



Oceano Community Services District

1655 Front Street, P.O. Box 599, Oceano, CA 93475

(805) 481-6730 FAX (805) 481-6836

Date: November 13, 2017

To: Board of Directors

From: Carey Casciola, Business and Accounting Manager

Subject: Agenda Item #8B: Recommendation to Approve Cash Disbursements - **REVISED**

Recommendation

It is recommended that your Board approve the attached cash disbursements.

Discussion

The following is a summary of the attached cash disbursements:

Description	Check Sequence* 56580 - 56607	Amounts
Disbursements Requiring Board Approval prior to Payment:		
Regular Payable Register – paid 11/13/2017	56586 - 56607	\$58,635.20
Added Warrants Register – paid 11/13/2017	56608 - 56621	\$9,150.19
Revised Subtotal:		\$67,785.39
Reoccurring Payments for Board Review (authorized by Resolution 2016-07):		
Payroll Gross Wages – pay period ending 10/28/2017	N/A	\$27,411.00
Reoccurring Utility Disbursements – paid 10/25/2017	56580 - 56581	\$1,025.32
Reoccurring Health/Benefits – paid 10/25/2017	56582 - 56585	\$5,919.52
Subtotal:		\$34,355.84
Revised Grand Total:		\$102,141.23

*Checks 56578-56579 voided due to printing issues.

Other Agency Involvement: n/a

Other Financial Considerations: Amounts are within the authorized Fund level budgets.

Results

The Board's review of cash disbursements is an integral component of the District's system of internal controls and promotes a well governed community.

Added Warrants

	Vendor	G/L Account	Account Name	Distribution
1	Apodaca Paving	02-5-4400-226	Engineering & Other Reimbursement	\$ 650.00
2	Apodaca Paving	02-5-4400-173	Maintenance/Shared Structure	\$ 1,300.00
3	Aramark	01-5-4100-100	Clothing	\$ 60.50
4	AG Chevrolet	12-5-4350-171	Maintenance - Vehichles	\$ 51.00
5	AG Chevrolet	12-5-4350-171	Maintenance - Vehichles	\$ 51.00
6	AG Chevrolet	12-5-4350-171	Maintenance - Vehichles	\$ 212.67
7	AG Chevrolet	12-5-4350-171	Maintenance - Vehichles	\$ 55.92
9	Cannon	02-5-4400-349 03-5-4500-349	Drainage Improvement Project	\$ 2,160.00
10	DPSI	02-5-4400-349	Contracted Engineering	\$ 450.00
11	DPSI	02-5-4400-222	Drainage Improvement Project	\$ 280.00
12	Quill	01-5-4100-200	Office Expense	\$ 201.05
13	Rabobank	01-5-4100-248 01-5-4100-193	Permits Fees & Licenses	\$ 33.00
14	Shoreline	01-5-4100-173 10-5-4300-173 01-5-4200173	Maintenance/Structures Improvement	\$ 410.00
15	SLO Co Public Health Dept.	02-5-4400-220	Professional Services	\$ 359.00
16	SLO Co Public Health Dept.	02-5-4400-220	Professional Services	\$ 394.00
17	SLO CO Tax Collector	01-5-4100-290	Utilities	\$ 118.28
18	SLO CO Tax Collector	01-5-4100-290	Utilities	\$ 118.28
19	SLO CO Tax Collector	01-5-4100-290	Utilities	\$ 103.42
20	SLO CO Tax Collector	01-5-4100-290	Utilities	\$ 118.28
21	The Tribune	02-5-4400-230	Legal Notices	\$ 482.79
22	The Zenith	01-5-4100-075	Compensation Insurance	\$ 1,541.00
				\$ 9,150.19

Total Warrants Added for 11/13/2017	\$ 9,150.19
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Oceano CSD

Audited Financial Statements
for the
Year Ended June 30, 2016

Audit Topics

- New Supplemental Information:
 - Management Discussion and Analysis
- Prior Period Adjustments:
 - Accounting for Sheriff Station
 - Accounting for long-term pension cost
- Red Flag Indicators:
 - General Indicators
 - Financial Indicators

Management Discussion & Analysis

- District Services and Related Agencies
- Overview of the Financial Statements
- Financial Statement Analysis and Highlights
- Capital Assets
- Debt Activities
- Budget and Rates
- Future Outlook

