed on the ballot by the Board of Directors and failed with 57.75% support. The District then initiated proceedings through LAFCO to divest Fire Protection Services power and turn the responsibility over to the County of San Luis Obispo. The divestiture process continued past June 30, 2024 and the District entered into an agreement with FCFA to contract for services in the amount of $1,150,000 for the fiscal year 2023-24 and a second agreement of $1,706,000 ($142,167 a month) for the fiscal year 2024-25, but was only intended to take place for the first half of the fiscal year. On January 14, 2025, LAFCO approved and endorsed the District's and County's plan for service for the community of Oceano, fully divesting the District from managing fire services within its service area and turning over that responsibility to the County of San Luis Obispo who now pays for the unincorporated community's share of fire protections services provided by FCFA, along with the Cities of Arroyo Grande and Grover Beach.

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. District responsibilities include repairing and replacing street light poles and paying for electricity costs. The only revenue source for this service comes from a 3.85% allocation of a portion of County property tax revenue.

Parks and Recreation Services

The District is authorized to provide parks and recreation services. 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. A section in the lease allows the District to 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. In fiscal year 2023-24 the Board established the Oceano Parks and Recreation Committee (OPARC) and provided $19,500 of General Funds as a grassroots effort. OPARC was awarded a grant of $15,904 from Parks CA for the Field Trips to State Parks Program at Oceano Elementary. OPARC was funded with one-time general fund revenues from the County and is not eligible to use enterprise funding sources.

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, surface water from Lopez Lake and State Water Project 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 two separate water supply contracts. The District's water supply reliability is relatively high, and has the District the ability to store water in Lopez, as well as in San Luis Reservoir. Nevertheless, the need to address water supply reliability continues and contract amendments for the State Water Project are being developed by the State Department of Water Resources and, separately, contract amendments for the Lopez Lake water supply were adopted by local agencies in August 2022 to establish water storage rights and enhance multi-year water resource planning. Future state subcontractor contracts amendments are anticipated to allow for water transfers in the future.

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 was phased over five years (2020-2025 FY). On April 9, 2025 the Board provided direction to schedule a proposition 218 public hearing at the June 11, 2025 Board meeting to consider the proposed increase to the District's water rates for the next five years (2026-2030 FY). The water and wastewater rate studies analyzed costs of service and estimated the revenues to keep up with rising costs for staff labor, construction costs for water/wastewater line replacements, capital improvement plans, and Lopez/State water delivery costs.

Wastewater Collection Services

The District provides wastewater collection services through a network of neighborhood pipelines that flow into a District owned lift station, and then 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. On April 9, 2025 the Board provided direction to schedule a proposition 218 public hearing at the June 11, 2025 meeting to consider the proposed increase to the District's wastewater rates for the next five years (2026-2030 FY), since the last rate study was done in 2010 and the last rate increase took place in 2015, with sewer rates remaining constant for the last decade with no increased cost to rate payers.

Solid Waste and Recycling Services

The District provides mandatory solid waste, organic 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 2025 the Board adopted a resolution to increase the franchise fee payment from SCSS from 5% to 10%. The District manages the franchise hauler activities, and enforces SB 1383 requirements and illegal dumping within the community. The District has also adopted incentive programs designed to promote a cleaner community and has worked with the franchise hauler to enhance services such as bulky item pick up and cart replacements. 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.

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 adopted board budget and actual revenues, expenditures, and changes in fund balance in the General fund. Since the District decided to move forward with only one charging station at the Utilities Yard instead of the other locations the current year reflects a positive budget variance of $490,146 for the Governmental Fund.

Financial Statement Analysis and Highlights

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

Statements of Net Position as of June 30, 2023 and 2024					
	Governmental Activities			Business-type Activities	
	2023	2024		2023	2024
Current and Other Assets	$ 1,028,126	$ 1,294,584		$ 3,727,899	$ 4,065,210
Capital Assets, net	1,642,612	1,578,077		3,189,271	5,064,247
Total Assets	2,670,738	2,872,661		6,917,170	9,129,457
Deferred Outflow of Resources	265,301	200,391		584,751	335,844
Current Liabilities	117,873	95,441		281,211	663,480
Non-current Liabilities	145,818	169,951		825,171	819,437
Total Liabilities	263,691	265,392		1,106,382	1,482,917
Deferred Inflow of Resources	123,189	93,576		271,522	156,829
Net Investment in Capital Assets	1,642,612	1,578,077		3,189,271	5,064,247
Restricted	139,365	214,751		41,461	42,553
Unrestricted	767,182	921,256		2,893,285	2,718,755
Net Position	$ 2,549,159	$ 2,714,084		$ 6,124,017	$ 7,825,555

The Net Position of the Governmental and the Business-type Activities increased from the previous fiscal year.

Statements of Net Position as of June 30, 2023 and 2024						
	Water Fund		Wastewater Fund		Garbage Fund	
	2023	2024	2023	2024	2023	2024
Current and Other Assets	$2,833,821	$3,189,183	$ 1,075,128	$ 1,050,903	$ 160,239	$ 113,166
Capital Assets, net	2,227,311	4,117,888	961,960	929,699	-	16,660
Total Assets	5,061,132	7,307,071	2,037,088	1,980,602	160,239	129,826
Deferred Outflow of Resources	373,258	214,387	186,586	107,193	24,907	14,264
Current Liabilities	297,237	671,333	21,775	23,642	28,237	923
Non-current Liabilities	823,273	798,401	273,969	271,354	3,180	5,306
Total Liabilities	1,120,510	1,469,734	295,744	294,996	31,417	6,229
Deferred Inflow of Resources	173,318	100,112	86,639	50,056	11,565	6,661
Net investment in Capital Assets	2,227,311	4,117,888	961,960	929,699	-	16,660
Restricted	41,461	42,553	-	-	-	-
Unrestricted	1,871,790	1,791,171	879,331	813,044	142,164	114,540
Net Position	$ 4,140,562	$ 5,951,612	$ 1,841,291	$ 1,742,743	$ 142,164	$ 131,200

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

Statement of Activities for the years ending June 30, 2023 and 2024				
	Governmental Activities		Business-type Activities	
	2023	2024	2023	2024
Operating Revenues and Grants	$ 3,863	$ 46,847	$ 4,167,842	$ 3,892,544
Operating Expenditures:				
Administrative Expenditures	(1,156,338)	(1,078,139)		
Fire Protection	(1,152,239)	(1,182,460)		
Street Lighting	(50,524)	(45,417)		
Enterprise Funds			(3,224,782)	(2,879,304)
Net Operating Income / (Loss)	(2,355,238)	(2,259,169)	943,060	1,013,240
Ad Valorem Taxes	1,286,944	1,362,913	-	-
Other Non-operating Income	189,814	182,059	80,486	1,567,420
Transfers	753,999	879,122	(753,999)	(879,122)
Total Non-Operating Income and Transfers	2,230,757	2,424,094	(673,513)	688,298
Change in Net Position	$ (124,481)	$ 164,925	$269,547	$1,701,538

In summary, the Governmental Activities went from a net loss of ($124,481) to a net income of $164,925 in 2024.

The Business-type Activities went from a net income for the prior fiscal year of $269,547 to a net income of $1,701,538. The increase in income is from the grant funds received in the Water Fund for the Stormwater Recapture and Groundwater Recharge Project and the Water Storage Tank Rehabilitation Project. The Enterprise Funds are broken out by fund in the table below.

Statement of Revenues, Expenses, and Changes in Net Position as of June 30, 2023 and 2024						
	Water Fund		Wastewater Fund		Garbage Fund	
	2023	**2024**	**2023**	**2024**	**2023**	**2024**
Operating Revenues	$ 2,946,797	$ 3,382,998	$ 408,497	$ 408,538	$ 72,392	$ 101,012
Operating Expenditures	(2,680,062)	(2,525,623)	(412,586)	(279,114)	(100,695)	(74,5672)
Net Operating Income / (Loss)	266,735	857,375	(4,089)	129,420	(28,303)	26,445
Other Non-operating Income	820,642	1,514,817	-	52,903	-	-
Non-operating Expenditures	(21,859)	-	(9,580)	-	-	-
Net Non-Operating Income	798,783	1,514,817	(9,580)	52,603	-	-
Transfers	(380,812)	(561,142)	(319,491)	(280,571)	(53,696)	(37,409)
Net Income / (Loss)	$ 684,706	$ 1,811,050	$ (333,160)	$ (98,548)	$ (81,999)	$ (10,964)

The increase in the net income in the Water Fund reflects the grant income from the Stormwater Recapture and Groundwater Recharge Project and the Water Storage Tank Rehabilitation Project. The rate structure approved in 2020 has established financial stability and funds for long-term capital improvement plans and minimum reserves. The rate structure to be considered by the Board on June 11, 2025 for the next 5 years provides the revenues to keep up with rising costs for staff labor, construction costs for water/wastewater line replacements, and Lopez/State water delivery costs.

The Wastewater Fund incurred a deficit of ($98,548) this year. A wastewater rate study was presented to the Board at the April 2025 and the Proposition 218 rate increase public hearing will be held on June 11, 2025 to consider the new wastewater rates for the next 5 years. The new rates would close the structural deficit and provide funding for the new Wastewater CIP Plan for the wastewater system.

The Garbage Fund's net deficit decreased 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. In June 2022 the Board voted to use Garbage Fund reserves for SCSS's solid waste retroactive charges for the period May 2022 to June 30, 2022 during the rate increase proposed by SCSS. Then in January 2025 the Board adopted a resolution to restore the franchise fee payments from SCSS back up to 10%. 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 within the District.

Capital Assets

The District currently owns the Sheriff's substation, the former fire station and some undeveloped land. In previous years, the community fire station is provided to FCFA for their use for $15,000 per year, but with the FY 2023-24 contract for fire services with FCFA the District granted FCFA access to the fire station for no cost. The Sheriff substation is leased to the County of San Luis Obispo for $126,792 per year, but beginning on January 1, 2025, the new lease agreement drops annual revenue to zero from the Sherrif's substation lease. The divesture of the District's fire and emergency services has altered the substation's rent to no cost for County and the District administrative office property has been transferred to the County, and beginning in July of 2025, will be leased back to the District for $116,175 fiscal year 2025-26.

The Oceano Depot and Community Center are leased to non-governmental agencies. The Lucia Mar Unified School District and Oceano Depot lease the properties for $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. The Water and Wastewater Proposition 218 hearing set for June 11, 2025 provides for revenues to keep up with rising costs for staff labor, construction costs for water/wastewater line replacements, and Lopez/State water delivery costs. An updated water CIP was completed in March of 2025.

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 which was paid off during this fiscal year. 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 fiscal year ending June 30, 2024, the District recorded the interfund transfers on the following page to adhere to resolutions adopted April 26, 2017 to ensure repayment of interfund liabilities.

Interfund (Due to) / Due From	Beginning Balances – July 1, 2023	Interfund Transfers Out	Interfund Transfers In	Ending Balances – June 30, 2024
General Fund Due from Water Fund	$ 306,537	$ -	$ 19,627	$ 286,910
Water Fund Due to the General Fund	(306,537)	19,627	-	(286,910)
Water Fund Due to Garbage Fund	(8,310)	7,178	-	(1,132)
Garbage Fund Due from Water Fund	8,310	-	7,178	1,132
Totals	$ -	$ 26,805	$ 26,805	$ -

Budget and Rates

The District's budget for the year ending June 30, 2024 reflects the grant funds from the Stormwater Recapture and Groundwater Recharge Project and the Water Storage Tank Rehabilitation Project. The water system rate increase that was approved by the Board of Directors in October 2020 was 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
2021/22	1,233,214
2022/23	684,706
2023/24	1,811,050

With the approval of the 2020 rate increase, the District established fiscal stability and funds for minimum reserves. The increase began in November 2020 and was phased in over five years. The new 2026-2030 rate structure to be considered by the Board on June 11, 2025 for the next 5 years provides the revenues to keep up with rising costs for staff labor, construction costs for water/wastewater line replacements, and Lopez/State water delivery costs. The District has secured approximately $4,405,000 in grants from state agencies for the water system and related needs since 2017.

No rate changes affected the wastewater fund for the fiscal year ending June 30, 2024. The following shows the running deficit of the Wastewater 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)
2021/22	22,474
2022/23	(333,160)
2023/24	(98,548)

The operating revenue for the wastewater fund needs to be addressed in the fiscal year 2024-25. On February 12, 2025 the Board of Director's approved a contract to initiate a wastewater rate study. On April 9, 2025 the Board provided direction to schedule a proposition 218 public hearing at the June 11, 2025 meeting to consider the proposed increase to the District's wastewater rates for the next five years since the last rate study was done in 2011 and rates in place since 2015 do not meet the District's revenue requirement to operate the sewer utility.

An increase of 4.98% in garbage rates for the SCSS Inc. was approved on January 8, 2025, and inflationary adjustments went into effect until 2029. In addition, the Board approved a return to the franchise fee rate from 5% to 10%.

