OCEANO COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
JUNE 30, 2019

OCEANO COMMUNITY SERVICES DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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Moss, Levy & Hartzheim LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors of Oceano Community Services District
Oceano, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Oceano Community Services District (the District), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Oceano Community Services District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, the budgetary comparison information on page 41, the schedule of proportionate share of net pension liability on page 42, and the schedule of pension contributions on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries of the basis financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2019, on our consideration of the Oceano Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim LLP

Santa Maria, California
December 19, 2019

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, 2019. 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 governed by a five (5) member Board of Directors elected by voters within the District's boundaries, all Board members must reside within the District's boundaries. The District is governed by California Government Code Sections 61000 et al, as well as other specific statutes and regulations that govern its operations.

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

District Services and Related Agencies

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

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

Emergency Medical and Fire Protection Services

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

The District pays a portion of the annual costs of FCFA services based on funding formula established in the FCFA agreement, which was modified in the June 12, 2019 amendment. That amendment also requires 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 can continue to participate as a member of the FCFA. If additional funding is not approved, the amendment terminates the District as a member effective July 1, 2021.

The JPA amendments were needed for several reasons, including multi-year implementation of the FCFA "Strategic Plan." The "Strategic Plan" includes increased staffing and services levels greater than those provided in the existing JPA. The amendments include specific approval of each members annual costs during the implementation period and addresses how funding will be affected depending on the outcome of the March 2020 special tax measure for the District. The increase in District costs during the implementation period is being funded from reserves to the extent that the costs exceed property tax revenues received by OCSD.

On a related effort, the County of San Luis Obispo Board of Supervisors prepared a report on independent fire departments serving unincorporated communities throughout the County and significant constraints in generating the needed revenues to fund full-time fire departments. In October of 2019 the District passed a resolution to place a measure establishing a special tax for emergency medical and fire protection services on the March 2020 election in order to determine whether the community is willing to generate the additional revenues to continue providing emergency medical and fire protection services to the community. Alternatives of a stand-alone fire department and/or service from the County/ Cal Fire are also options if the measure passes.

Lighting Services

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

Parks and Recreation Services

The District is authorized to provide parks and recreation services, however currently has no programs at this time other than those implemented by Lucia Mar Unified School District (LMUSD). The District holds a lease with LMUSD for the Oceano Community Center and as part of the lease requirements LMUSD utilizes the community center for recreation programs. There is a section in the lease where the District may also utilize the community center. Recent Board direction was given to pursue the use of the community center for the maximum of 120 hours per year.

Water Services

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

The District's water supplies include groundwater, Lopez water and State water. Regulation of the District's groundwater supply is also subject to the stipulations and judgment adopted for the adjudication of the Santa Maria groundwater basin. Lopez and State water supplies are provided by the County of San Luis Obispo under terms of water supply contracts. The

District's water supply reliability is relatively high and the District had been increasing water in storage during the recent drought. Nevertheless, the need to address water supply reliability continues and contract amendments for the State Water Project are being developed by the State Department of Water Resources and, separately, contract amendments for the Lopez Lake water supply are being considered by local agencies to establish water storage rights and enhance multi-year water resource planning.

As discussed in the overview of financial statements, the Water Fund is incurring a deficit and a water rate increase will be necessary in the near future. Factors affecting the financial status of the water fund include revenue shortfalls that are resulting from continued water conservation by the community post drought. In addition, cost increases for sources of supply, operations and maintenance, unanticipated capital expenditures and the need to establish funding for the District's infrastructure replacement projects will be considered to ensure appropriate levels of funding are established.

Wastewater Collection Services

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

Solid Waste and Recycling Services

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

Overview of the Financial Statements

This annual report contains the following five parts.

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

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

The notes to the financial statements provide additional detailed information and explanations on the financial statements. The budget to actual comparison illustrates differences between the board adopted budget and actual revenues, expenditures, and changes in fund balance in the General fund. The current year reflects a positive budget variance of $167,630 for the Governmental Fund. Of this amount, $85,722 was utilized to repay a portion of an interfund loan owed by the Governmental Fund to the Sewer Fund.

Financial Statement Analysis and Highlights

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

Statements of Net Position as of June 30, 2019 and 2018				
	Governmental Activities		Business-type Activities	
	2019	2018	2019	2018
Current and other assets	$ 940,770	$ 814,267	2,972,920	3,318,359
Capital assets, net	1,740,909	1,748,522	2,794,734	2,777,694
Total Assets	2,681,679	2,562,789	5,767,654	6,096,053
Deferred Outflow of Resources	18,530	21,970	189,939	211,006
Current liabilities	46,392	45,255	185,001	161,535
Non-current liabilities	183,439	169,565	577,536	591,656
Total Liabilities	229,831	214,820	762,537	753,191
Deferred inflow of resources	8,280	8,768	38,982	41,964
Invested in capital assets, net	1,740,909	1,748,522	2,788,057	2,762,451
Restricted	241,441	242,685	15,574	230,866
Unrestricted	479,748	369,964	2,352,443	2,518,587
Net Position	$ 2,462,098	$ 2,361,171	$ 5,156,074	$ 5,511,904

The Net Position of the District's Governmental Activities changed in the year ending June 30, 2019 as a result of an operating surplus of $100,927.