Prior Period Adjustments

- Sheriff Sub-station
 - Inter fund re-classification of the real property
- Long-Term Pension Costs
 - Reallocating prior year Net Pension Liabilities, Deferred Outflow of Resources, Deferred Inflow of Resources

Red Flag: General Indicators

- Are reserves being depleted?
 - Page #16 – Governmental Fund (Including Facilities)
 - Page #19 – Enterprise Funds (Includes Depreciation)
 - Page #20 – Enterprise Funds (Cash Flows)
- Is the depletion planned? – N/A

Red Flag: General Indicators

- Are reserves being used to fund operations? – No!
- Has the district borrowed money to meet operating expenses? – No!!

Red Flag: General Indicators

- Is debt service as a percentage of operation expense too high?
 - The District (now) has no external debt.
 - General Fund inter-fund debt to Wastewater is synched with County payments for Sheriff Station.
 - Water Fund repayment to General and Garbage Funds (\$38,000/year) is 2% of Water Fund operating budget
 - Lopez and State Water are “take or pay” and have embedded debt – approximately 2/3rds (+/-)

Red Flag: General Indicators

- Do actuarial studies reveal a significant long-term impact on the finances of the district for pensions and post retirement health costs?
 - Good Financial News – The District has no post-retirement health costs
 - Pensions will be subject to continuous increases
 - Labor is approximately 20-25% of total budget, which helps to mitigate risks of pension costs
 - 4 of 7 employees are “Classic”
 - 3 of 7 employees are “Pepra”

Red Flag: General Indicators

- Has scheduled maintenance been deferred?
 - Yes ☹️
- Is the District unable to finance projects that are critical to its mission?
 - The District is improving its ability but limited.

Red Flag: General Indicators

- Did the District receive an unfavorable audit and management letter?
 - Comment was concerning monthly reconciliations.

Red Flag: General Indicators

- Have District voters repeatedly failed to pass requests for fee increases?
 - FCFA increase was rejected.
 - No other voter approval required.
 - 2015 water rate increase was subject to a protest but less than 10 submitted protests.

Oceano Community Services District

*Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund
Year Ended June 30, 2016*

<i>Revenues</i>	<i>General Fund</i>
Taxes and assessments	\$ 895,820
Interest income	1,600
Rental income	141,893
Administration cost allocation	579,812
Other	14,699
Total revenue	1,633,824
<i>Expenditures</i>	
Salaries and wages	344,667
Payroll taxes and employee benefits	113,766
Liability insurance	12,475
Repairs and maintenance	22,360
Vehicle operations and maintenance	93
Administrative services	10,977
Data processing	3,879
Dues and fees	9,987
Education	1,655
Legal fees	71,057
Miscellaneous	3,380
Office expense	19,694
Street lighting	35,357
Professional fees	34,869
Utilities	50,660
Public safety	754,337
Total expenditures	1,489,213
Excess of revenues over expenditures	144,611
Transfer for purchase of fixed assets	(23,898)
Fund balance - June 30, 2015 as previously reported	1,043,974
Prior period adjustment	(682,786)
Fund balance - June 30, 2016	\$ 481,901

See Notes to Financial Statements.

Oceano Community Services District

Statement of Revenues, Expenditures and Changes in Net Position - Proprietary Funds
Year Ended June 30, 2016