Future Outlook

Overall, the District's financial outlook has maintained a relatively stable short-term position during the fiscal year ending June 30, 2024. 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 was initiated in the 2020 water rates set aside funds for long-term capital projects, and the possible future rate structures for both the water and sewer systems have the potential to solidify the District's fiscal position in the coming years.

Oceano Community Services District
Statement of Net Position
June 30, 2024

	Governmental Activities	Business-type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash and investments	$ 735,484	$ 2,287,524	$ 3,023,008
Restricted cash and investments	214,751	-	214,751
Accounts receivable, net	3,404	1,909,340	1,912,744
Prepaid items	54,035	107,969	162,004
Inventory	-	28,791	28,791
Internal balances	286,910	(286,910)	-
Total current assets	1,294,584	4,046,714	5,341,298
JOINT VENTURE DEPOSITS	-	18,496	18,496
CAPITAL ASSETS			
Non Depreciable			
Land	610,390	6,000	616,390
Construction in progress	-	2,311,675	2,311,675
Depreciable			
Buildings and improvements	2,154,547	8,142,160	10,296,707
Equipment, vehicles and machinery	446,061	1,081,408	1,527,469
Software	6,096	195,918	202,014
Accumulated depreciation	(1,639,017)	(6,672,914)	(8,311,931)
Total assets	2,872,661	9,129,457	12,002,118
DEFERRED OUTFLOWS OF RESOURCES	200,391	335,844	536,235
Total assets and deferred outflows of resources	$ 3,073,052	$ 9,465,301	$ 12,538,353
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable	$ 24,189	$ 335,356	$ 359,545
Accrued wages and benefits	19,949	9,969	29,918
Accrued interest payable	-	-	-
Deposits	2,000	261,630	263,630
Unearned revenue	17,502	525	18,027
Current portion of compensated absences	31,801	-	31,801
Current portion of taxable revenue bond obligation	-	56,000	56,000
Total current liabilities	95,441	663,480	758,921
NONCURRENT LIABILITIES			
Compensated absences, net of current portion	95,403	-	95,403
Taxable revenue bond obligation, net of current portion	-	694,500	694,500
Net pension liability	74,548	124,937	199,485
Total liabilities	265,392	1,482,917	1,748,309
DEFERRED INFLOWS OF RESOURCES	93,576	156,829	250,405
NET POSITION			
Investment in capital assets	1,578,077	5,064,247	6,642,324
Restricted for			
Capital facilities	214,751	-	214,751
Water joint venture agreement	-	42,553	42,553
Unrestricted	921,256	2,718,755	3,640,011
Total net position	2,714,084	7,825,555	10,539,639
Total liabilities, deferred inflows of resources, and net position	$ 3,073,052	9,465,301	$ 12,538,353

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

Oceano Community Services District
Statement of Activities
Fiscal Year Ended June 30, 2024

		Program Revenues		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
Administration	$ 1,078,139	$ -	$ -	$ 46,847
Fire protection	1,182,460	-	-	-
Street lighting	45,417	-	-	-
Total governmental activities	2,306,016	-	-	46,847
Business-type activities:				
Water	2,525,623	3,320,320	62,678	1,477,509
Sewer	279,114	400,943	7,591	-
Garbage	74,567	-	101,012	-
Total business-type activities	2,879,304	3,721,263	171,281	1,477,509
Total governmental	$ 5,185,320	$ 3,721,263	$ 171,281	$ 1,524,356

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

Oceano Community Services District
Statement of Activities (Continued)
Fiscal Year Ended June 30, 2024

	Net (Expenses) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
	$ (1,031,292)	$ -	$ (1,031,292)
	(1,182,460)	-	(1,182,460)
	(45,417)	-	(45,417)
	(2,259,169)	-	(2,259,169)
	-	2,334,884	2,334,884
	-	129,420	129,420
	-	26,445	26,445
	-	2,490,749	2,490,749
	(2,259,169)	2,490,749	231,580
	1,362,913	-	1,362,913
	169,161	87,219	256,380
	12,898	2,692	15,590
	879,122	(879,122)	-
	2,424,094	(789,211)	1,634,883
	164,925	1,701,538	1,866,463
	$ 2,549,159	$ 6,124,017	$ 8,673,176
	$ 2,714,084	$ 7,825,555	$ 10,539,639

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

Oceano Community Services District
Balance Sheet – Government Fund
June 30, 2024

	General Fund
ASSETS	
ASSETS	
Cash and investments	$ 735,484
Restricted cash and investments	214,751
Accounts receivable	3,404
Prepaid items	54,035
Advances receivable	286,910
Total assets	$ 1,294,584
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	$ 24,189
Accrued payroll and benefits	19,949
Deposits	2,000
Unearned revenue	17,502
Total liabilities	63,640
FUND BALANCE	
Nonspendable	
Prepaid items	54,035
Advances receivable	286,910
Restricted	
Capital facilities	214,751
Assigned	
Infrastructure replacement	132,658
Unassigned	542,590
Total fund balance	1,230,944
Total liabilities and fund balance	$ 1,294,584

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, 2024

Total fund balance - governmental fund		$ 1,230,944
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	$ 3,217,094	
Accumulated depreciation	(1,639,017)	
Net		1,578,077
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	$ 127,204	
Net pension liability	74,548	
Total		(201,752)
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 $200,391 and inflows of resources of $(93,576) relating to pensions are reported.		106,815
Total net position - governmental activities		$ 2,714,084

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

Oceano Community Services District
Statement of Revenues, Expenditures, and Changes In Fund Balance – Governmental Fund
Fiscal Year Ended June 30, 2024

	General Fund
REVENUES	
Taxes and assessments	$ 1,362,913
Public facility fee	37,829
Interest income	30,369
Rental income	138,792
Grant income	9,018
Other	12,898
Total revenues	1,591,819
EXPENDITURES	
Salaries, wages and directors' stipends	471,963
Payroll taxes and employee benefits	167,857
Liability insurance	40,839
Repairs and maintenance	33,168
Administrative services	1,528
Data processing	20,598
Dues and fees	32,746
Education	11,461
Legal fees	112,529
Miscellaneous	2,293
Office expense	7,957
Street lighting	35,230
Professional fees	50,063
Public safety	1,151,318
Utilities	22,742
Grant expense	8,793
Capital outlay	16,478
Total expenditures	2,187,563
Excess of revenues under expenditures	(595,744)
OTHER FINANCING SOURCES	
Transfers in	879,122
Total other financing sources	879,122
Net change in fund balance	283,378
FUND BALANCE - beginning of year	947,566
FUND BALANCE - end of year	$ 1,230,944

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

Fiscal Year Ended June 30, 2024

Total net change in fund balance - governmental fund	$	283,378
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 $16,478 are less than depreciation expense ($81,013) in the period.		(64,535)
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 used exceeded the amounts earned by $22,049.		22,049
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:		(75,967)
Changes in net position - governmental activities	$	164,925

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

Oceano Community Services District
Statement of Net Position – Proprietary Funds
June 30, 2024

	Water Fund	Sewer Fund	Garbage Fund	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash and investments	$ 1,197,388	$ 989,694	$ 100,442	$ 2,287,524
Accounts receivable, net	1,838,401	59,572	11,367	1,909,340
Prepaid expenses	107,744	-	225	107,969
Inventory	27,154	1,637	-	28,791
Due from other funds	-	-	1,132	1,132
Total current assets	3,170,687	1,050,903	113,166	4,334,756
JOINT VENTURE DEPOSITS	18,496	-	-	18,496
CAPITAL ASSETS				
Non depreciable capital assets				
Land	6,000	-	-	6,000
Construction in progress	2,311,675	-	-	2,311,675
Depreciable capital assets				
Buildings and improvements	5,380,114	2,762,046	-	8,142,160
Equipment, vehicles and machinery	682,476	364,473	34,459	1,081,408
Software	156,734	39,184	-	195,918
Accumulated depreciation	(4,419,111)	(2,236,004)	(17,799)	(6,672,914)
Total assets	7,307,071	1,980,602	129,826	9,417,499
DEFERRED OUTFLOWS OF RESOURCES	214,387	107,193	14,264	335,844
Total assets and deferred outflows of resources	$ 7,521,458	$ 2,087,795	$ 144,090	$ 9,753,343
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
CURRENT LIABILITIES				
Accounts payable	$ 334,717	$ 623	$ 16	$ 335,356
Accrued wages and benefits	5,233	3,829	907	9,969
Deposits	261,630	-	-	261,630
Unearned revenue	-	525	-	525
Due to other funds	1,132	-	-	1,132
Current portion of advance payable	31,286	-	-	31,286
Current portion of taxable revenue bond obligation	37,335	18,665	-	56,000
Total current liabilities	671,333	23,642	923	695,898
NONCURRENT LIABILITIES				
Advances payable, net of current portion	255,624	-	-	255,624
Taxable revenue bond obligation, net of current portion	463,023	231,477	-	694,500
Net pension liability	79,754	39,877	5,306	124,937
Total liabilities	1,469,734	294,996	6,229	1,770,959
DEFERRED INFLOWS OF RESOURCES	100,112	50,056	6,661	156,829
NET POSITION				
Investment in capital assets	4,117,888	929,699	16,660	5,064,247
Restricted	42,553	-	-	42,553
Unrestricted	1,791,171	813,044	114,540	2,718,755
Total net position	5,951,612	1,742,743	131,200	7,825,555
Total liabilities, deferred inflows of resources, and net position	$ 7,521,458	$ 2,087,795	$ 144,090	$ 9,753,343

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

Oceano Community Services District
Statement of Revenues, Expenditures and Changes In Net Position – Proprietary Funds
Fiscal Year Ended June 30, 2024

	Water Fund	Sewer Fund	Garbage Fund	Total
OPERATING REVENUES				
Charges for services	$ 3,320,320	$ 400,943	$ -	$ 3,721,263
Other fees	62,678	7,591	101,012	171,281
Total operating revenues	3,382,998	408,534	101,012	3,892,544
OPERATING EXPENSES				
Salaries and wages	216,927	56,371	21,877	295,175
Payroll taxes and employee benefits	229,681	63,148	25,183	318,012
Repairs and maintenance	24,483	55,772	10,253	90,508
Equipment rental	177	-	-	177
Legal and professional	171,499	9,184	5,696	186,379
Dues and fees	15,721	4,518	-	20,239
Education	952	-	10,000	10,952
Water meters	23,770	-	-	23,770
Wheeled water expense	19,187	-	-	19,187
Sanitation district fees	-	-	-	-
Office expense	1,015	77	-	1,092
Supplies	26,624	4,233	24	30,881
Utilities	13,406	1,570	632	15,608
Water supply expense	1,653,386	-	-	1,653,386
Administration	-	-	-	-
Bad debt	-	-	-	-
Depreciation	128,795	84,241	902	213,938
Total operating expenses	2,525,623	279,114	74,567	2,879,304
OPERATING INCOME	857,375	129,420	26,445	1,013,240
NONOPERATING REVENUES				
Revenue from other governmental agencies	1,477,509	-	-	1,477,509
Interest on bank deposits, net	35,747	51,472	-	87,219
Other nonoperating income	1,561	1,131	-	2,692
Total nonoperating revenues, net	1,514,817	52,603	-	1,567,420
Income before transfers	2,372,192	182,023	26,445	2,580,660
TRANSFERS				
Transfers out	(561,142)	(280,571)	(37,409)	(879,122)
Total transfers	(561,142)	(280,571)	(37,409)	(879,122)
Change in net position	1,811,050	(98,548)	(10,964)	1,701,538
NET POSITION - beginning of year	4,140,562	1,841,291	142,164	6,124,017
NET POSITION, end of year	$ 5,951,612	$ 1,742,743	$ 131,200	$ 7,825,555

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

Oceano Community Services District
Statement of Cash Flows
Fiscal Year Ended June 30, 2024

	Water Fund	Sewer Fund	Garbage Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 2,359,582	$ 410,423	$ 93,741	$ 2,863,746
Payments to suppliers	(1,650,153)	(75,715)	(27,884)	(1,753,752)
Payments to employees	(333,951)	(58,245)	(38,789)	(430,985)
Net cash provided by operating activities	375,478	276,463	27,068	679,009
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES				
Acquisition of capital assets	(2,019,375)	(51,977)	(17,561)	(2,088,913)
Net cash used in capital and related financing activities	(2,019,375)	(51,977)	(17,561)	(2,088,913)
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES				
Grants received	1,477,509	-	-	1,477,509
Transfers to other funds	(482,090)	(227,652)	(56,673)	(766,415)
Interfund interest paid	(12,195)	-	-	(12,195)
Principal paid on loan payable	(36,068)	(18,032)	-	(54,100)
Interest paid on loan payable	(17,936)	(8,967)	-	(26,903)
Other revenue	1,561	1,131	-	2,692
Net cash provided by (used in) noncapital financing activities	930,781	(253,520)	(56,673)	620,588
CASH FLOWS FROM FINANCIAL ACTIVITIES				
Interest income	65,878	60,439	-	126,317
Net cash provided by investing activities	65,878	60,439	-	126,317
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(647,238)	31,405	(47,166)	(662,999)
CASH AND CASH EQUIVALENTS, beginning of year	1,844,626	958,289	147,608	2,950,523
CASH AND CASH EQUIVALENTS, end of year	$ 1,197,388	$ 989,694	$ 100,442	$ 2,287,524
Reconciliation to Statement of Net Position:				
Cash and investments	$ 1,197,388	$ 989,694	$ 100,442	$ 2,287,524
Reconciliation of operating income to net cash provided by operating activities				
Operating income	$ 857,375	$ 129,420	$ 26,445	$ 1,013,240
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation expense	128,795	84,241	902	213,938
Change in assets, liabilities, deferred outflows, and deferred inflows				
Receivables, net	(1,111,930)	1,889	(7,271)	(1,117,312)
Prepaid expenses	4,642	-	-	4,642
Inventories	(77)	822	-	745
Joint venture deposits	(1,092)	-	-	(1,092)
Deferred outflows	158,871	79,393	10,643	248,907
Accounts payable	296,594	(1,183)	(1,279)	294,132
Accrued wages and benefits	(5,098)	2,414	406	(2,278)
Deposits	88,514	-	-	88,514
Net pension liability	32,090	16,050	2,126	50,266
Deferred inflows	(73,206)	(36,583)	(4,904)	(114,693)
Net cash provided by operating activities	$ 375,478	$ 276,463	$ 27,068	$ 679,009

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

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

The District complies with the 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, 80, and 90.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

governmental long-term debt and acquisitions under 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

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.