The Net Position of the Enterprise Funds remained fairly consistent with the previous year. The difference is assets was from the use of the state water deposit held by the County of San Luis Obispo for the budget adjustment in December of 2018 for the invoice for State Water from the Department of Water resources made of most of the difference from this year to last. As illustrated below, current liabilities in the Water Fund held more deposits with customers for development. Many of these developments were not connected before June 30, 2019 and the connection fee revenues will be collected in the next fiscal year when the customer connects to the system.

Statements of Net Position as of June 30, 2019 and 2018						
	Water Fund		Wastewater Fund		Garbage Fund	
	2019	2018	2019	2018	2019	2018
Current and other assets	$ 1,660,585	$ 1,915,099	$ 1,386,005	$ 1,530,473	$ 377,568	$ 377,590
Capital assets, net	1,467,461	1,411,803	1,338,745	1,359,978	4,102	5,913
Total Assets	3,128,046	3,326,902	2,724,750	2,890,451	381,670	383,503
Deferred Outflow of Resources	103,333	115,290	75,867	83,861	10,739	11,855
Current Liabilities	204,066	178,928	8,398	10,597	1,381	914
Non-current liabilities	759,952	806,281	228,987	233,898	26,565	27,376
Total Liabilities	964,018	985,209	237,385	244,495	27,946	28,290
Deferred inflow of resources	18,894	20,586	12,198	13,330	7,890	8,048
Invested in capital assets, net	1,447,713	1,402,276	1,336,659	1,355,214	3,685	4,961
Restricted	15,574	230,866	-	-	-	-
Unrestricted	785,180	803,255	1,214,375	1,361,273	352,888	354,059
Net Position	$ 2,248,467	$ 2,436,397	$ 2,551,034	$ 2,716,487	$ 356,573	$ 359,020

Following the District's Statements of Net Position are the Statements of Revenues, Expenses and Changes in Net Position.

Statements of Revenues, Expenses, and Changes in Net Position for the years ending June 30, 2019 and 2018				
	Governmental Activities		Business-type Activities	
	2019	2018	2019	2018
Operating Revenues	$ 106,323	$ 27,280	$ 2,841,673	$ 2,776,890
Operating Expenditures:				
Administrative Expenditures	(934,643)	(1,015,249)		
Fire Protection	(1,018,439)	(873,719)		
Street Lighting	(38,499)	(30,898)		
Enterprise Funds			(2,481,853)	(2,172,680)
Net Operating Income / (Loss)	(1,885,258)	(1,892,586)	359,820	604,210
Ad valorem taxes	1,028,371	1,012,251		
Other non-operating income	192,188	147,612	49,976	40,837
Transfers	765,626	764,192	(765,626)	(764,192)
Total Non-Operating Income	1,986,185	1,924,055	(715,650)	(723,355)
Change in Net Position	$ 100,927	$ 31,469	$ (355,830)	$ (119,145)

In summary, the Governmental Activities went from a Net Income of $31,469 to a Net Income of $100,927 in 2019. The increase in income is related to savings in a part-time General Manager and the new allocation of direct labor costs that was adopted in the 2018-19 budget which was based on actual working hours for the past 3 years. The Governmental Activities also received grant revenues for the purchase of the Emergency Generator and the preparation of the Local Hazard Mitigation Plan.

The Enterprise Funds went from a Net Loss for the prior fiscal year of $119,145 to a Net Loss of $355,830. The Enterprise Funds are broken out by fund in the table below.

Statements Revenues, Expenses, and Changes in Net Position as of June 30, 2019 and 2018						
	Water Fund		Wastewater Fund		Garbage Fund	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Operating Revenues	$ 2,243,736	$ 2,290,612	$ 398,818	$ 393,600	$ 94,801	$ 92,678
Operating Expenditures	2,556,327	2,273,374	592,332	580,342	97,308	80,449
Net Operating Income / (Loss)	(312,591)	17,238	(193,514)	(186,742)	(2,507)	12,229
Other non-operating income	125,985	7,661	28,218	33,070	91	106
Non-operating Expenditures	(1,324)	(2,381)	(157)	(272)	(31)	(54)
Net Non-Operating Income	124,661	5,280	28,061	32,798	60	52
Net Income / (Loss)	$ (187,930)	$ 22,518	$ (165,453)	$ (153,944,)	$ (2,447)	$ 12,281

The decrease in net income of $210,448 in the Water Fund reflects the increase in water supplies with State Water costs and pumping costs. Other factors affecting the financial status of the water fund include revenue shortfalls that are resulting from continued water conservation by the community even after the drought ended and unanticipated capital expenditures. The cost from the administrative allocation included in the Operating Expenses was increased in the 2018-19 fiscal year budget from 45% to 60% to better reflect the work and time spent on water services.

The Wastewater Fund continues to incur a Net Loss because the revenues are not increased every year similar to the Water Fund. The cost from the administrative allocation included in the Operating Expenses is a significant cost for the Wastewater Fund and was reduced in the 2018-19 fiscal year budget from 40% to 30%. A change in indirect charges will increase cost allocations to the water fund, which reflect a greater share of the District's overall enterprise activities. In addition, the wastewater fund receives approximately $90,000 from the General Fund loan repayment to help cover the cost of the deficit.

The Garbage Fund's Net Income decreased from the prior year because the District has been moving forward on the Solid Waste Programs adopted by the Board on February 8, 2017. These programs include policies to address illegal dumping, unsanitary conditions and related solid waste problems in the District.