	<i>Water Fund</i>	<i>Sewer Fund</i>	<i>Garbage Fund</i>	<i>Total</i>
Revenues				
Charges for services	\$ 1,986,088	\$ 476,627	\$ -	\$ 2,462,715
Other fees	173,541	4,200	80,625	258,366
Total operating revenues	<u>2,159,629</u>	<u>480,827</u>	<u>80,625</u>	<u>2,721,081</u>
Operating Expenses				
Salaries and wages	126,992	41,678	3,228	171,898
Payroll taxes and employee benefits	(5,442)	(2,768)	(699)	(8,909)
Insurance	5,019	4,461	669	10,149
Office	2,005	444	363	2,812
Legal and professional	98,063	2,679	1,510	102,252
Dues and fees	23,738	6,182	-	29,920
Education	633	300	-	933
Vehicle operation and maintenance	4,876	2,438	488	7,802
Repairs and maintenance	30,871	6,380	40	37,291
Water meters	10,347	-	-	10,347
Wheeled water expense	23,619	-	-	23,619
Sanitation district fees	-	83,817	-	83,817
Supplies	32,611	2,340	11	34,962
Utilities	18,930	2,118	685	21,733
Water supply expense	1,252,299	-	-	1,252,299
General and administrative overhead	286,720	254,862	38,229	579,811
Capital outlay	1,588	-	-	1,588
Miscellaneous	1,014	1,563	-	2,577
Depreciation	149,440	128,075	-	277,515
Total operating expenses	<u>2,063,323</u>	<u>534,569</u>	<u>44,524</u>	<u>2,642,416</u>
Operating income (loss)	<u>96,306</u>	<u>(53,742)</u>	<u>36,101</u>	<u>78,665</u>
Non-operating Revenues (Expenses)				
Interest income	1,171	-	11	1,182
Interest expense	(4,249)	(1,089)	-	(5,338)
Other income	-	728	-	728
Total non-operating revenues (expenses)	<u>(3,078)</u>	<u>(361)</u>	<u>11</u>	<u>(3,428)</u>
Change in net position	93,228	(54,103)	36,112	75,237
Net position - June 30, 2015 as previously reported	2,397,815	3,417,728	302,939	6,118,482
Prior period adjustment	(266,482)	(419,026)	(3,481)	(688,989)
Net position - June 30, 2016	<u>\$ 2,224,561</u>	<u>\$ 2,944,599</u>	<u>\$ 335,570</u>	<u>\$ 5,504,730</u>

See Notes to Financial Statements.

Oceano Community Services District

**Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2016**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total</u>
Cash flows from operating activities:				
Receipts from customers	\$ 2,206,290	\$ 487,833	\$ 80,625	\$ 2,774,748
Payments to employees for services	(126,221)	(41,423)	(2,529)	(170,173)
Payments to suppliers	(1,459,812)	(414,025)	(43,384)	(1,917,221)
Net cash provided by operating activities	620,257	32,385	34,712	687,354
Cash flows from capital and related financing activities:				
Purchases of property and equipment	(19,656)	(15,607)	(150)	(35,413)
Capital grant received	-	728	-	728
Payments on long-term debt	(15,000)	-	-	(15,000)
Payments on capital lease	(3,445)	(3,445)	-	(6,890)
Interest paid on long-term debt	(4,464)	(1,089)	-	(5,553)
Net cash used in capital and related financing activities	(42,565)	(19,413)	(150)	(62,128)
Cash flows from investing activities:				
Interest income	1,171	-	11	1,182
Net increase in cash and cash equivalents	578,863	12,972	34,573	626,408
Cash and cash equivalents, beginning of year	782,831	986,816	258,294	2,027,941
Cash and cash equivalents, end of year	\$ 1,361,694	\$ 999,788	\$ 292,867	\$ 2,654,349
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 96,306	\$ (53,742)	\$ 36,101	\$ 78,665
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation/amortization	149,440	128,075	-	277,515
Changes in assets and liabilities:				
Accounts receivable	(46,661)	7,006	-	(39,655)
Inventory	1,968	(549)	-	1,419
Prepaid expenses	178,131	8,569	644	187,344
Deposits	(1,036)	-	-	(1,036)
Deferred outflows of resources for pension	(97)	(1,124)	(117)	(1,338)
Due to other funds	5	-	-	5
Accounts payable	12,946	(75,028)	(107)	(62,189)
Accrued wages	(4,670)	(2,513)	(306)	(7,489)
Customer deposits and unearned revenue	259,844	28,940	-	288,784
Net pension liability	6,709	12,294	(4,642)	14,361
Deferred inflows of resources for pension	(32,628)	(19,543)	3,139	(49,032)
Net cash provided by operating activities	\$ 620,257	\$ 32,385	\$ 34,712	\$ 687,354

See Notes to Financial Statements.