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 XIIIA of the State Constitution, properties are assessed at 100% of purchase price or value in 1978 whichever is later. From this base assessment, subsequent annual increases in valuation are limited to a maximum of 2 percent. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Investments

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

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

The District maintains its cash balance in financial institutions in the United States. The balances at the institutions are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of June 30, 2024, 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 most proprietary fund receivables.

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 many 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

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.

K. Pensions

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

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

Valuation Date:	6/30/2022
Measurement Date:	6/30/2023
Measurement Period:	July 1, 2022 through June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Committed – The committed fund balance classification includes amounts that can only be used for specific

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Equity Classifications (Continued)

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. 101	"Compensated Absences"	This statement requires requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The provisions of this statement are effective for fiscal years beginning after December 31, 2023.
Statement No. 102	"Certain Risk Disclosures"	This statement requires enhanced note disclosures regarding concentrations and constraints that could make the reporting unit vulnerable to a substantial impact. The provisions of this statement are effective for fiscal years beginning after June 15, 2024.
Statement No. 103	"Financial Reporting Model Improvements"	This statement revises financial statement presentation requirements—including enhancements to Management's Discussion and Analysis (MD&A), proprietary fund reporting, and disclosures for major component units. The provisions of this statement are effective for fiscal years beginning after June 15, 2025.
Statement No. 104	"Disclosure of Certain Capital Assets"	This statement establishes new disclosure requirements for certain types of capital assets, including assets held for sale. The provisions of this statement are effective for fiscal years beginning after June 15, 2025.

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, 2024, is as follows:

Cash in bank and on hand	$	2,276,632
Investments		961,127
Total cash and investments, Statement of Net Position	$	3,237,759

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 $44,224 is measured under level 2. The District investments in California Assessment Management Program Investment Pool and treasury obligations are measured at level 1.

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 Years	None	None
U.S. Treasury Obligations	5 Years	None	None
State Obligations – CA and Others	5 Years	None	None
U.S. Agency Securities	5 Years	None	None
Bankers' Acceptances	180 Days	40%	None
Commercial Paper	270 Days	25%	10%
Negotiable Certificates of Deposit	5 Years	30%	None
Non-negotiable Certificates of Deposit	5 Years	50%	None
Placement Services Deposits	5 Years	50%	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	$ 75,000,000

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosure Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market rate fluctuations is provided by the table on the following page that shows the distribution of the District's investments by maturity as of June 30, 2024.

		Remaining Maturity (in Months)			
Investment Type	Carrying Amount	12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Non-Negotiable Certificate of Deposit	$ 24,645	$ 24,645	$ -	$ -	$ -
Treasury Obligations	303,616	303,616	-	-	-
Money Market	214,751	214,751	-	-	-
California Asset Management Program Investment Pool	373,891	373,891	-	-	-
San Luis Obispo County Investment Pool	44,224	44,224	-	-	-
	$ 961,127	961,127	-	-	-

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, 2024 for each investment type.

				Rating as of Fiscal Year End		
Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	Aa	Not Rated
Non-Negotiable Certificate of Deposit	$ 24,645	N/A	$ -	$ -	$ -	$ 24,645
Treasury Obligations	303,616	N/A	-	-	-	303,616
Money Market	214,751	N/A	-	-	-	214,751
California Asset Management Program Investment Pool	373,891		-	373,891	-	-
San Luis Obispo County Investment Pool	44,224		-	-	-	44,224
	$ 961,127		$ -	$ 373,891	$ -	$ 587,236

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.

NOTE 2 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

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

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

NOTE 3 – INTERFUND TRANSACTIONS

Transfers between funds during the fiscal year ended June 30, 2024, were as follows:

	Transfers In	Transfers Out
Governmental Fund:		
General	$ 879,122	$ -
Proprietary Funds:		
Water	-	561,142
Sewer	-	280,571
Garbage	-	37,409
	$ 879,122	$ 879,122

Borrowing between funds during the fiscal year ended June 30, 2024, was as follows:

	Due From	Due To	Advances Receivable	Advances Payable
Governmental Fund:				
General	$ -	$ -	$ 286,910	$ -
Proprietary Funds:				
Water	-	1,132	-	286,910
Sewer	-	-	-	-
Garbage	1,132	-	-	-
	$ 1,132	$ 1,132	$ 286,910	$ 286,910

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2024 was as follows:

	Balance at July 1, 2023	Additions	Retirements/ Transfers	Balance at June 30, 2024
Governmental activities:				
Capital assets not subject to depreciation				
Land	$ 610,390	$ -	$ -	$ 610,390
Total capital assets not subject to depreciation	610,390	-	-	610,390
Capital assets subject to depreciation				
Buildings and improvements	2,154,547	-	-	2,154,547
Software	-	6,096	-	6,096
Vehicles and equipment	435,679	10,382	-	446,061
Total capital assets subject to depreciation	2,590,226	16,478	-	2,606,704
Less accumulated depreciation	1,558,004	81,013	-	1,639,017
Total capital assets subject to depreciation, net	1,032,222	(64,535)	-	967,687
Total capital assets, net	$ 1,642,612	$ (64,535)	$ -	$ 1,578,077

	Balance at July 1, 2023	Additions	Retirements/ Transfers	Balance at June 30, 2024
Business-type activities:				
Capital assets not being depreciated				
Land	$ 6,000	$ -	$ -	$ 6,000
Construction in progress	388,347	1,923,328	-	2,311,675
Total capital assets not subject to depreciation	394,347	1,923,328	-	2,317,675
Capital assets being depreciated				
Buildings and improvements	8,142,160	-	-	8,142,160
Software	195,918	-	-	195,918
Vehicles and equipment	915,823	165,585	-	1,081,408
Total capital assets subject to depreciation	9,253,901	165,585	-	9,419,486
Less accumulated depreciation	6,458,976	213,938	-	6,672,914
Total capital assets subject to depreciation, net	2,794,923	(48,353)	-	2,746,572
Total capital assets, net	$ 3,189,270	$ 1,874,975	$ -	$ 5,064,247

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, 2024:

	Balance at July 1, 2023	Additions	Reductions	Balance at June 30, 2024	Current Portion	Long Term Portion
Governmental Activities:						
Compensated Absences	$ 149,253	$ 64,015	$ 86,064	$ 127,204	$ 31,801	$ 95,403
Net Pension Liability	33,878	40,670		74,548		74,548
Total Governmental Activities	$ 183,131	$ 104,685	$ 86,064	$ 201,752	$ 31,801	$ 169,951

	Balance at July 1, 2023	Additions	Reductions	Balance at June 30, 2024	Current Portion	Long Term Portion
Business-Type Activities:						
Taxable revenue bond obligations	$ 804,600	$ -	$ 54,100	$ 750,500	$ 56,000	$ 694,500
Net Pension Liability	74,671	50,266	-	124,937	-	124,937
Total Business-Type Activities	$ 879,271	$ 50,266	$ 54,100	$ 875,437	$ 56,000	$ 819,437

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
2025	$ 56,000	$ 24,999	$ 80,999
2026	57,900	23,028	80,928
2027	60,000	20,988	80,988
2028	62,100	18,876	80,976
2029	64,400	16,688	81,088
2030-2034	318,900	49,760	368,660
2035-2036	131,200	4,546	135,746
Total	$ 750,500	$ 158,885	$ 909,385

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 statue and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Classic Plan members with five years of total service are eligible to retire at age

NOTE 7 – PENSION PLANS (Continued)

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, 2022 rolled forward to June 30, 2023 using standard update procedures. The Plans' provisions and benefits in effect at June 30, 2024, are summarized as follows:

	Miscellaneous		Safety
Hire Date	Classic Member Hired Prior to January 1, 2013*	New Member Hired On or after January 1, 2013	Classic Member Hired Prior to January 1, 2013*
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	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%	7.75%	N/A
Required employer contribution rates	11.84% + $0	7.68% + $0	$0

* 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 $0 for the Safety Plan and $62,794 for the Miscellaneous Plan for the fiscal year ended June 30, 2024.

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

At June 30, 2024, the District reported net pension assets for its proportionate shares of the net position liability (asset) of each Plan as follows:

	Proportionate Share of Net Pension Liability (Asset)
Miscellaneous	$ 174,931
Safety	24,554
Total	$ 199,485

The net pension liability (asset) was measured as of June 30, 2023 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022 rolled forward to June 30, 2023 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.

NOTE 7 – PENSION PLANS (Continued)

At June 30, 2024, the District's proportionate share of the net pension liability (asset) for each Plan as of June 30, 2022 and June 30, 2023 was as follows:

	Miscellaneous	Safety
Proportion-June 30, 2022	0.00210%	0.00015%
Proportion-June 30, 2023	0.00350%	0.00033%
Change-Increase (Decrease)	0.00140%	0.00018%

For the fiscal year ended June 30, 2024, the District recognized pension expense of $323,242. Pension expense represents the change in the net pension liability (asset) 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, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,739	1,541
Changes in assumptions	11,994	
Net difference between projected and actual earnings on retirement plan investments	31,683	
Adjustment due to differences in proportion	270,175	120,305
Changes in proportion and differences between District contributions and proportionate share of contributions	148,850	128,559
District contributions subsequent to the measurement date	62,794	
	$ 536,235	$ 250,405

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.

$62,794 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, 2024.

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

Fiscal year ending June 30	Amount
2025	$ 136,377
2026	71,304
2027	14,448
2028	907
	$ 223,036

NOTE 7 – PENSION PLANS (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous and Safety
Valuation Date	June 30, 2022
Measurement Date	June 30, 2023
Acturial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Projected Salary Increase	Varies by Entry Age and Service
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.30% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details, please refer to the 2021 experience study report that can be found on the CalPERS website.

Long-term Expected Rate of Return

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. The expected real rates of return by asset class are as follows:

Asset Class	New Strategic Allocation	Real Return (a,b)
Global Equity - cap-weighted	30.0%	4.54%
Global Equity - non-cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporations	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%
Total	100.0%	

(a) An expected inflation of 2.30% was used for this period.
(b) Figures are based on the 2021 Asset Liability Management Study.

NOTE 7 – PENSION PLANS (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 6.90 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 (5.90 percent) or 1 percentage point higher (7.90 percent) than the current rate:

	Discount Rate-1% 5.90%	Current Discount Rate 6.90%	Discount Rate +1% 7.90%
Net Pension Asset - Miscellaneous	$ 669,989	$ 174,931	$ (232,544)
Net Pension Asset - Safety	89,034	24,554	(28,162)
Net Pension Asset - Total	$ 759,023	$ 199,485	$ (260,706)

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, 2024, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2024.

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.

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.

NOTE 8 – JOINT VENTURES (Continued)

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 $1,126,227. 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 $527,159.

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.

NOTE 9 – CONTRACTED FIRE & EMERGENCY SERVICES

On June 30, 2023, the District withdrew as a member of the FCFA Joint Powers Agreement. The District entered into a one-year contract with FCFA for fire and emergency medical services for the fiscal year ended June 30, 2024 in the amount of $1,151,318. This limited term contract was provided while the District's application with the Local Area Formation Commission (LAFCO) to divest the District from the responsibility of providing fire and emergency services was under review. This application was submitted in January 2023 and the decision that the County would take over responsibility of fire service was officially reached by the end of the 2024 calendar year. The FCFA and San Luis Obispo County will start their partnership to provide service on January 1, 2025 through June 30, 2027 with the option for two one-year extensions available.