Capital Assets

The District owns the community fire station, administrative offices, Sheriff's substation, the Oceano Depot, the Community Center the old fire station and some undeveloped land. The community fire station is provided to FCFA for their use for $15,000 per year. The Sheriff substation is leased to the County of San Luis Obispo for $113,400 per year. The Oceano Depot and Community Center are leased to a non-governmental agency and the Lucia Mar Unified School District at $1 per year each based on the multi-party agreements developed for those properties in conjunction with grants that funded the development of the community center and the preservation of the historic Oceano train depot.

The water and wastewater infrastructure of the District ranges drastically in age. Many of the water and wastewater system pipelines were originally constructed in the 1950's. The District completed water and wastewater system master plans in 2009 but revenue shortfalls have deferred infrastructure replacement projects. Currently, the District is developing an updated capital improvement program for infrastructure replacement, which is being substantially funded with grants approved by the State of California. The District anticipates completing preparation of a capital improvement program and addressing revenue requirements for infrastructure replacement in fiscal year 2019-20.

Debt Activities

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

Internal debt, or borrowing between District funds, is more significant. Footnote #3 to the Financial Statements illustrates interfund liabilities. During the year ending June 30, 2019, the District recorded the following 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, 2018	Interfund Transfers Out	Interfund Transfers In	Ending Balances – June 30, 2019
General Fund Due to Sewer Fund	$ (470,297)	$ 85,722	$ - 0 -	$ (384,575)
General Fund Due from Water Fund	459,307	- 0 -	30,581	428,726
Net General Fund Due to Other Funds	(10,990)	85,722	30,581	(44,151)
Water Fund Due to the General Fund	(459,307)	30,581	$ - 0 -	(428,726)
Water Fund Due to Garbage Fund	(45,495)	7,409	- 0 -	(38,086)
Sewer Fund Due from General Fund	470,297	- 0 -	85,722	384,575
Garbage Fund Due from Water Fund	45,495	- 0 -	7,409	38,086
Totals	$ - 0 -	$ 123,712	$ 123,712	$ - 0 -

Budget and Rates

The District's budget for the year ending June 30, 2019 reflects the water system rate increase that was approved by the Board of Directors on April 20, 2015, as adjusted based on increases in the consumer price index and wholesale water costs. The annual increases are prescribed in Ordinance 2015-01, and in accordance with California Government Code section 53756. The following illustrates the Water Fund change in net position before and after the April 2015 rate increase:

Fiscal Year	Surplus/ (Deficit)
2014/15	$ (182,216)
2015/16	93,228
2016/17	186,858
2017/18	22,518
2018/19	(187,930)

This year the decrease in net position was caused by the cost of water supply compared to 2017-18 and by revenue shortfalls that are resulting from continued water conservation by the community even after the drought. Establishing fiscal stability in the future for the Water Fund will be important so that the District can move forward with evaluating long-term infrastructure needs since the system has significant deferred maintenance and replacement. For those upcoming efforts, the District has secured approximately $375,000 in grants from state agencies for the water system and related needs.

No rate changes affected the wastewater fund for the fiscal year ending June 30, 2019. 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)

The decreasing financial status of the wastewater fund resulted because rental revenues from the Sheriff substation are now dedicated to repaying the General Fund's interfund loan due to the wastewater fund. The future annual transfers from the General Fund to the wastewater fund are shown below:

Year Ending	Beginning Balance	Interest Payment	Principal Payment	Total Payment	Ending Balance
June 30, 2020	$ 384,575	$ 23,075	$ 90,865	$ 113,940	$ 293,710
June 30, 2021	293,710	17,622	96,318	113,940	197,392
June 30, 2022	197,392	11,844	102,096	113,940	95,296
June 30, 2023	$ 95,296	$ -0-	$ 95,296	95,296	$ -0-

The operating shortfall for the sewer fund needs to be addressed in the future. The District's budget for fiscal year 2019-20 includes modifications to the District's indirect charges to the sewer fund that will reduce those costs while increasing indirect cost allocations to the water fund, which reflect a greater share of the District's overall enterprise activities. In addition, addressing deferred infrastructure needs of the sewer fund will also become a higher priority, which may also require sewer fund rate increases in the near future.

An increase of 10.06% in garbage rates for the SCSS Inc. were approved on June 26, 2019, and inflationary adjustments will also go into effect on January 1, 2020 and January 1, 2021. In January of 2020 the District is considering a possible decrease in garbage rates by decreasing franchise fees received from SCSS Inc.

Future Outlook

Overall, the District's financial outlook has maintained a relatively stable short-term position during the year ending June 30, 2019. The primary enterprise fund challenges relate to deferred infrastructure repairs and replacement of the water and wastewater funds and long-term costs. Currently, the District is evaluating deferred infrastructure needs and is utilizing grants obtained from the State of California for much of this effort. Identifying costs and rate impacts to fund the deferred infrastructure is anticipated to be complete in 2020. Community workshops have taken place and will continue during the District's work efforts to provide residents and property owners with information on District needs, estimated fiscal impacts and to obtain community input. The future of the fire departments operation will also be a significant District effort during 2020 and 2021.