Oceano Community Services District

Statement of Net Position
June 30, 2016

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash and investments	\$ 734,495	\$ 2,654,349	\$ 3,388,844
Accounts receivable, less allowance for doubtful accounts of \$8,395	-	354,998	354,998
Due from (due to) other funds	(72,696)	72,696	-
Prepaid expenses	13,808	78,275	92,083
Inventory	-	28,858	28,858
Total current assets	<u>675,607</u>	<u>3,189,176</u>	<u>3,864,783</u>
Non-current Assets			
Joint venture deposits	-	202,291	202,291
Total noncurrent assets	<u>-</u>	<u>202,291</u>	<u>202,291</u>
Capital Assets			
Non-depreciable:			
Land	610,390	6,000	616,390
Depreciable:			
Buildings and improvements	2,044,971	6,793,281	8,838,252
Equipment, vehicles and machinery	246,124	758,235	1,004,359
Software	-	195,918	195,918
Accumulated depreciation	(1,124,628)	(4,777,845)	(5,902,473)
Total capital assets	<u>1,776,857</u>	<u>2,975,589</u>	<u>4,752,446</u>
Total assets	<u>2,452,464</u>	<u>6,367,056</u>	<u>8,819,520</u>
Deferred Outflows of Resources for Pension	<u>9,407</u>	<u>47,759</u>	<u>57,166</u>
LIABILITIES			
Current Liabilities			
Accounts payable	45,433	54,525	99,958
Accrued wages and benefits	47,448	2,592	50,040
Accrued interest payable	-	660	660
Customer deposits	3,250	326,882	330,132
Total current liabilities	<u>96,131</u>	<u>384,659</u>	<u>480,790</u>
Non-current liabilities:			
Due within one year	-	22,841	22,841
Due in more than one year	95,020	418,698	513,718
Total non-current liabilities	<u>95,020</u>	<u>441,539</u>	<u>536,559</u>
Total liabilities	<u>191,151</u>	<u>826,198</u>	<u>1,017,349</u>
Deferred Inflows of Resources for Pension	<u>11,962</u>	<u>83,887</u>	<u>95,849</u>
NET POSITION			
Invested in capital assets, net of related debt	1,776,857	2,884,310	4,661,167
Restricted	189,273	202,291	391,564
Unrestricted	292,628	2,418,129	2,710,757
Total net position	<u>\$ 2,258,758</u>	<u>\$ 5,504,730</u>	<u>\$ 7,763,488</u>

See Notes to Financial Statements.

652,172
<189,213>
462,959

2,702,963
202,291
2,905,254

Oceano Community Services District

Statement of Net Position - Proprietary Funds
June 30, 2016

ASSETS	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total</u>
Current Assets				
Cash and investments	\$ 1,361,694*	\$ 999,788*	\$ 292,867*	\$ 2,654,349
Accounts receivable, less allowance for doubtful accounts of \$8,395	297,221*	53,747*	4,030*	354,998
Due from other funds	-	591,943	60,149	652,092
Prepaid expenses	78,008*	242*	25*	78,275
Inventory, at cost	25,984	2,874*	-	28,858
Total current assets	<u>1,762,907</u>	<u>1,648,594</u>	<u>357,071</u>	<u>3,768,572</u>
Non-current Assets				
Joint venture deposits	202,291	-	-	202,291
Total non-current assets	<u>202,291</u>	<u>-</u>	<u>-</u>	<u>202,291</u>
Capital Assets				
Non-depreciable:	1,939,214	1,056,651	296,922	
Land	6,000	-	-	6,000
Depreciable:				
Buildings and improvements	4,215,804	2,577,477	-	6,793,281
Equipment, vehicles and machinery	473,799	272,364	12,072	758,235
Software	156,734	39,184	-	195,918
Accumulated depreciation	(3,395,898)	(1,370,025)	(11,922)	(4,777,845)
Total net capital assets	<u>1,456,439</u>	<u>1,519,000</u>	<u>150</u>	<u>2,975,589</u>
Total assets	<u>3,421,637</u>	<u>3,167,594</u>	<u>357,221</u>	<u>6,946,452</u>
Deferred Outflows of Resources for Pension	26,663	18,445	2,651	47,759
LIABILITIES AND NET POSITION				
Current Liabilities				
Accounts payable	27,476*	27,018*	31	54,525
Accrued wages and benefits	2,059*	358*	175	2,592
Accrued interest payable	660*	-	-	660
Customer deposits	296,367*	30,515*	-	326,882
Due to other funds	579,396	-	-	579,396
Current portion of capital lease	3,874	3,967*	-	7,841
Current portion of long-term liabilities	15,000	-	-	15,000
Total current liabilities	<u>924,832</u>	<u>61,858*</u>	<u>206*</u>	<u>986,896</u>
Non-current liabilities:				
Revenue bonds payable	45,000	-	-	45,000
Non-current portion of capital lease	11,529	11,909	-	23,438
Net pension liability	198,939	137,622	13,699	350,260
Total non-current liabilities	<u>255,468</u>	<u>149,531</u>	<u>13,699</u>	<u>418,698</u>
Total liabilities	<u>1,180,300</u>	<u>211,389</u>	<u>13,905</u>	<u>1,405,594</u>
Deferred Inflows of Resources for Pension	43,439	30,051	10,397	83,887
Net Position				
Invested in capital assets, net of related debt	1,381,036	1,503,124	150	2,884,310
Restricted	202,291	-	-	202,291
Unrestricted	641,234	1,441,475	335,420	2,418,129
Total net position	<u>\$ 2,224,561</u>	<u>\$ 2,944,599</u>	<u>\$ 335,570</u>	<u>\$ 5,504,730</u>