NOTE 10 – RISK MANAGEMENT AND CONTINGENCIES

Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the California Association of Mutual Water Companies Joint Powers Risk and Insurance Management Authority (JPRIMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for small California water agencies. The purpose of the JPRIMA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At June 30, 2024, the District participated in the liability and property programs of the JPRIMA as follows:

NOTE 10 – RISK MANAGEMENT AND CONTINGENCIES (Continued)

- 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, 2024, 2023 and 2022. 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, 2024, 2023, and 2022.

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, 2024.

Construction Contingency

The District has no construction contingencies as of June 30, 2024.

REQUIRED SUPPLEMENTARY INFORMATION

Oceano Community Services District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual – General Fund
Fiscal Year Ended June 30, 2024

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes and assessments	$ 1,243,348	$ 1,243,348	$ 1,362,913	$ 119,565
Public facility fee	15,000	15,000	37,829	22,829
Interest income	4,922	4,922	30,369	25,447
Rental income	135,822	135,822	138,792	2,970
Grant income	-	-	9,018	9,018
Other	2,948	2,948	12,898	9,950
Total revenues	1,402,040	1,402,040	1,591,819	189,779
Expenditures:				
Salaries, wages, and director stipends	485,990	485,990	471,963	14,027
Payroll taxes and employee benefits	167,436	167,436	167,857	(421)
Liability insurance	37,000	37,000	40,839	(3,839)
Repairs and maintenance	31,010	31,010	33,168	(2,158)
Administrative services	7,200	7,200	1,528	5,672
Data processing	22,800	22,800	20,598	2,202
Dues and fees	30,504	30,504	32,746	(2,242)
Education	8,050	8,050	11,461	(3,411)
Legal fees	76,200	76,200	112,529	(36,329)
Miscellaneous	1,000	1,000	2,293	(1,293)
Office expense	10,950	10,950	7,957	2,993
Street lighting	35,000	35,000	35,230	(230)
Professional fees	94,960	94,960	50,063	44,897
Utilities	27,295	27,295	22,742	4,553
Grant expense	-	-	8,793	(8,793)
Public safety	1,150,000	1,150,000	1,151,318	(1,318)
Capital outlay	317,874	317,874	16,478	301,396
Total expenditures	2,503,269	2,503,269	2,187,563	315,706
Excess of revenues over (under) expenditures	(1,101,229)	(1,101,229)	(595,744)	505,485
Other Financing Sources (Uses)				
Transfers in	1,026,795	1,026,795	879,122	(147,673)
Transfers out	(132,334)	(132,334)	-	132,334
Total other financing sources (uses)	894,461	894,461	879,122	(15,339)
Net change in fund balance	(206,768)	(206,768)	283,378	490,146
Fund balance - July 1	947,566	947,566	947,566	-
Fund balance - June 30	$ 740,798	$ 740,798	$ 1,230,944	$ 490,146

Oceano Community Services District
Schedule of Proportionate Share of Net Pension Liability – Last 10 Years
As of June 30, 2024

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

	2024	2023	2022	2021	2020
Proportion of the net pension liability	0.00016%	0.00094%	-0.01004%	0.00763%	0.00741%
Proportionate share of the net pension liability (asset)	$ 199,485	$ 108,549	$ (542,757)	$ 830,340	$ 759,574
Covered payroll	$ 674,032	$ 682,293	$ 674,882	$ 643,799	$ 577,089
Proportionate share of the net pension liability as a percentage of covered payroll	29.60%	15.91%	-80.42%	128.98%	131.62%
Plan's total pension liability	$ 52,441,984,274	$ 49,525,975,138	$ 46,174,942,264	$ 43,702,930,887	$ 41,426,453,489
Plan's fiduciary net position	$ 39,966,633,692	$ 37,975,170,163	$ 40,766,653,876	$ 32,822,501,335	$ 31,179,414,067
Plan fiduciary net position as a percentage of the total pension liability	76.21%	76.68%	88.29%	75.10%	75.26%

	2019	2018	2017	2016	2015
Proportion of the net pension liability	0.00715%	0.00704%	0.00692%	0.00649%	0.00676%
Proportionate share of the net pension liability (asset)	$ 689,459	$ 698,116	$ 598,558	$ 445,280	$ 420,438
Covered payroll	$ 573,557	$ 544,352	$ 437,408	$ 453,904	$ 312,044
Proportionate share of the net pension liability as a percentage of covered payroll	120.21%	128.25%	136.84%	98.10%	134.74%
Plan's total pension liability	$ 38,944,855,364	$ 37,161,348,332	$ 33,358,627,624	$ 31,771,217,402	$ 30,829,966,631
Plan's fiduciary net position	$ 29,308,589,559	$ 27,244,095,376	$ 24,705,532,291	$ 24,907,305,871	$ 24,607,502,515
Plan fiduciary net position as a percentage of the total pension liability	75.26%	73.31%	74.06%	78.40%	79.82%

Notes to Schedule

There were no changes in assumptions or benefit terms for the fiscal year ended June 30, 2024.

Oceano Community Services District
Schedule of Pension Contributions – Last 10 Years
As of June 30, 2024

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

	2024	2023	2022	2021	2020
Contractually required contribution (actuarially determined)	$ 62,794	$ 72,517	$ 68,835	$ 122,565	$ 101,217
Contribution in relation to the actuarially determined 'contributions	(62,794)	(72,517)	(68,835)	(954,271)	(101,217)
Contribution deficiency (excess)	$ -	$ -	$ -	$ (831,706)	$ -
Covered payroll	$ 677,922	$ 674,032	$ 682,293	$ 674,882	$ 643,779
Contributions as a percentage of covered payroll	9.26%	10.76%	10.09%	141.40%	15.72%

	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 83,717	$ 73,333	$ 65,457	$ 52,723	$ 49,702
Contribution in relation to the actuarially determined 'contributions	(83,717)	(73,333)	(65,457)	(52,723)	(49,702)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 577,089	$ 573,557	$ 544,352	$ 437,408	$ 453,904
Contributions as a percentage of covered payroll	14.51%	12.79%	12.02%	12.05%	10.95%

Notes to Schedule

For the fiscal year ended June 30, 2024, the discount rate was decreased from 7.00% to 6.80% and the price inflation assumption was decreased from 2.50% to 2.30%.

Report of Independent Auditors and Financial Statements with
Required Supplementary Information

Oceano Community Services District

June 30, 2025

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Moss, Levy & Hartzheim LLP
Certified Public Accountants

Report of Independent Auditors

Board of Directors of Oceano Community Services District
Oceano, California

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the Oceano Community Services District, as of and for the fiscal year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Oceano Community Services District's basic financial statements as listed in the table of contents.

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, 2025, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Oceano Community Services District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Oceano Community Services District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Oceano Community Services District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Oceano Community Services District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension liability, and the schedule of pension contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2026, on our consideration of the Oceano Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim LLP

Santa Maria, California
March 11, 2026

OCEANO COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2025

The Oceano Community Services District (District) has prepared the following narrative summarizing the District's financial statements to provide an overview and analysis of District finances for the fiscal year ending June 30, 2025. 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 7,600. The District is governed by a five-member Board of Directors, elected by voters within five distinct geographic divisions within the District's LAFCO-defined service area; all Board members must reside within the District's boundaries, and must reside within the division they are elected to represent. The District is governed by California Government Code Sections 61000 et al, as well as other specific statutes and regulations that govern its operations.

The District provides both governmental-type activities and enterprise activities. Governmental activities include fire protection services (through December 2024), street lighting, and recreation. Enterprise activities include water service, wastewater collection service, and solid waste 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 service provisions outside of the District boundaries must be approved in advance by LAFCO.

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

Fire Protection Services

During Fiscal Year 2024-25, the District provided fire protection services through December 31, 2024, with a contract with 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 was appointed to represent the District on the FCFA Board, and a second member of the OCSD Board of Directors served as an alternate on the FCFA Board. The District would pay a portion of the annual costs of FCFA services under a funding formula established in the FCFA agreement, which was modified by the third amendment. The JPA amendments were needed for several reasons, including a multi-year implementation of the FCFA "Strategic Plan." The "Strategic Plan" included increased staffing and service levels exceeding those provided under the existing JPA. The amendments included specific approval of each member's annual costs during the implementation period. Because FCFA's escalating costs exceeded District property tax revenue, the amendment required either a citizen initiative or a District-initiated special tax measure to be placed on the 2022 primary ballot. The increase in the District costs during the implementation period was funded from reserves to the extent that the costs exceeded property tax revenues received by OCSD. The FCFA JPA amendments 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 the required 66.67% to pass. The third amendment to the FCFA JPA was approved on June 24, 2020, which extended the agreement for an additional two years and required the District to provide the community with another opportunity to consider additional funding via a ballot measure in June 2022. On June 7, 2022, the Board of Directors placed Measure A-22 on the ballot, and it failed with 57.75% support. The District then initiated proceedings with LAFCO to divest Fire Protection Services' power and transfer responsibility to the County of San Luis Obispo. The divestiture process continued past June 30, 2024 and the District entered into an agreement with FCFA to contract for services in the amount of $1,150,000 for the fiscal year 2023-24 and a second agreement of $1,706,000 ($142,167 a month) for the fiscal year 2024-25 and was finalized to the County after the first half of this fiscal year. On January 14, 2025, LAFCO approved and endorsed the District's and County's plan for service for the community of Oceano, fully divesting the District from managing fire services within its service area and turning over that responsibility to the County of San Luis Obispo who now pays for the unincorporated community's share of fire protections services provided by FCFA, along with the Cities of Arroyo Grande and Grover Beach.

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. District responsibilities include repairing and replacing street light poles and paying for electricity costs. The only revenue source for this service comes from a 3.85% allocation of a portion of County property tax revenue.

Parks and Recreation Services

The District is authorized to provide parks and recreation services. 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. A section in the lease allows the District to 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. In fiscal year 2023-24, the Board established the Oceano Parks and Recreation Committee (OPARC) and provided $19,500 of General Funds as a grassroots effort. OPARC was awarded a $15,904 grant from Parks CA for the Field Trips to State Parks Program at Oceano Elementary. OPARC was funded by general fund revenues from the County and is not eligible to use enterprise funding sources. Then, in FY 2024-25, the committee applied to the Community-Based Organization/Preventive Health Grant from the County of SLO and was awarded $50,000 to the Lucia Mar Unified School District for the new track at Oceano Elementary.

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 is available on the District website or by calling the District office.

The District's water supplies include groundwater, surface water from Lopez Lake, and State Water Project 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 two separate water supply contracts. The District's water supply reliability is relatively high, allowing it to store water in Lopez and San Luis Reservoirs. Nevertheless, the need to address water supply reliability continues, and contract amendments for the State Water Project

are being developed by the State Department of Water Resources and, separately, contract amendments for the Lopez Lake water supply were adopted by local agencies in August 2022 to establish water storage rights and enhance multi-year water resource planning. Future state subcontractor contract amendments are anticipated to allow for water transfers in the future.

A water and wastewater rate increase was approved by the Board on June 11, 2025. The rate increase provided funding for ongoing operations, capital improvement projects, and minimum reserves. The rate increase was phased over five years (FY 2025-2030). The water and wastewater rate studies analyzed service costs and estimated revenues to keep up with rising costs for staff labor, water/wastewater line replacements, capital improvement plans, and Lopez/State water delivery costs.

Wastewater Collection Services

The District provides wastewater collection services through a network of neighborhood pipelines that flow into a District-owned lift station, and then 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. On June 11, 2025, the Board approved a wastewater rate increase with a Proposition 218 public hearing for the next five years (FY 2026-2030), since the last rate study was done in 2010 and the last rate increase took place in 2015, with sewer rates remaining constant for the last decade with no increased cost to rate payers.

Solid Waste and Recycling Services

The District provides mandatory solid waste, organic 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 2025, the Board adopted a resolution to increase the SCSS franchise fee payment from 5% to 10%. The District manages the franchise hauler activities and enforces SB 1383 requirements and illegal dumping within the community. The District has also adopted incentive programs designed to promote a cleaner community and has worked with the franchise hauler to enhance services, such as bulky item pickup and cart replacements. 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.

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 adopted board budget and actual revenues, expenditures, and changes in fund balance in the General Fund. A positive budget variance took place this year because the County continued to transmit the District's entire allocation of Property Taxes until October 2025, the current year reflects a large budget variance of $730,927 in the Governmental Fund.