OCEANO COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
June 30, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	$ 566,918	$ 2,402,753	$ 2,969,671
Restricted cash and investments	240,162		240,162
Accounts receivable, net	62,246	476,169	538,415
Prepaid items	27,294	98,312	125,606
Deposits		15,574	15,574
Inventory		24,262	24,262
Internal balances	44,150	(44,150)	
Capital assets:			
Non Depreciable:			
Land	610,390	6,000	616,390
Construction in progress		215,210	215,210
Depreciable:			
Buildings and improvements	2,088,370	7,095,321	9,183,691
Equipment, vehicles and machinery	302,452	861,048	1,163,500
Software		195,918	195,918
Accumulated depreciation	(1,260,303)	(5,578,763)	(6,839,066)
Total assets	2,681,679	5,767,654	8,449,333
DEFERRED OUTFLOW OF RESOURCES			
Deferred pensions	18,530	189,939	208,469
Total deferred outflow of resources	18,530	189,939	208,469
LIABILITIES			
Accounts payable	25,472	24,714	50,186
Accrued wages and benefits	8,425	3,786	12,211
Deposits	3,000	149,824	152,824
Unearned revenue	9,495		9,495
Noncurrent liabilities:			
Due within one year		6,677	6,677
Due in more than one year	183,439	577,536	760,975
Total liabilities	229,831	762,537	992,368
DEFERRED INFLOW OF RESOURCES			
Deferred pensions	8,280	38,982	47,262
Total deferred inflow of resources	8,280	38,982	47,262
NET POSITION			
Net investment in capital assets	1,740,909	2,788,057	4,528,966
Restricted for:			
Capital facilities	241,441		241,441
Water joint venture agreement		15,574	15,574
Unrestricted	479,748	2,352,443	2,832,191
Total net position	$ 2,462,098	$ 5,156,074	$ 7,618,172

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, 2019

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Contributions and Grants**	**Capital Contributions and Grants**
Governmental activities:				
Administration	$ 934,643	$ -	$ 47,904	$ 58,419
Fire protection	1,018,439			
Street lighting	38,499			
Total governmental activities	1,991,581		47,904	58,419
Business-type activities:				
Water	2,180,681	2,172,241	175,813	
Sewer	253,497	394,174	4,644	
Garbage	47,675		94,801	
Total business-type activities	2,481,853	2,566,415	275,258	
Total governmental	$ 4,473,434	$ 2,566,415	$ 323,162	$ 58,419

General Revenues:
Taxes:
Property
Use of money and property
Other general revenues
Transfers

Total general revenues and transfers

Change in net position

Net position - beginning of fiscal year

Net position - end of fiscal year

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

Net (Expenses) Revenue and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
$ (828,320)	$ -	$ (828,320)
(1,018,439)		(1,018,439)
(38,499)		(38,499)
(1,885,258)		(1,885,258)
	167,373	167,373
	145,321	145,321
	47,126	47,126
	359,820	359,820
(1,885,258)	359,820	(1,525,438)
1,028,371		1,028,371
184,163	30,678	214,841
8,025	19,298	27,323
765,626	(765,626)	
1,986,185	(715,650)	1,270,535
100,927	(355,830)	(254,903)
2,361,171	5,511,904	7,873,075
$ 2,462,098	$ 5,156,074	$ 7,618,172

OCEANO COMMUNITY SERVICES DISTRICT
GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2019

		General Fund
ASSETS		
Cash and investments	$	566,918
Restricted cash and investments		240,162
Accounts receivable		62,246
Prepaid items		27,294
Due from other funds		428,725
Total assets	$	1,325,345
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	$	25,472
Accrued payroll and benefits		8,425
Deposits		3,000
Unearned revenue		9,495
Due to other funds		384,575
Total liabilities		430,967
Fund Balance:		
Nonspendable:		
Prepaid items		27,294
Restricted:		
Capital facilities		241,441
Assigned:		
Infrastructure replacement		303,937
Unassigned		321,706
Total fund balance		894,378
Total liabilities, deferred inflows of resources, and fund balance	$	1,325,345

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, 2019

Total fund balance - governmental fund			$	894,378
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	$	3,001,212		
Accumulated depreciation		(1,260,303)		
Net				1,740,909
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	$	71,516		
Net pension liability		111,923		
Total				(183,439)
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 $18,530 and inflows of resources of $(8,280) relating to pensions are reported.				10,250
Total net position - governmental activities			$	2,462,098

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, 2019

		General Fund
Revenues:		
Taxes and assessments	$	1,028,371
Public facility fee		20,061
Interest income		44,498
Rental income		139,665
Grant income		86,262
Other		8,025
Total revenues		1,326,882
Expenditures:		
Salaries, wages and directors' stipends		392,111
Payroll taxes and employee benefits		153,917
Liability insurance		22,608
Repairs and maintenance		17,300
Administrative services		10,182
Data processing		15,306
Dues and fees		26,028
Education		3,505
Legal fees		85,582
Miscellaneous		1,228
Office expense		9,299
Street lighting		37,905
Professional fees		110,465
Utilities		24,287
Public safety		987,362
Capital outlay		41,839
Interest expense		28,218
Total expenditures		1,967,142
Excess of revenues over (under) expenditures		(640,260)
Other Financing Sources (Uses):		
Transfers in		765,626
Total other financing sources (uses)		765,626
Net change in fund balance		125,366
Fund balance - July 1		769,012
Fund balance - June 30	$	894,378