See Notes to Financial Statements.

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**Oceano CSD
Financial Ratios**

Current Ratio:

Fiscal Year	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Current Assets	\$2,925,369	\$2,940,674	\$3,146,940	\$3,268,854	\$3,864,783
Current Liabilities	\$279,603	\$363,029	\$239,201	\$277,531	\$480,790
Current Ratio	10.46	8.10	13.16	11.78	8.04

Revenue Coverage Ratio - Enterprise Funds

Fiscal Year	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Operating Revenue	\$2,944,680	\$3,050,483	\$3,264,219	\$2,857,038	\$2,721,081
Operating Expense	\$3,139,612	\$3,317,586	\$3,157,061	\$3,099,947	\$2,641,416
Revenue Coverage Ratio	0.94	0.92	1.03	0.92	1.03

Revenue Coverage Ratio - General Fund

Fiscal Year	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Operating Revenue	\$1,369,218	\$1,435,398	\$1,386,637	\$1,521,420	\$1,633,824
Operating Expense	\$1,360,558	\$1,412,651	\$1,353,854	\$1,370,773	\$1,489,213
Revenue Coverage Ratio	1.01	1.02	1.02	1.11	1.10

Debt to Equity Ratio

Fiscal Year	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Total Liabilities	\$559,201	\$537,019	\$361,676	\$811,138	\$1,017,349
Net Position	\$7,920,940	\$7,958,535	\$8,200,937	\$7,672,853	\$7,763,488
	0.07	0.07	0.04	0.11	0.13

**Oceano CSD
Central Coast Water Authority
FY 2015/16 Coverage Calculations**

<u>REVENUES</u>	June 30, 2016
Water Service Charge	\$ 1,986,088
Connection Fees	173,541
TOTAL REVENUES:	<u>\$ 2,159,629</u>
 <u>OPERATING EXPENSES</u>	 1,094,720
 NET REVENUES	 <u>\$ 1,064,909</u>
 State Water Payments	 <u>\$ 819,163</u>
 Coverage Ratio:	 <u>1.30</u>
 Debt Service	
 Available for Capital improvements and other purposes	 <u>\$ 245,746</u>

Oceano CSD
Water Fund
Financial Ratios

Current Ratio:

Fiscal Year	<u>2015-16</u>	<u>Cash</u> <u>Outlay 7/1</u>	<u>Adjusted</u> <u>Amounts</u>	<u>Interfund</u> <u>Loan</u>	<u>Adjusted</u> <u>Amounts</u>
Cash	\$1,361,694	(\$665,000)	\$696,694	(\$579,396)	\$117,298
Other Current Assets	\$401,213	\$665,000	\$1,066,213		\$1,066,213
Current Assets	\$1,762,907		\$1,762,907	(\$579,396)	\$1,183,511
Current Liabilities	\$924,832		\$924,832	(\$579,396)	\$345,436
Current Ratio	1.91		1.91		3.43
Net Current Assets	\$838,075		\$838,075		\$838,075