Financial Statement Analysis and Highlights

The District's Statements of Net Position are 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, 2024, and 2025

	Governmental Activities		Business-type Activities	
	2024	**2025**	**2024**	**2025**
Current and Other Assets	$ 1,294,584	$ 1,912,868	$ 4,065,210	$ 3,650,843
Capital Assets, net	1,578,077	1,508,895	5,064,247	5,810,521
Total Assets	**2,872,661**	**3,421,763**	**9,129,457**	**9,461,364**
Deferred Outflow of Resources	200,391	90,135	335,844	186,017
Current Liabilities	95,441	154,598	663,480	880,137
Non-current Liabilities	169,951	169,766	819,437	756,313
Total Liabilities	**265,392**	**324,364**	**1,482,917**	**1,636,450**
Deferred Inflow of Resources	93,576	45,099	156,829	93,069
Net Investment in Capital Assets	1,578,077	1,508,895	5,064,247	5,810,521
Restricted	214,751	260,598	42,553	24,705
Unrestricted	921,256	1,372,942	2,718,755	2,082,636
Net Position	**$ 2,714,084**	**$ 3,142,435**	**$ 7,825,555**	**$ 7,917,862**

Statements of Net Position by Enterprise Fund as of June 30, 2024, and 2025

	Water Fund		Wastewater Fund		Garbage Fund	
	2024	**2025**	**2024**	**2025**	**2024**	**2025**
Current and Other Assets	$3,170,687	$2,989,034	$ 1,050,903	$ 785,253	$ 113,166	$ 125,375
Capital Assets, net	4,136,384	4,742,724	929,699	1,063,102	0	24,276
Total Assets	**7,307,071**	**7,731,758**	**1,980,602**	**1,848,355**	**113,166**	**149,651**
Deferred Outflow of Resources	214,387	118,718	107,193	59,373	14,264	7,926
Current Liabilities	671,333	838,825	23,642	67,968	923	4,630
Non-current Liabilities	798,401	737,937	271,354	250,389	0	5,101
Total Liabilities	**1,469,734**	**1,576,762**	**294,996**	**318,357**	**5,306**	**9,731**
Deferred Inflow of Resources	100,112	59,398	50,056	29,706	14,533	3,965
Net Investment in Capital Assets	4,117,888	4,723,143	929,699	1,063,102	16,990	24,276
Restricted	42,553	24,705	–	–	–	–
Unrestricted	1,791,171	1,466,468	813,044	496,563	114,540	119,605
Net Position	**$ 5,951,612**	**$ 6,214,316**	**$ 2,087,795**	**$ 1,559,665**	**$ 131,200**	**$ 143,881**

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

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

Statement of Activities for the Years Ending June 30, 2024, and 2025

	Governmental Activities		Business-type Activities	
	2024	**2025**	**2024**	**2025**
Operating Revenues and Grants	$ 46,847	$ 19,366	$ 5,370,053	$ 4,294,492
Operating Expenditures:				
Administrative	(1,078,139)	(1,163,771)		
Fire Protection	(1,182,460)	(886,393)		
Street Lighting	(45,417)	(47,006)		
Enterprise Funds			(2,879,304)	(3,287,899)
Net Operating Income / (Loss)	**(2,259,169)**	**(2,077,804)**	**2,490,749**	**1,006,593**
Ad Valorem Taxes	1,362,913	1,428,003	–	–
Other Non-operating Income	182,059	121,200	89,911	42,666
Transfers	879,122	956,952	(879,122)	(956,952)
Total Non-Operating Income	**2,424,094**	**2,506,155**	**(789,211)**	**(914,286)**
Change in Net Position	**$ 164,925**	**$ 428,351**	**$ 1,701,538**	**$ 92,307**

In summary, the Governmental Activities increased from a net income of $164,925 to $428,351 in 2025. The increase is due to the County of San Luis Obispo sending the District's full property tax allocation until October 2025. After October 2025, the County updated the District's property tax allocation to match the Property Tax agreement of 3.85%.

The Business-type Activities went from a net income for the prior fiscal year of $1,701,538 to a net income of $92,307. The decrease in income is from the grant funds received in the Water Fund for the Stormwater Recapture and Groundwater Recharge Project and the Water Storage Tank Rehabilitation Project in 2024. The Enterprise Funds are broken out by fund in the table below.

Statements of Revenues, Expenses, and Changes in Net Position as of June 30, 2024, and 2025

	Water Fund		Wastewater Fund		Garbage Fund	
	2024	**2025**	**2024**	**2025**	**2024**	**2025**
Operating Revenues	$ 3,382,998	$ 3,587,091	$ 408,534	$ 411,254	$ 101,012	$ 121,271
Operating Expenditures	(2,525,623)	(2,898,855)	(279,114)	(321,175)	(74,567)	(67,869)
Net Operating Income / (Loss)	**857,375**	**688,236**	**129,420**	**90,079**	**26,445**	**53,402**
Other Non-operating Income	1,513,256	168,289	51,472	22,753	0	0
Non-operating Expenditures	(1,561)	0	(1,131)	0	0	0
Net Non-Operating Income	**1,514,817**	**168,289**	**52,603**	**22,753**	**0**	**0**
Transfers	$ (561,142)	$ (593,821)	$ (280,571)	$ (295,910)	$ (37,409)	$ (40,721)
Net Income / (Loss)	**$ 1,811,050**	**$ 262,704**	**$ (98,548)**	**$ (183,078)**	**$ (10,964)**	**$ 12,681**

The decrease in net income in the Water Fund reflects grant income received in 2024 for the Stormwater Recapture and Groundwater Recharge Project and the Water Storage Tank Rehabilitation Project. The water fund rate structure approved in 2020 began to establish financial stability and provide funds for long-term capital improvement plans and minimum reserves. The rate structure considered and approved by the Board on June 11, 2025, will provide the revenues for the next 5 years to keep up with rising costs for staff labor, construction costs for water/wastewater line replacements, and Lopez/State water delivery costs.

The Wastewater Fund incurred a deficit of ($183,078) this year. A wastewater rate study was adopted by the Board at the June 11, 2025, Proposition 218 rate-increase public hearing, which set the new wastewater rates for the next 5 years. The new rates will close the structural deficit and provide funding for the new Wastewater CIP Plan for the wastewater system.

The Garbage Fund's net income 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. Then, in January 2025, the Board adopted a resolution to restore the franchise fee payments from SCSS back up to 10%. 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 within the District.

Capital Assets

The District currently owns the Sheriff's substation, the old fire station, and some undeveloped land. In previous years, the community fire station was provided to FCFA for $15,000 per year; under the FY 2023-24 contract for fire services with FCFA, the District granted FCFA access to the fire station at no cost. The community fire station was then transferred to the County of SLO in 2025 after the divestiture of fire protection services. The lease for the Sheriff substation was also amended in 2025 and is now leased to the County of San Luis Obispo for $0 per year. In the past, the District received lease revenue of $126,792 per year, but beginning on January 1, 2025, the new lease agreement reduces annual revenue from the Sheriff's substation lease to zero. The divestiture of the District's fire and emergency services has reduced the substation's rent to no cost to the County, and the District administrative office property has been transferred to the County, with the property to be leased back to the District beginning in July of 2025 for $116,175 in fiscal year 2025-26.

The Oceano Depot and Community Center are leased to non-governmental agencies. The Lucia Mar Unified School District and Oceano Depot lease the properties for $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 District's water and wastewater infrastructure ranges widely 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, 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 by grants approved by the State of California. The 2020 water rates began to set aside funds for long-term capital improvement plans. The Water and Wastewater Proposition 218 hearing held on June 11, 2025, was adopted and provides for revenues to keep up with rising costs for staff labor, construction costs for water/wastewater line replacements, and Lopez/State water delivery costs. The District updated both the water and wastewater CIP plans in 2025 and began the design of the top priority projects.

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, 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, which was paid off during fiscal year 2024. 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 fiscal year ending June 30, 2025, the District recorded the interfund

transfers on the following page to adhere to resolutions adopted April 26, 2017, to ensure repayment of interfund liabilities. In FY 2025-26 the District closed out the safety plan related to the Oceano Fire Department with General Fund reserves to complete the District's divestiture of fire and emergency services.

Interfund Transfers for the Fiscal Year Ended June 30, 2025

Interfund (Due to) / Due From	Beginning Balances – July 1, 2024	Interfund Transfers Out	Interfund Transfers In	Ending Balances – June 30, 2025
General Fund Due from Water Fund	306,537	- 0 -	18,510	268,400
Water Fund Due to the General Fund	(306,537)	18,510	- 0 -	(306,537)
Water Fund Due to Garbage Fund	(1,132)	1,132	- 0 -	- 0 -
Garbage Fund Due from Water Fund	1,132	- 0 -	1,132	- 0 -
Totals	**$ - 0 -**	**$ 19,642**	**$ 19,642**	**$ - 0 -**

Budget and Rates

The District's budget for the year ending June 30, 2025, reflects the water system rate increase approved by the Board of Directors in October 2020, adjusted for 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. In June 2025, the Board approved a new rate study effective July 18, 2025. The following illustrates the Water Fund change in net position before and after the 2020 rate increase:

Water Fund – Change in Net Position

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
2021/22	1,233,214
2022/23	684,706
2023/24	1,811,050
2024/25	262,704

With the approval of the 2020 rate increase, the District established fiscal stability and funds for minimum reserves. The increase began in November 2020 and was phased in over five years. The new 2026-2030 rate structure considered by the Board on June 11, 2025, for the next 5 years provides the revenues needed to keep up with rising staff labor costs, construction costs for water/wastewater line replacements, and Lopez/State water delivery costs. The District has secured approximately $4,405,000 in grants from state agencies for the water system and related needs since 2017.

No rate changes affected the wastewater fund for the fiscal year ending June 30, 2025. In June 2025, the Board approved a new rate study effective July 18, 2025. The following shows the running deficit of the Wastewater Fund:

Wastewater Fund – Change in Net Position

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)
2021/22	22,474
2022/23	(333,160)
2023/24	(98,548)
2024/25	(183,078)

The operating revenue for the wastewater fund was addressed at the public hearing in June 2025. On February 12, 2025, the Board of Directors approved a contract to initiate a wastewater rate study. On April 9, 2025, the Board provided direction to schedule a Proposition 218 public hearing at the June 11, 2025 meeting and considered the new increase to the District's wastewater rates for the next five years since the last rate study was done in 2011 and rates in place since 2015 did not meet the District's revenue requirement to operate the sewer utility.

An increase of 4.98% in garbage rates for SCSS Inc. was approved on January 8, 2025, and inflationary adjustments went into effect until 2029. In addition, the Board returned to the franchise fee rate of 5% to 10%.

Future Outlook

Overall, the District's financial outlook has remained relatively stable in the short term during the fiscal year ending June 30, 2025. The primary challenges are related to deferred infrastructure repairs and replacement in the water and wastewater systems. The District evaluated the deferred infrastructure needs and utilized grants obtained from the State of California for much of this effort in FY 2024-25. Identifying costs and rate impacts to fund the deferred infrastructure was initiated in June 2025 for the water and wastewater rates to allow funds to be set aside for long-term capital projects. The new rate structures in both the water and wastewater systems have solidified the District's fiscal position in the coming years.

Basic Financial Statements

Oceano Community Services District
Statement of Net Position
June 30, 2025

	Governmental Activities	Business-type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash and investments	$ 1,331,486	$ 3,136,996	$ 4,468,482
Restricted cash and investments	260,598	–	260,598
Accounts receivable, net	–	628,070	628,070
Prepaid items	52,384	102,046	154,430
Inventory	–	32,550	32,550
Internal balances	268,400	(268,400)	–
Total current assets	1,912,868	3,631,262	5,544,130
JOINT VENTURE DEPOSITS	–	19,581	19,581
CAPITAL ASSETS			
Non-depreciable capital assets			
Land	610,390	6,000	616,390
Construction in progress	–	562,927	562,927
Depreciable capital assets			
Buildings and improvements	2,154,547	10,835,162	12,989,709
Equipment, vehicles and machinery	446,061	1,153,221	1,599,282
Software	6,096	195,918	202,014
Accumulated depreciation	(1,708,199)	(6,942,707)	(8,650,906)
Total assets	3,421,763	9,461,364	12,883,127
DEFERRED OUTFLOWS OF RESOURCES	90,135	186,017	276,152
Total assets and deferred outflows of resources	$ 3,511,898	$ 9,647,381	$ 13,159,279
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable	$ 85,624	$ 626,431	$ 712,055
Accrued payroll and benefits	29,375	9,856	39,231
Deposits	1,000	139,900	140,900
Unearned revenue	1,346	46,050	47,396
Current portion of compensated absences	37,253	–	37,253
Current portion of taxable revenue bond obligation	–	57,900	57,900
Total current liabilities	154,598	880,137	1,034,735
NONCURRENT LIABILITIES			
Compensated absences, net of current portion	111,758	–	111,758
Taxable revenue bond obligation, net of current portion	–	636,600	636,600
Net pension liability	58,008	119,713	177,721
Total liabilities	324,364	1,636,450	1,960,814
DEFERRED INFLOWS OF RESOURCES	45,099	93,069	138,168
NET POSITION			
Investment in capital assets	1,508,895	5,810,521	7,319,416
Restricted for			
Capital facilities	260,598	–	260,598
Water joint venture agreement	–	24,705	24,705
Unrestricted	1,372,942	2,082,636	3,455,578
Total net position	3,142,435	7,917,862	11,060,297
Total liabilities, deferred inflows of resources, and net position	$ 3,511,898	$ 9,647,381	$ 13,159,279