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, 2019

Total net change in fund balance - governmental fund	$	125,366
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 $41,839 is less than depreciation expense $(49,452) in the period.		(7,613)
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 $15,089.		(15,089)
In the governmental fund, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:		(1,737)
Changes in net position - governmental activities	$	100,927

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, 2019

	Water Fund	Sewer Fund	Garbage Fund	Totals
ASSETS				
Current assets:				
Cash and investments	$ 1,137,527	$ 939,821	$ 325,405	$ 2,402,753
Accounts receivable, net	403,253	58,887	14,029	476,169
Prepaid expenses	98,029	236	47	98,312
Inventory	21,776	2,486		24,262
Due from other funds		384,575	38,087	422,662
Total current assets	1,660,585	1,386,005	377,568	3,424,158
Noncurrent assets:				
Joint venture deposits	15,574			15,574
Non depreciable capital assets:				
Land	6,000			6,000
Construction in progress	139,841	75,369		215,210
Depreciable capital assets:				
Buildings and improvements	4,422,331	2,672,990		7,095,321
Equipment, vehicles and machinery	545,410	294,662	20,976	861,048
Software	156,734	39,184		195,918
Accumulated depreciation	(3,818,429)	(1,743,460)	(16,874)	(5,578,763)
Total noncurrent assets	1,467,461	1,338,745	4,102	2,810,308
Total assets	3,128,046	2,724,750	381,670	6,234,466
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pensions	103,333	75,867	10,739	189,939
Total deferred outflows of resources	103,333	75,867	10,739	189,939
LIABILITIES				
Current liabilities:				
Accounts payable	22,513	1,523	678	24,714
Accrued wages and benefits	2,911	589	286	3,786
Customer deposits	145,624	4,200		149,824
Due to other funds-current portion	28,844			28,844
Capital lease - current portion	4,174	2,086	417	6,677
Total current liabilities	204,066	8,398	1,381	213,845
Noncurrent liabilities:				
Due to other funds - non-current portion	437,968			437,968
Net pension liability	321,984	228,987	26,565	577,536
Total noncurrent liabilities	759,952	228,987	26,565	1,015,504
Total liabilities	964,018	237,385	27,946	1,229,349
DEFERRED INFLOWS OF RESOURCES				
Deferred pensions	18,894	12,198	7,890	38,982
Total deferred inflows of resources	18,894	12,198	7,890	38,982
NET POSITION				
Net investment in capital assets	1,447,713	1,336,659	3,685	2,788,057
Restricted	15,574			15,574
Unrestricted	785,180	1,214,375	352,888	2,352,443
Total net position	$ 2,248,467	$ 2,551,034	$ 356,573	$ 5,156,074

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, 2019

	Water Fund	Sewer Fund	Garbage Fund	Totals
Operating Revenues:				
Charges for services	$ 2,172,241	$ 394,174	$ -	$ 2,566,415
Other fees	71,495	4,644	94,801	170,940
Total operating revenues	2,243,736	398,818	94,801	2,737,355
Operating Expenses:				
Salaries and wages	163,192	49,836	10,625	223,653
Payroll taxes and employee benefits	81,511	34,855	13,138	129,504
Repairs and maintenance	136,628	17,069	367	154,064
Legal and professional	127,144	19,598	7,823	154,565
Dues and fees	10,321	2,836		13,157
Education	150		9,980	10,130
Water meters	10,992			10,992
Wheeled water expense	19,407			19,407
Office expense	475	31	462	968
Supplies	24,388	4,135	1,380	29,903
Utilities	55,612	2,541	2,058	60,211
Water supply expense	1,426,867			1,426,867
Miscellaneous				
Bad debt	1,092	255		1,347
Depreciation	121,578	122,184	1,811	245,573
Total operating expenses	2,179,357	253,340	47,644	2,480,341
Operating income (loss)	64,379	145,478	47,157	257,014
Non-Operating Revenues (Expenses):				
Grant income	104,318			104,318
Interest income	2,369	28,218	91	30,678
Interest expense	(1,324)	(157)	(31)	(1,512)
Other non-operating revenue	19,298			19,298
Total non-operating revenues (expenses)	124,661	28,061	60	152,782
Income before transfers	189,040	173,539	47,217	409,796
Transfers:				
Transfers in	1,636		817	2,453
Transfers (out)	(378,606)	(338,992)	(50,481)	(768,079)
Total transfers	(376,970)	(338,992)	(49,664)	(765,626)
Change in net position	(187,930)	(165,453)	(2,447)	(355,830)
Net position - July 1	2,436,397	2,716,487	359,020	5,511,904
Net position - June 30	$ 2,248,467	$ 2,551,034	$ 356,573	$ 5,156,074