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

Oceano Community Services District
Statement of Activities
Year Ended June 30, 2025

		Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Administration	$ 1,163,771	$ –	$ –	$ 19,366	$ (1,144,405)	$ –	$ (1,144,405)
Fire protection	886,393	–	–	–	(886,393)	–	(886,393)
Street lighting	47,006	–	–	–	(47,006)	–	(47,006)
Total governmental activities	2,097,170	–	–	19,366	(2,077,804)	–	(2,077,804)
Business-type activities:							
Water	2,898,855	3,386,354	200,737	165,376	–	853,612	853,612
Sewer	321,175	403,448	7,806	9,500	–	99,579	99,579
Garbage	67,869	–	121,271	–	–	53,402	53,402
Total business-type activities	3,287,899	3,789,802	329,814	174,876	–	1,006,593	1,006,593
Total governmental	$ 5,385,069	$ 3,789,802	$ 329,814	$ 194,242	(2,077,804)	1,006,593	(1,071,211)
General Revenues and Transfers:							
Taxes:							
Property					1,428,003	–	1,428,003
Use of money and property					115,697	26,506	142,203
Other general revenues					5,503	16,160	21,663
Transfers					956,952	(956,952)	–
Total general revenues and transfers					2,506,155	(914,286)	1,591,869
Change in net position					428,351	92,307	520,658
Net position - beginning of year					2,714,084	7,825,555	10,539,639
Net position - end of year					$ 3,142,435	$ 7,917,862	$ 11,060,297

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

Oceano Community Services District
Balance Sheet – Government Fund
June 30, 2025

	General Fund
ASSETS	
ASSETS	
Cash and investments	$ 1,331,486
Restricted cash and investments	260,598
Prepaid items	52,384
Advances receivable	268,400
Total assets	$ 1,912,868
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	$ 85,624
Accrued payroll and benefits	29,375
Deposits	1,000
Unearned revenue	1,346
Total liabilities	117,345
FUND BALANCE	
Nonspendable	
Prepaid items	52,384
Advances receivable	268,400
Restricted	
Capital facilities	260,598
Assigned	
Infrastructure replacement	132,658
Unassigned	1,081,483
Total fund balance	1,795,523
Total liabilities and fund balance	$ 1,912,868

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, 2025

Total fund balance - governmental fund		$ 1,795,523
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	$ 3,217,094	
Accumulated depreciation	(1,708,199)	
Net		1,508,895
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	$ 149,011	
Net pension liability	58,008	
Total		(207,019)
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 $90,135 and inflows of resources of $(45,099) relating to pensions are reported.		45,036
Total net position - governmental activities		$ 3,142,435

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

Oceano Community Services District
Statement of Revenues, Expenditures, and Changes In
Fund Balance – Governmental Fund
Year Ended June 30, 2025

	General Fund
REVENUES	
Taxes and assessments	$ 1,428,003
Public facility fee	4,718
Interest income	27,265
Rental income	88,432
Grant income	14,648
Other	5,503
Total revenues	1,568,569
EXPENDITURES	
Salaries, wages and directors' stipends	474,862
Payroll taxes and employee benefits	241,612
Liability insurance	45,897
Repairs and maintenance	18,584
Administrative services	9,240
Data processing	21,131
Dues and fees	33,891
Education	11,198
Legal fees	81,137
Miscellaneous	2,849
Office expense	14,796
Street lighting	35,442
Professional fees	74,420
Public safety	864,204
Utilities	23,414
Grant expense	8,265
Total expenditures	1,960,942
Excess of revenues under expenditures	(392,373)
OTHER FINANCING SOURCES	
Transfers in	956,952
Total other financing sources	956,952
Net change in fund balance	564,579
FUND BALANCE - beginning of year	1,230,944
FUND BALANCE - end of year	$ 1,795,523

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

Year Ended June 30, 2025

Total net change in fund balance - governmental fund	$	564,579
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 is less than depreciation expense ($69,182) in the period.		(69,182)
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 year, vacation earned exceeded the amounts used by $21,807.		(21,807)
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:		(45,239)
Changes in net position - governmental activities	$	428,351

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

Oceano Community Services District
Statement of Net Position – Proprietary Funds
June 30, 2025

	Water Fund	Sewer Fund	Garbage Fund	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash and investments	$ 2,319,239	$ 719,811	$ 97,946	$ 3,136,996
Accounts receivable, net	537,129	63,737	27,204	628,070
Prepaid expenses	101,821	–	225	102,046
Inventory	30,845	1,705	–	32,550
Total current assets	2,989,034	785,253	125,375	3,899,662
JOINT VENTURE DEPOSITS	19,581	–	–	19,581
CAPITAL ASSETS				
Non-depreciable capital assets				
Land	6,000	–	–	6,000
Construction in progress	417,145	145,782	–	562,927
Depreciable capital assets				
Buildings and improvements	8,027,395	2,807,767	–	10,835,162
Equipment, vehicles and machinery	719,437	390,269	43,515	1,153,221
Software	156,734	39,184	–	195,918
Accumulated depreciation	(4,603,568)	(2,319,900)	(19,239)	(6,942,707)
Total assets	7,731,758	1,848,355	149,651	9,729,764
DEFERRED OUTFLOWS OF RESOURCES	118,718	59,373	7,926	186,017
Total assets and deferred outflows of resources	$ 7,850,476	$ 1,907,728	$ 157,577	$ 9,915,781
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
CURRENT LIABILITIES				
Accounts payable	$ 576,772	$ 45,415	$ 4,244	$ 626,431
Accrued wages and benefits	7,265	2,205	386	9,856
Deposits	139,900	–	–	139,900
Unearned revenue	45,000	1,050	–	46,050
Current portion of advance payable	31,286	–	–	31,286
Current portion of taxable revenue bond obligation	38,602	19,298	–	57,900
Total current liabilities	838,825	67,968	4,630	911,423
NONCURRENT LIABILITIES				
Advances payable, net of current portion	237,114	–	–	237,114
Taxable revenue bond obligation, net of current portion	424,421	212,179	–	636,600
Net pension liability	76,402	38,210	5,101	119,713
Total liabilities	1,576,762	318,357	9,731	1,904,850
DEFERRED INFLOWS OF RESOURCES	59,398	29,706	3,965	93,069
NET POSITION				
Investment in capital assets	4,723,143	1,063,102	24,276	5,810,521
Restricted	24,705	–	–	24,705
Unrestricted	1,466,468	496,563	119,605	2,082,636
Total net position	6,214,316	1,559,665	143,881	7,917,862
Total liabilities, deferred inflows of resources, and net position	$ 7,850,476	$ 1,907,728	$ 157,577	$ 9,915,781

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

Oceano Community Services District
Statement of Revenues, Expenditures and Changes In
Net Position – Proprietary Funds
Year Ended June 30, 2025

	Water Fund	Sewer Fund	Garbage Fund	Total
OPERATING REVENUES				
Charges for services	$ 3,386,354	$ 403,448	$ –	$ 3,789,802
Other fees	200,737	7,806	121,271	329,814
Total operating revenues	3,587,091	411,254	121,271	4,119,616
OPERATING EXPENSES				
Salaries and wages	194,575	75,160	16,998	286,733
Payroll taxes and employee benefits	198,277	82,119	26,160	306,556
Repairs and maintenance	40,312	13,862	379	54,553
Legal and professional	215,747	40,300	11,648	267,695
Dues and fees	21,305	4,360	–	25,665
Education	2,031	65	10,000	12,096
Water meters	26,257	–	–	26,257
Wheeled water expense	28,945	–	–	28,945
Office expense	425	193	129	747
Supplies	20,835	19,653	503	40,991
Utilities	26,922	1,568	614	29,104
Water supply expense	1,938,764	–	–	1,938,764
Depreciation	184,460	83,895	1,438	269,793
Total operating expenses	2,898,855	321,175	67,869	3,287,899
OPERATING INCOME	688,236	90,079	53,402	831,717
NONOPERATING REVENUES				
Revenue from other governmental agencies	148,376	–	–	148,376
Interest on bank deposits, net	4,216	22,290	–	26,506
Other nonoperating income	15,697	463	–	16,160
Total nonoperating revenues, net	168,289	22,753	–	191,042
Income before transfers	856,525	112,832	53,402	1,022,759
CAPITAL CONTRIBUTIONS AND TRANSFERS				
Connection fees	17,000	9,500	–	26,500
Transfers out	(610,821)	(305,410)	(40,721)	(956,952)
Total capital contributions and transfers	(593,821)	(295,910)	(40,721)	(930,452)
Change in net position	262,704	(183,078)	12,681	92,307
NET POSITION - beginning of year	5,951,612	1,742,743	131,200	7,825,555
NET POSITION, end of year	$ 6,214,316	$ 1,559,665	$ 143,881	$ 7,917,862

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

Oceano Community Services District
Statement of Cash Flows
Year Ended June 30, 2025

	Water Fund	Sewer Fund	Garbage Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 4,811,633	$ 407,612	$ 105,434	$ 5,324,679
Payments to suppliers	(2,078,341)	(35,277)	(19,045)	(2,132,663)
Payments to employees	(339,217)	(133,100)	(40,242)	(512,559)
Net cash provided by operating activities	2,394,075	239,235	46,147	2,679,457
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES				
Acquisition of capital assets	(789,712)	(217,299)	(9,056)	(1,016,067)
Net cash used in capital and related financing activities	(789,712)	(217,299)	(9,056)	(1,016,067)
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES				
Grants received	148,376	–	–	148,376
Transfers to other funds	(630,466)	(305,407)	(39,586)	(975,459)
Connection fees received	17,000	9,500	–	26,500
Interfund interest paid	(13,041)	–	–	(13,041)
Principal paid on loan payable	(37,335)	(18,665)	–	(56,000)
Interest paid on loan payable	(16,667)	(8,332)	–	(24,999)
Other revenue	15,697	463	–	16,160
Net cash used in noncapital financing activities	(516,436)	(322,441)	(39,586)	(878,463)
CASH FLOWS FROM FINANCIAL ACTIVITIES				
Interest income	33,924	30,622	–	64,546
Net cash provided by investing activities	33,924	30,622	–	64,546
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,121,851	(269,883)	(2,495)	849,473
CASH AND CASH EQUIVALENTS, beginning of year	1,197,388	989,694	100,441	2,287,523
CASH AND CASH EQUIVALENTS, end of year	$ 2,319,239	$ 719,811	$ 97,946	$ 3,136,996
Reconciliation to Statement of Net Position:				
Cash and investments	$ 2,319,239	$ 719,811	$ 97,946	$ 3,136,996
Reconciliation of operating income to net cash provided by operating activities				
Operating income	$ 688,236	$ 90,079	$ 53,402	$ 831,717
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation expense	184,460	83,895	1,438	269,793
Change in assets, liabilities, deferred outflows, and deferred inflows				
Receivables, net	1,301,272	(4,167)	(15,837)	1,281,268
Prepaid expenses	5,923	–	–	5,923
Inventories	(3,691)	(68)	–	(3,759)
Joint venture deposits	(1,085)	–	–	(1,085)
Deferred outflows	95,669	47,820	6,338	149,827
Accounts payable	242,055	44,792	4,228	291,075
Accrued wages and benefits	2,032	(1,624)	(521)	(113)
Deposits	(121,730)	–	–	(121,730)
Unearned revenues	45,000	525	–	45,525
Net pension liability	(3,352)	(1,667)	(205)	(5,224)
Deferred inflows	(40,714)	(20,350)	(2,696)	(63,760)
Net cash provided by operating activities	$ 2,394,075	$ 239,235	$ 46,147	$ 2,679,457

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

Note 1 – Summary of Significant Accounting Policies

A. 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, 80, and 90.

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 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 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 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.

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.

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 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 year and is delinquent if not paid by December 10; and the second is due on March 1 of the 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 year. Significant penalties are imposed by the County for late payment.

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

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

E. Cash and Investments

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

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

The District maintains its cash balance in financial institutions in the United States. The balances at the institutions are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of June 30, 2025, 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 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 year-end and not yet received. Utility accounts receivable and interest earnings comprise most proprietary fund receivables.

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 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 many 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 to 75 years
Sanitation system	10 to 50 years
Drainage	5 to 50 years
Administration	5 to 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. 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 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.

K. Pensions

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

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

Valuation Date:	June 30, 2023
Measurement Date:	June 30, 2024
Measurement Period:	July 1, 2023 through June 30, 2024

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. 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.

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.) 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. 103	"Financial Reporting Model Improvements"	This statement revises financial statement presentation requirements, including enhancements to Management's Discussion and Analysis (MD&A), proprietary fund reporting, and disclosures for major component units. The provisions of this statement are effective for years beginning after June 15, 2025.
Statement No. 104	"Disclosure of Certain Capital Assets"	This statement establishes new disclosure requirements for certain types of capital assets, including assets held for sale. The provisions of this statement are effective for years beginning after June 15, 2025.

Note 2 – Cash and Investments

The composition of cash and investments as of June 30, 2025, is as follows:

Cash and Investments	
Imprest cash	$ 625
Cash with County Treasurer	41,865
Cash with financial institutions	438,499
Investment in California Asset Management Program	2,147,226
Investment with financial institution	1,815,562
Restricted Cash and Investments	
Cash with financial institution	260,598
Cash with fiscal agent	24,705
Total cash and investments	$ 4,729,080

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 fair value measurement of the District's investments as of June 30, 2025, is as follows:

		Fair Value Measurement		
Investment Type	Fair Value	Level 1	Level 2	Level 3
Negotiable certificate of deposits	$ 99,918	$ –	$ 99,918	$ –
U.S. Treasury Securities	981,843	981,843	–	–
Federal agency securities	704,816	–	704,816	–
Mutual funds	28,985	28,985	–	–
California Asset Management Program Investment Pool	2,147,226	–	2,147,226	–
	$ 3,962,788	$ 1,010,828	$ 2,951,960	$ –

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 Years	None	None
U.S. Treasury Obligations	5 Years	None	None
State Obligations – CA and Others	5 Years	None	None
U.S. Agency Securities	5 Years	None	None
Bankers' Acceptances	180 Days	40%	None
Commercial Paper	270 Days	25%	10%
Negotiable Certificates of Deposit	5 Years	30%	None
Non-negotiable Certificates of Deposit	5 Years	50%	None
Placement Services Deposits	5 Years	50%	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	$ 75,000,000
Capital Asset Management Plan Investment Pool	N/A	None	None

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

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market rate fluctuations is provided by the table on the following page that shows the distribution of the District's investments by maturity as of June 30, 2025.

		Remaining Maturity (in Months)			
Investment Type	Carrying Amount	12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Negotiable certificate of deposits	$ 99,918	$ 99,918	$ –	$ –	$ –
U.S. Treasury Securities	981,843	200,396	99,106	682,341	–
Federal agency securities	704,816	–	299,589	405,227	–
Mutual funds	28,985	28,985	–	–	–
California Asset Management Program Investment Pool	2,147,226	2,147,226	–	–	–
	$ 3,962,788	$ 2,476,525	$ 398,695	$ 1,087,568	$ –

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 year ended June 30, 2025 for each investment type.

				Rating as of Fiscal Year End		
Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	AA+	AAA	Not Rated
Negotiable certificate of deposits	$ 99,918	N/A	$ –	$ –	$ –	$ 99,918
U.S. Treasury Securities	981,843	N/A	981,843	–	–	–
Federal agency securities	704,816	N/A	–	704,816	–	–
Mutual funds	28,985	N/A	–	–	–	28,985
California Asset Management Program Investment Pool	2,147,226		–	–	2,147,226	–
	$ 3,962,788		$ 981,843	$ 704,816	$ 2,147,226	$ 128,903

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 financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

California law also allows financial institutions to secure District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Deposits are insured up to $250,000.

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

Note 3 – Interfund Transactions

Transfers between funds during the year ended June 30, 2025, were as follows:

Interfund Transfers:

	Transfers In	Transfers Out
Governmental Fund:		
General	$ 956,952	$ –
Proprietary Funds:		
Water	–	610,821
Sewer	–	305,410
Garbage	–	40,721
	$ 956,952	$ 956,952

Borrowing between funds during the year ended June 30, 2025, were as follows:

Advances and Due To/Due From:

	Due From	Due To	Advances Receivable	Advances Payable
Governmental Fund:				
General	$ –	$ –	$ 268,400	$ –
Proprietary Funds:				
Water	–	–	–	268,400
Sewer	–	–	–	–
Garbage	–	–	–	–
	$ -	$ -	$ 268,400	$ 268,400

Note 4 – Capital Assets

Capital assets activity for the year ended June 30, 2025 was as follows:

	Beginning July 1, 2024	Additions	Retirements/ Transfers	Ending June 30, 2025
Governmental activities:				
Capital assets not subject to depreciation				
Land	$ 610,390	$ –	$ –	$ 610,390
Total capital assets not subject to depreciation	610,390	–	–	610,390
Capital assets subject to depreciation				
Buildings and improvements	2,154,547	–	–	2,154,547
Software	6,096	–	–	6,096
Equipment, vehicles and machinery	446,061	–	–	446,061
Total capital assets subject to depreciation	2,606,704	–	–	2,606,704
Less accumulated depreciation	1,639,017	69,182	–	1,708,199
Total capital assets subject to depreciation, net	967,687	(69,182)	–	898,505
Total capital assets, net	$ 1,578,077	$ (69,182)	$ –	$ 1,508,895

	Beginning July 1, 2024	Additions	Retirements/ Transfers	Ending June 30, 2025
Business-type activities:				
Capital assets not being depreciated				
Land	$ 6,000	$ –	$ –	$ 6,000
Construction in progress	2,311,675	562,927	(2,311,675)	562,927
Total capital assets not subject to depreciation	2,317,675	562,927	(2,311,675)	568,927
Capital assets being depreciated				
Buildings and improvements	8,142,160	381,327	2,311,675	10,835,162
Software	195,918	–	–	195,918
Equipment, vehicles and machinery	1,081,408	71,813	–	1,153,221
Total capital assets subject to depreciation	9,419,486	453,140	2,311,675	12,184,301
Less accumulated depreciation	6,672,914	269,793	–	6,942,707
Total capital assets subject to depreciation, net	2,746,572	183,347	2,311,675	5,241,594
Total capital assets, net	$ 5,064,247	$ 746,274	$ –	$ 5,810,521

Note 5 – Long-Term Liabilities

The following is a summary of changes in the District's long-term liabilities for the year ended June 30, 2025:

	Beginning July 1, 2024	Additions	Reductions	Ending June 30, 2025	Current Portion	Long Term Portion
Governmental Activities:						
Compensated absences	$ 127,204	$ 21,807	$ –	$ 149,011	$ 37,253	$ 111,758
Net pension liability	74,548	–	16,540	58,008	–	58,008
Total governmental activities	$ 201,752	$ 21,807	$ 16,540	$ 207,019	$ 37,253	$ 169,766

	Beginning July 1, 2024	Additions	Reductions	Ending June 30, 2025	Current Portion	Long Term Portion
Business-Type Activities:						
Taxable revenue bond obligations	$ 750,500	$ –	$ 56,000	$ 694,500	$ 57,900	$ 636,600
Net pension liability	124,937	–	5,224	119,713	–	119,713
Total business-type activities	$ 875,437	$ -	$ 61,224	$ 814,213	$ 57,900	$ 756,313

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:

Year Ending June 30,	Principal	Interest	Total
2026	$ 57,900	$ 23,028	$ 80,928
2027	60,000	20,988	80,988
2028	62,100	18,876	80,976
2029	64,400	16,688	81,088
2030-2034	318,900	49,760	368,660
2035-2036	131,200	4,546	135,746
Total	$ 694,500	$ 133,886	$ 828,386

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 statue and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Classic Plan members with five years of total service are eligible to retire at age 50 and new members/PEPRA Plan members with five years of total service are eligible to retire at age 52, with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. Contribution rates are based on the Actuarial Valuation Report as of June 30, 2023 rolled forward to June 30, 2024 using standard update procedures. The Plans' provisions and benefits in effect at June 30, 2025, are summarized as follows:

	Miscellaneous		Safety
Hire Date	Classic Member Hired Prior to January 1, 2013*	New Member Hired On or after January 1, 2013	Classic Member Hired Prior to January 1, 2013*
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	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%	7.75%	N/A
Required employer contribution rates	11.84% + $0	7.68% + $0	$0

* 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 $0 for the Safety Plan and $78,252 for the Miscellaneous Plan for the year ended June 30, 2025.

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

At June 30, 2025, the District reported net pension assets for its proportionate shares of the net position liability (asset) of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 161,459
Safety	16,262
Total	$ 177,721

The net pension liability was measured as of June 30, 2024 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023 rolled forward to June 30, 2024 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, 2025, the District's proportionate share of the net pension liability for each Plan as of June 30, 2023 and June 30, 2024 was as follows:

	Miscellaneous	Safety
Proportion - June 30, 2023	0.00350%	0.00033%
Proportion - June 30, 2024	0.00334%	0.00022%
Change - decrease	-0.00016%	-0.00011%

For the year ended June 30, 2025, the District recognized pension expense of $204,334. 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, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 15,287	588
Changes in assumptions	4,550	–
Net difference between projected and actual earnings on retirement plan investments	10,081	–
Adjustment due to differences in proportion	167,981	–
Changes in proportion and differences between District contributions and proportionate share of contributions	–	137,580
District contributions subsequent to the measurement date	78,253	–
	$ 276,152	$ 138,168

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. $78,253 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 year ended June 30, 2026.

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:

Year ending June 30,	Amount
2026	$ 63,267
2027	5,472
2028	(5,554)
2029	(3,454)
	$ 59,731

Actuarial assumptions – The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous and Safety
Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Projected Salary Increase	Varies by Entry Age and Service
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.30% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details, please refer to the 2021 experience study report that can be found on the CalPERS website.

Long-term expected rate of return – In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. The expected real rates of return by asset class are as follows:

Asset Class	New Strategic Allocation	Real Return (a,b)
Global Equity - cap-weighted	30.0%	4.54%
Global Equity - non-cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporations	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%
Total	100.0%	

(a) An expected inflation of 2.30% was used for this period.
(b) Figures are based on the 2021 Asset Liability Management Study.

Discount rate – The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 6.90 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 (5.90 percent) or 1 percentage point higher (7.90 percent) than the current rate:

	Discount Rate-1% 5.90%	Current Discount Rate 6.90%	Discount Rate +1% 7.90%
Net pension liability - Miscellaneous	$ 675,788	$ 161,459	$ (261,910)
Net pension liability - Safety	83,266	16,262	(38,538)
Total net pension liability	$ 759,054	$ 177,721	$ (300,448)

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, 2025, the District had no amount outstanding for contributions to the pension plan required for the year ended June 30, 2025.

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.

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 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 year State water project expense totaled $1,171,170. 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 year San Luis Obispo County Flood Control and Water Conservation District expense totaled $767,594.

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.

Note 9 – Divestiture of Fire Protection Services

The District historically provided fire protection services to the community of Oceano through a contractual arrangement with the Five Cities Fire Authority (FCFA). During the year ended June 30, 2025, the District completed a multi-year process to divest its fire protection services power and transfer that responsibility to the County of San Luis Obispo through proceedings with the San Luis Obispo Local Agency Formation Commission (LAFCO).

The District maintained contractual agreements with FCFA during the transition period as follows: $1,150,000 for the year ended June 30, 2024, and $1,706,000 for the year ended June 30, 2025. Under the latter agreement, the District funded fire protection services through December 31, 2024, representing the first six months of the year.

On January 14, 2025, LAFCO approved the District's and County's plan for service for the community of Oceano, completing the divestiture. Effective upon LAFCO's approval, the District is fully divested of all fire protection services within its service area. The County of San Luis Obispo has assumed responsibility for funding the unincorporated community's share of fire protection services provided by FCFA, alongside the Cities of Arroyo Grande and Grover Beach. As a result of the divestiture, fire protection expenditures are not expected to recur in future years.

Note 10 – Risk Management and Contingencies

Risk management – The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the California Association of Mutual Water Companies Joint Powers Risk and Insurance Management Authority (JPRIMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for small California water agencies. The purpose of the JPRIMA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At June 30, 2025, 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 years and there were no reductions in the District's insurance coverage during the years ending June 30, 2025, 2024 and 2023. 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, 2025, 2024, and 2023.

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 District’s financial statements as of June 30, 2025.

Construction contingency – The District has no construction contingencies as of June 30, 2025.