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, 2019

	Water Fund	Sewer Fund	Garbage Fund	Totals
Cash Flows From Operating Activities:				
Receipts from customers	$ 2,223,187	$ 396,886	$ 94,621	$ 2,714,694
Payments to suppliers	(1,646,589)	(45,364)	(21,402)	(1,713,355)
Payments to employees	(238,406)	(81,454)	(23,215)	(343,075)
Net cash provided by operating activities	338,192	270,068	50,004	658,264
Cash Flows From Capital and Related Financing Activities:				
Grants received	104,318			104,318
Acquisition of capital assets	(161,662)	(100,951)		(262,613)
Principal paid on capital debt	(5,353)	(2,678)	(535)	(8,566)
Interest paid on capital debt	(314)	(157)	(31)	(502)
Net cash (used) by capital and related financing activities	(63,011)	(103,786)	(566)	(167,363)
Cash Flows from Noncapital Financing Activities:				
Transfers from (to) other funds	(414,961)	(253,270)	(42,255)	(710,486)
Interfund interest paid	(1,010)			(1,010)
Other revenue	19,298			19,298
Net cash (used) by noncapital financing activities	(396,673)	(253,270)	(42,255)	(692,198)
Cash Flows From Investing Activities:				
Interest income	2,369	28,218	91	30,678
Net cash provided by investing activities	2,369	28,218	91	30,678
Net increase (decrease) in cash and cash equivalents	(119,123)	(58,770)	7,274	(170,619)
Cash and cash equivalents - July 1	1,256,650	998,591	318,131	2,573,372
Cash and cash equivalents - June 30	$ 1,137,527	$ 939,821	$ 325,405	$ 2,402,753
Reconciliation to Statement of Net Position:				
Cash and investments	$ 1,137,527	$ 939,821	$ 325,405	$ 2,402,753

(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, 2019

	Water Fund	Sewer Fund	Garbage Fund	Totals
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ 64,379	$ 145,478	$ 47,157	$ 257,014.00
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation expense	121,578	122,184	1,811	245,573
Change in assets, liabilities, deferred inflows of resources, and deferred outflows of resources:				
Receivables, net	(51,109)	(627)	(180)	(51,916)
Prepaid expenses	(20,080)	641	67	(19,372)
Inventories	(229)	(38)		(267)
Joint venture deposits	191,235			191,235
Deferred outflows	11,957	7,994	1,116	21,067
Accounts payable	(5,531)	243	601	(4,687)
Accrued wages and benefits	256	(801)	(16)	(561)
Customer deposits	31,652	(1,050)		30,602
Net pension liability	(4,224)	(2,824)	(394)	(7,442)
Deferred inflows	(1,692)	(1,132)	(158)	(2,982)
Net cash provided (used) by operating activities	$ 338,192	$ 270,068	$ 50,004	$ 658,264

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, and 80.

B. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

a. All governmental funds are accounted for using a "current financial resources" measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. All proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or non-current) associated with the operation of these funds are reported. Proprietary fund equity is classified as net position.

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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

C. Basis of Presentation

Government-wide Statements:

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

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

Fund Financial Statements:

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

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

Proprietary Funds

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property Taxes

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, 2019, the District held cash in financial institutions in excess of federally insured limits.

F. Accounts and Interest Receivable

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Prepaid Expenses and Inventory

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

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

H. Capital Assets

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

Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

I. Accumulated Compensated Absences

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

J. Long-Term Liabilities

In the government-wide financial statements, long-term liabilities are presented for both governmental and proprietary fund types. In the fund financial statements, only the proprietary funds show long-term liabilities. Initial issue bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method. Amortization of bond premiums or discounts and deferred amounts on refunding are included in interest expense.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Pensions

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

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

Valuation Date:	June 30, 2017
Measurement Date:	June 30, 2018
Measurement Period:	July 1, 2017 through June 30, 2018

L. Deferred Outflows and Inflows of Resources

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

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category, refer to Note 8 for a detailed listing of the deferred outflows of resources the District has recognized.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 8 for a detailed listing of the deferred inflows of resources the District has recognized.

M. Interfund Transactions

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

N. Equity Classifications

Government-Wide Statements

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

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

Governmental Fund Statements

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Equity Classifications (continued)

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

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

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

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

O. Future Accounting Pronouncements

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

Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 89	"Accounting for Interest Cost Incurred before the End of a Construction Period"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 90	"Majority Equity Interests-an Amendment of GASB Statements No. 14 and No. 61"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 91	"Conduit Debt Obligations"	The provisions of this statement are effective for fiscal years beginning after December 15, 2020.

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, 2019, is as follows:

Cash in bank and on hand	$ 530,030
Investments	2,679,803
Total cash and investments, Statement of Net Position	$ 3,209,833

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 had investments in the San Luis Obispo County Investment Pool, money market funds, and bank time deposits, however, these external pools or deposits measured at amortized cost are not required to be measured under Level 1, 2 or 3.

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	30%	None
Placement Services Deposits	5 years	30%	None
Repurchase and Reserve Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
State Registered Warrants, Notes or Bonds	N/A	None	None
Notes and Bonds for other Local California Agencies	5 years	None	None
Local Agency Investment Fund	5 years	None	None

Disclosure Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market rate fluctuations is provided by the table on the following page that shows the distribution of the District's investments by maturity as of June 30, 2019.