Required Supplementary Information

Oceano Community Services District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual – General Fund
Year Ended June 30, 2025

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes and assessments	$ 703,778	$ 703,778	$ 1,428,003	$ 724,225
Public facility fee	–	–	4,718	4,718
Interest income	6,996	6,996	27,265	20,269
Rental income	75,693	75,693	88,432	12,739
Grant income	–	–	14,648	14,648
Other	1,200	1,200	5,503	4,303
Total revenues	787,667	787,667	1,568,569	780,902
EXPENDITURES				
Salaries, wages, and directors' stipends	500,500	500,500	474,862	25,638
Payroll taxes and employee benefits	203,493	203,493	241,612	(38,119)
Liability insurance	42,500	42,500	45,897	(3,397)
Repairs and maintenance	37,410	37,410	18,584	18,826
Administrative services	14,045	14,045	9,240	4,805
Data processing	38,250	38,250	21,131	17,119
Dues and fees	35,400	35,400	33,891	1,509
Education	14,450	14,450	11,198	3,252
Legal fees	85,000	85,000	81,137	3,863
Miscellaneous	17,230	17,230	2,849	14,381
Office expense	19,930	19,930	14,796	5,134
Street lighting	37,000	37,000	35,442	1,558
Professional fees	73,250	73,250	74,420	(1,170)
Utilities	18,000	18,000	23,414	(5,414)
Grant expense	7,111	–	8,265	(8,265)
Public safety	853,000	853,000	864,204	(11,204)
Total expenditures	1,996,569	1,989,458	1,960,942	28,516
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,208,902)	(1,201,791)	(392,373)	809,418
OTHER FINANCING SOURCES (USES)				
Transfers in	1,101,535	1,101,535	956,952	(144,583)
Transfers out	(66,092)	(66,092)	–	66,092
Total other financing sources (uses)	1,035,443	1,035,443	956,952	(78,491)
Net change in fund balance	(173,459)	(166,348)	564,579	730,927
FUND BALANCE - beginning of year	1,230,944	1,230,944	1,230,944	–
FUND BALANCE - end of year	$ 1,057,485	$ 1,064,596	$ 1,795,523	$ 730,927

Oceano Community Services District
Schedule of Proportionate Share of Net Pension Liability – Last 10 Years
As of June 30, 2025

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

	2025	2024	2023	2022	2021
Proportion of the net pension liability	0.00015%	0.00016%	0.00094%	-0.01004%	0.00763%
Proportionate share of the net pension liability (asset)	$ 177,721	$ 199,485	$ 108,549	$ (542,757)	$ 830,340
Covered payroll	$ 677,922	$ 674,032	$ 682,293	$ 674,882	$ 643,799
Proportionate share of the net pension liability as a percentage of covered payroll	26.22%	29.60%	15.91%	-80.42%	128.98%
Plan's total pension liability	$ 55,320,956,562	$ 52,441,984,274	$ 49,525,975,138	$ 46,174,942,264	$ 43,702,930,887
Plan's fiduciary net position	$ 43,193,516,203	$ 39,966,633,692	$ 37,975,170,163	$ 40,766,653,876	$ 32,822,501,335
Plan fiduciary net position as a percentage of the total pension liability	78.08%	76.21%	76.68%	88.29%	75.10%

	2020	2019	2018	2017	2016
Proportion of the net pension liability	0.00741%	0.00715%	0.00704%	0.00692%	0.00649%
Proportionate share of the net pension liability (asset)	$ 759,574	$ 689,459	$ 698,116	$ 598,558	$ 445,280
Covered payroll	$ 577,089	$ 573,557	$ 544,352	$ 437,408	$ 453,904
Proportionate share of the net pension liability as a percentage of covered payroll	131.62%	120.21%	128.25%	136.84%	98.10%
Plan's total pension liability	$ 41,426,453,489	$ 38,944,855,364	$ 37,161,348,332	$ 33,358,627,624	$ 31,771,217,402
Plan's fiduciary net position	$ 31,179,414,067	$ 29,308,589,559	$ 27,244,095,376	$ 24,705,532,291	$ 24,907,305,871
Plan fiduciary net position as a percentage of the total pension liability	75.26%	75.26%	73.31%	74.06%	78.40%

Note to Schedule

There were no changes in assumptions or benefits for the year ended June 30, 2025.

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

	2025	2024	2023	2022	2021
Contractually required contribution (actuarially determined)	$ 78,253	$ 62,794	$ 72,517	$ 68,835	$ 122,565
Contribution in relation to the actuarially determined 'contributions	(78,253)	(62,794)	(72,517)	(68,835)	(954,271)
Contribution deficiency (excess)	$ –	$ –	$ –	$ –	$ (831,706)
Covered payroll	$ 758,332	$ 677,922	$ 674,032	$ 682,293	$ 674,882
Contributions as a percentage of covered payroll	10.32%	9.26%	10.76%	10.09%	141.40%

	2020	2019	2018	2017	2016
Contractually required contribution (actuarially determined)	$ 101,217	$ 83,717	$ 73,333	$ 65,457	$ 52,723
Contribution in relation to the actuarially determined 'contributions	(101,217)	(83,717)	(73,333)	(65,457)	(52,723)
Contribution deficiency (excess)	$ –	$ –	$ –	$ –	$ –
Covered payroll	$ 643,779	$ 577,089	$ 573,557	$ 544,352	$ 437,408
Contributions as a percentage of covered payroll	15.72%	14.51%	12.79%	12.02%	12.05%

Note to Schedule

There were no changes in assumptions or benefits for the year ended June 30, 2025.

Moss, Levy & Hartzheim LLP
Certified Public Accountants

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on a Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors
Oceano Community Services District

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Oceano Community Services District (the "District"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Oceano Community Services District's basic financial statements, and have issued our report thereon dated March 11, 2026

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 financial statements. 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, CA
March 11, 2026

Conditions of Purchase

1. The only terms that will be honored are those issued by the Oceano Community Services District (District).

2. No acknowledgment of this order is required. If this purchase order is the result of a written bid or quotation, the purchase order shall serve as acceptance thereof. If this purchase order is the result of an informal oral or written quote, acceptance will be assumed unless otherwise advised within (10) days of the date of the order. Unless otherwise specified, the U.S. Mail shall be the accepted means of communication.

3. Purchase order numbers shall appear on all invoices, packages, crates, boxes, etc.

4. Invoices must include only items shown on this order. In the event any item included on this order is not delivered, please notify the District at once as to the reason for the delay and the date we can expect delivery. Do not include any item which is back ordered on your invoice. Any invoice or claim on this contract must be presented within 1 year from delivery of goods or services.

5. Changes of any kind are not authorized without permission from the District.

6. The District reserves the right to cancel any or all items not shipped within the time specified on the order.

7. No charges for transportation, containers, packing, etc. will be allowed unless specified on the order.

8. All material furnished must be as specified and will be subject to inspection and approval of the District after delivery. The right is reserved to reject and return at the risk and expense of the supplier such portion of any shipment which may be defective or fail to comply with specifications without invalidating the remainder of the order. Rejected material will be held for disposition at the expense and risk of the seller. Manufacturer's warranty shall apply to all materials incorporated into work.

9. This order is subject to sales tax, exempt from federal tax. Certificate of exemption will be provided upon request.

10. All goods and/or services shall be in compliance with all federal, state and local law including but not limited to OSHA and CAL OSHA.

11. The seller shall provide the District with a Material Safety Data Sheet for each product containing substances on the List of Hazardous Substances published by the California Administrative Code, Title S, Section 5194. These sheets must be sent to Oceano Community Services District at P O Box 599, Oceano, CA 93475-0599. Please reference the above purchase order number.

INSURANCE REQUIREMENTS

INDEMNIFICATION

To the fullest extent permitted by law, CONTRACTOR shall indemnify, defend and hold harmless the District and its officers, agents, employees, and volunteers from and against all claims, demands, damages, liabilities, loss, costs, and expense (including attorney's fees and costs of litigation) of every nature arising out of or in connection with Contractor's performance or attempted performance of work hereunder or its failure to comply with any of its obligations contained in the agreement, except such loss or damage which was caused by sole negligence or willful misconduct of the District.

LIMITATION OF LIABILITY

Notwithstanding anything to contrary in the Agreement, and to the extent permitted by applicable law, the maximum liability, if any, of either Party for any damages, including without limitation, agreement damages and damages of property, whether arising from breach of agreement, breach of warranty, negligence, strict liability, or other tort, is limited to an amount not to exceed the aggregate of TWO TIMES THE FACE VALUE OF THE AGREEMENT, which shall be the sole and exclusive remedy under the Agreement. In no event shall either Party be liable for indirect, incidental, special, punitive, or consequential dames of any kind (including without limitation downtime, property damage, loss of profit or revenue, loss of data, damage to goodwill) howsoever caused or arising from the Agreement or the breath of the Agreement, whether in indemnity, tort, contract, or otherwise. Nothing in the Agreement excludes or limits liability for death or personal injury caused by a party's gross negligence or willful misconduct.

INSURANCE COVERAGE

Contractor shall procure and maintain for the duration of the contract insurance against claims for injuries to persons or damages to property which may arise from or in connection with the performance of the work hereunder by the Contractor, its agents, representatives, or employees.

MINIMUM SCOPE AND LIMIT OF INSURANCE

Coverage shall be at least as broad as:

1. Commercial General Liability (CGL); Insurance Services Office (ISO) Form CG 0001 covering CGL on an "occurrence" basis for bodily injury and property damage, including products-completed, operations, personal injury and advertising injury, with limits no less than $1,000,000 per occurrence. If a general aggregate limit applies either the general aggregate limit shall apply separately to this project/location or the general aggregate limit shall be twice the required occurrence limit.

2. Automobile Liability: ISO Form Number CA 0001 covering, Code 1 (any auto), or if Contractor has no owned autos, Code 8 (hired) and 9 (non-owned), with limit no less than $1,000,000 per accident for bodily injury and property damages.
3. Worker Compensation insurance as required by the State of California, with Statutory Limits, and Employer's Liability insurance with limit of no less than $1,000,000 per accident for bodily injury or disease. If Contractor will provide leased employees, or is an employee leasing or temporary staffing firm or a professional employer organization (PEO), coverage shall also include an Alternate Employer Endorsement (providing scope of coverage equivalent to ISO policy form WC 00 03 O1 A) naming the District as the Alternate Employer, and the endorsement form shall be modified to provide that District will receive not less than thirty (30) days advance written notice of cancellation of this coverage provision. If applicable to Contractor's operations, coverage also shall be arranged to satisfy the requirements of any federal workers or workmen's compensation law or any federal occupational disease law.
(Not required if Contractor provides written verification it has no employees)

If the contractor maintains higher limits that the minimums shown above, the District requires and shall be entitled to coverage for the higher limits maintained by the contractor.

OTHER INSURANCE PROVISIONS

The insurance policies are to contain, or be endorsed to contain, the following provisions:

Additional Insured Status:

The District, its officers, officials, employees, and volunteers are to be covered as insureds on the auto policy with respect to liability arising out of automobiles owned, leased, hired or borrowed by, or on behalf of the Contractor; and on the CGL policy with respect to liability arising out of work or operations performed by or on behalf of the Contractor including materials, parts, or equipment furnished in connection with such work or operations. General liability coverage can be provided in the form of an endorsement to the Contractor's insurance (at least as broad as ISO Form CG 20 10, 11 85 or both CG 20 10 and CG 23 37 forms if later revisions used).

Primary Coverage

For any claims related to this contract, the Contractor's insurance coverage shall be primary insurance as respects the District, its officers, officials, employees, and volunteers. Any insurance of self-insurance maintained by the District, its officers, officials, employees, or volunteers shall be excess of the Contractor's insurance and shall not contribute with it.

Notice of Cancellation

Each insurance policy required above shall state that coverage shall not be canceled, except after thirty (30) days prior written notice (10 days for non-payment) has been given to the District.

Failure to Maintain Insurance

Contractor's failure to maintain or to provide acceptable evidence that it maintains the required insurance shall constitute a material breach of the Contract upon which the District immediately

may withhold payments due to Contractor, and/or suspend or terminate this Contract. The District, at its sole discretion, may obtain damages from Contractor resulting from said breach.

Waiver of Subrogation
Contractor hereby grants to District a waiver of any right to subrogation which any insurer of said Contractor may acquire against the District by virtue of the payment of any loss under such insurance. Contractor agrees to obtain any endorsement that may be necessary to affect this waiver of subrogation, but this provision applies regardless of whether or not the District has received a waiver of subrogation endorsement from the insurer.

Deductibles and Self-Insured Retentions
Any deductibles or self-insured retentions must be declared to and approved by the District. The District may require the Contractor to provide proof of ability to pay losses and related investigation, claim administration, and defense expenses within the retention.

Acceptability of Insurers
Insurance is to be placed with insurers with a current A.A. Best's rating of no less than A:VII, unless otherwise acceptable to the District.

Claims Made Policies
If any of the required policies provide coverage on a claims-made basis:

1. The Retroactive Date must be shown and must be before the date of the contract or the beginning of contract work;
2. Insurance must be maintained and evidence of insurance must be provided for at least five (5) years after completion of the contract of work;
3. If coverage is canceled or non-renewed, and not replaced with another claims-made policy form with a Retroactive date prior to the contract effective date, the Contractor must purchase "extended reporting" coverage for a minimum of five (5) years.

Separation of Insured's
All liability policies shall provide cross-liability coverage as would be afforded by the standard ISO (Insurance Services Office, Inc.) separate of insured's provision with no insured versus insured exclusions or limitation.

Verification of Coverage
Contractor shall furnish the District with original certificates and mandatory endorsements or copies of the applicable policy language effecting coverage required by this clause. All certificates and endorsements are to be received and approved by the District before work commences. However, failure to obtain the required documents prior to the work beginning shall not waive the Contractor's obligation to provide them. The District reserves the right to required complete, certified copies of all required insurance policies, including endorsements required by these specifications, at any time.

Certificates and copies of any required endorsements shall be sent to:

Oceano Community Services District
P.O. Box 599
Oceano, CA 93475-0599

Subcontractors
Contractor shall require and verify that all subcontractors maintain insurance meeting all the requirements stated herein.

Special Risks or Circumstances
District reserves the right to modify these requirements, including limits, based on the nature of the risk, prior experience, insurer, coverage, or other special circumstances.