		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	$ 24,204	$ -	$ -	$ 24,204	$ -
Money market	269,445	269,445			
San Luis Obispo County Investment Pool	2,386,154	2,386,154			
	$ 2,679,803	$ 2,655,599	$ -	$ 24,204	$ -

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, 2019 for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End: AAA	Rating as of Fiscal Year End: Aa	Rating as of Fiscal Year End: Not Rated
Non-Negotiable Certificate of Deposit	$ 24,204	N/A	$ -	$ -	$ -	$ 24,204
Money market	269,445	N/A				269,445
San Luis Obispo County Investment Pool	2,386,154					2,386,154
	$ 2,679,803		$ -	$ -	$ -	$ 2,679,803

Concentration of Credit Risk

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

Custodial Credit Risk

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

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

NOTE 3 – INTERFUND TRANSACTIONS

Transfers between funds during the fiscal year ended June 30, 2019, were as follows:

Interfund Transfers:

Governmental Fund:	Transfers In	Transfers Out
General	$ 765,626	$ -
Proprietary Funds:		
Water	1,636	378,606
Sewer		338,992
Garbage	817	50,481
	$ 768,079	$ 768,079

NOTE 3 – INTERFUND TRANSACTIONS (Continued)

Borrowing between funds during the fiscal year ended June 30, 2019, was as follows:

Due To/Due From:

	Due From	Due To
Governmental Fund:		
General	$ 428,725	$ 384,575
Proprietary Funds:		
Water		466,812
Sewer	384,575	
Garbage	38,087	
	$ 851,387	$ 851,387

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2019 was as follows:

Governmental activities:

	Balance at July 1, 2018	Additions	Retirements	Balance at June 30, 2019
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	$ -	$ -	$ 2,088,370
Vehicles and equipment	260,613	41,839		302,452
Total capital assets being depreciated	2,348,983	41,839		2,390,822
Less accumulated depreciation	1,210,851	49,452		1,260,303
Total capital assets being depreciated, net	$ 1,138,132	$ (7,613)	$ -	$ 1,130,519
Net capital assets	$ 1,748,522	$ (7,613)	$ -	$ 1,740,909

Business-type activities:

	Balance at July 1, 2018	Additions	Retirements/ Transfers	Balance at June 30, 2019
Capital assets not being depreciated				
Land	$ 6,000	$ -	$ -	$ 6,000
Construction in progress	139,786	214,038	(138,614)	215,210
Total capital assets not being depreciated	$ 145,786	$ 214,038	$ (138,614)	$ 221,210
Capital assets being depreciated				
Buildings and improvements	$ 6,924,112	$ 32,595	$ 138,614	$ 7,095,321
Software	195,918			195,918
Vehicles and equipment	845,068	15,980		861,048
Total capital assets being depreciated	7,965,098	48,575	138,614	8,152,287
Less accumulated depreciation	5,333,190	245,573		5,578,763
Total capital assets being depreciated, net	$ 2,631,908	$ (196,998)	$ 138,614	$ 2,573,524
Net capital assets	$ 2,777,694	$ 17,040	$ -	$ 2,794,734

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, 2019:

	Balance at July 1, 2018	Additions	Reductions	Balance at June 30, 2019	Current Portion	Long Term Portion
Governmental Activities:						
Compensated Absences	$ 56,427	$ 37,975	$ 22,886	$ 71,516	$ -	$ 71,516
Net Pension Liability	113,138	12,372	13,587	111,923		111,923
Total Governmental Activities	$ 169,565	$ 50,347	$ 36,473	$ 183,439	$ -	$ 183,439
Business-Type Activities:						
Capital Lease Payable	$ 15,243	$ -	$ 8,566	$ 6,677	$ 6,677	$ -
Net Pension Liability	584,978	62,688	70,130	577,536		577,536
Total Business-Type Activities	$ 600,221	$ 62,688	$ 78,696	$ 584,213	$ 6,677	$ 577,536

NOTE 6 – CAPITAL LEASE PAYABLE

In November 2014, the District acquired a vehicle under a capital lease obligation. The capital lease obligation has been recorded in the accompanying financial statements at the present value of future minimum lease payments. The cost of the asset acquired under the lease totaled $55,626 at a 4.423% interest to repaid in 60 monthly payments of $756. As of June 30, 2019, the outstanding principal payable was $6,677. The future minimum lease payments under the capital lease obligations and the net present value of the future minimum lease payments are as follows:

Vehicle Capital Lease	
For the Fiscal Year Ending June 30	Amount
2020	$ 6,801
Total future minimum lease payments	6,801
Less amount representing interest	(124)
Present value of future minimum lease payments	$ 6,677

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.

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, 2017. The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Miscellaneous	
	Classic Member	New Member
Hire Date	Hired Prior to January 1, 2013*	Hired On or after January 1, 2013
Benefit formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.46% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.50%
Required employer contribution rates	8.892% + $30,932	6.842% + $751

	Safety
	Classic Member
Hire Date	Hired Prior to January 1, 2013*
Benefit formula	2% @ 50
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50-55
Monthly benefits, as a % of eligible compensation	2.0-2.7%
Required employee contribution rates	N/A
Required employer contribution rates	$ 7,302

* 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 $7,046 for the Safety Plan and $76,671 for the Miscellaneous Plan for the fiscal year ended June 30, 2019.

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

At June 30, 2019, the District reported net pension liabilities for its proportionate shares of the net position liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 598,795
Safety	90,664
Total	$ 689,459

NOTE 7 – PENSION PLANS (Continued)

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

The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 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, 2018, the District's proportionate share of the net pension liability for each Plan as of June 30, 2017 and June 30, 2018 was as follows:

	Miscellaneous	Safety
Proportion-June 30, 2017	0.01540%	0.00152%
Proportion-June 30, 2018	0.01589%	0.00155%
Change-Increase (Decrease)	0.00049%	0.00003%

For the fiscal year ended June 30, 2019, the District recognized pension expense of $96,098. 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, 2019, 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	$ 24,923	$ 7,826
Changes in assumptions	77,160	17,930
Net difference between projected and actual earnings on retirement plan investments	3,574	
Adjustment due to differences in proportion	19,095	2,331
Changes in proportion and differences between District contributions and proportionate share of contributions		19,175
District contributions subsequent to the measurement date	83,717	
	$ 208,469	$ 47,262

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.

$83,717 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, 2020.

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
2020	$ 65,881
2021	38,081
2022	(20,458)
2023	(6,014)
	$ 77,490

NOTE 7 – PENSION PLANS (Continued)

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

Actuarial Assumptions

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

	Miscellaneous and Safety
Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Acturial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return (1)	7.00%
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.50% thereafter

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

Change in Assumptions

In December 2017, the CalPERS Board adopted new mortality assumptions for plans participating in the Public Employees' Retirement Fund (PERF). Them mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90 percent scale MP 2016 published by the Society of Actuaries. The inflation assumption was reduced from 2.75 percent to 2.50 percent. The assumptions for individual salary increase and overall payroll growth were reduced from 2.75 percent to 2.50 percent.

Discount Rate

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

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

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

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

NOTE 7 – PENSION PLANS (Continued)

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

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

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

(a) An expected inflation of 2.00% was used for this period.
(b) An expected inflation of 2.92% was used for this period.

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

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

	Discount Rate -1% 6.15%	Current Discount Rate 7.15%	Discount Rate +1% 8.15%
Net Pension Liability - Miscellaneous	$ 955,465	$ 598,795	$ 304,368
Net Pension Liability - Safety	135,963	90,664	53,549
Net Pension Liability - Total	$ 1,091,428	$ 689,459	$ 357,917

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, 2019, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2019.

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.

NOTE 8 – JOINT VENTURES (Continued)

State Water Project (Continued)

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

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

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

The District's current fiscal year State water project expense totaled $871,102. All of the District's disbursements were paid to the SLOFCD, which is obligated to pay to DWR and CCWA the District's proportionate share of costs to those agencies.

The District also contracts with SLOFCD for an annual allocation of 303 acre feet of water from the Lopez project, issued 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 $472,914.

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 $987,362 to FCFA during the fiscal year ended June 30, 2019 for fire protections services. Separate financial statements may be obtained from the Five Cities Fire Authority at 140 Traffic Way in Arroyo Grande, California.

NOTE 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, 2019, 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, 2019, 2018 and 2017. 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, 2019, 2018, and 2017.

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, 2019.

Construction Contingency

The District has no construction contingencies as of June 30, 2019.

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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, 2019

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes and assessments	$ 997,150	$ 997,150	$ 1,028,371	$ 31,221
Public facility fee	15,000	15,000	20,061	5,061
Interest income			44,498	44,498
Rental income	140,640	140,640	139,665	(975)
Grant income	47,391	85,749	86,262	513
Other	5,340	5,340	8,025	2,685
Total revenues	1,205,521	1,243,879	1,326,882	83,003
Expenditures:				
Salaries, wages and director stipends	498,050	498,050	392,111	105,939
Payroll taxes and employee benefits	190,271	190,271	153,917	36,354
Liability insurance	22,500	22,500	22,608	(108)
Repairs and maintenance	17,350	17,350	17,300	50
Administrative services	17,250	17,250	10,182	7,068
Data processing	14,000	14,000	15,306	(1,306)
Dues and fees	28,581	28,581	26,028	2,553
Education	7,000	7,000	3,505	3,495
Legal fees	87,000	87,000	85,582	1,418
Miscellaneous	500	500	1,228	(728)
Office expense	11,750	11,750	9,299	2,451
Street lighting	37,000	37,000	37,905	(905)
Professional fees	86,691	86,691	110,465	(23,774)
Utilities	24,075	24,075	24,287	(212)
Public safety	987,362	987,362	987,362	
Capital outlay		46,642	41,839	4,803
Interest expense	33,070	33,070	28,218	4,852
Total expenditures	2,062,450	2,109,092	1,967,142	141,950
Excess of revenues over (under) expenditures	(856,929)	(865,213)	(640,260)	224,953
Other Financing Sources (Uses)				
Transfers in	903,819	903,819	765,626	(138,193)
Transfers out	(80,870)	(80,870)		80,870
Total other financing sources (uses)	822,949	822,949	765,626	(57,323)
Net change in fund balance	(33,980)	(42,264)	125,366	167,630
Fund balance - July 1	769,012	769,012	769,012	
Fund balance - June 30	$ 735,032	$ 726,748	$ 894,378	$ 167,630

OCEANO COMMUNITY SERVICES DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
Last 10 Years*
As of June 30, 2019

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

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

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

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

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

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

OCEANO COMMUNITY SERVICES DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
Last 10 Years*
As of June 30, 2019

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

	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-employee payroll	$ 577,089	$ 573,557	$ 544,352	$ 437,408	$ 453,904
Contributions as a percentage of covered-employee payroll	14.51%	12.79%	12.02%	12.05%	10.95%

Notes to Schedule

Valuation Date:	6/30/2016

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2018/2019 were derived from the June 30, 2016 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2016 funding valuation report.
Inflation	2.75%
Salary Increases	Varies by entry age and service
Payroll Growth	3.00%
Investment Rate of Return	7.0% net of pension plan investment and administrative expenses; includes inflation.
Retirement Age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

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