Oceano CSD
Budget to Actual Reserve Comparisons
2016/17

	General	Water	Sewer	Garbage
Audited Modified Working Capital	\$ 462,899	\$ 1,315,431	\$ 945,013	\$ 292,686
2016/17 Budget	392,962	867,315	910,868	355,233
Variance - Higher / (Lower)	<u>\$ 69,937</u>	<u>\$ 448,116</u>	<u>\$ 34,145</u>	<u>\$ (62,547)</u>
PFF Audited Funds	\$ 189,273			
2016/17 Budget	180,616			
Variance - Higher / (Lower)	<u>\$ 8,657</u>			



AUDIT ENGAGEMENT LETTER

November 9, 2017

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

We are pleased to confirm our understanding of the services we are to provide Oceano Community Services District (the District) for the year ended June 30, 2017. We will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements of Oceano Community Services District as of and for the year ended June 30, 2017. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement Oceano Community Services District's 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. As part of our engagement, we will apply certain limited procedures to Oceano Community Services District's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will 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. The following RSI is required by U.S. generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis.
- 2) Budgetary Comparison Schedules
- 3) Proportionate Share of Net Pension Liability
- 4) Pension Contributions

Audit Objective

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures we consider necessary to enable us to express such

opinions. We will issue a written report upon completion of our audit of Oceano Community Services District's financial statements. Our report will be addressed to the Board of Directors of Oceano Community Services District. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or may withdraw from this engagement.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. 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 will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements, or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Control

Our audit will include obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide

assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Oceano Community Services District's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Other Services

We will also prepare the financial statements of Oceano Community Services District in conformity with U.S. generally accepted accounting principles based on information provided by you. We will perform the services in accordance with applicable professional standards. The other services are limited to the financial statement services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

Management Responsibilities

Management is responsible for designing, implementing, and maintaining effective internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the District from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the District involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the District received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the District complies with applicable laws and regulations.

You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period; and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

You agree to assume all management responsibilities for financial statement preparation services and any other nonattest services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

Engagement Administration, Fees, and Other

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any documents selected by us for testing.

The audit documentation for this engagement is the property of Caliber Audit & Attest, LLP and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to Oceano Community Services District or its designee. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Caliber Audit & Attest, LLP personnel. Furthermore, upon request, we may provide copies of selected audit documentation to Oceano Community Services District or its designee. The Oceano Community Services District or its designee may intend or decide to distribute the copies or information contained therein to others, including other governmental agencies.

Gary Jensen is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it. We expect to begin our audit on the date outlined in the preliminary timing schedule provided to management.

We will prepare a schedule defining the estimated start and completion dates of our audit and will supply you with a list of requested schedules and reports. Our audit engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

We estimate that our fees for the audit and preparation of the financial statements will range from \$30,000 to \$32,000. You will also be billed for travel and other out-of-pocket costs such as report production, word processing, postage, etc. Our fees are based on the time required by the individuals assigned to the engagement, plus direct expenses. Individual hourly rates vary according to the degree of responsibility involved and the skill required. The fees are based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will keep you informed of any problems we encounter and our fees will be adjusted accordingly. Interim billings will be submitted monthly as services are rendered and expenses incurred. These billings are due upon submission and a 12% finance charge accrues on unpaid billings after 30 days. We reserve the right to withdraw from the engagement if any billing remains unpaid after 45 days from submission.

It is our policy to keep records related to this engagement for seven years. However, Caliber Audit & Attest, LLP does not keep any original client records, so we will return those to you at the completion of the services rendered under this engagement. When records are returned to you, it is your responsibility to retain and protect your records for possible future use, including potential examination by any government or regulatory agencies. By your signature below, you acknowledge and agree that upon the expiration of the seven year period Caliber Audit & Attest, LLP shall be free to destroy our records related to this engagement.

If any dispute arises among the parties hereto, the parties agree to first try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its Rules for Professional Accounting and Related Services Disputes, before resorting to litigation. The costs of any mediation proceeding shall be shared equally by all parties. Client and accountant both agree that any dispute over fees charged by the accountant to the client will be submitted for resolution by arbitration in accordance with the Rules for Professional Accounting and Related Services Disputes of the American Arbitration Association. Such arbitration shall be binding and final. In agreeing to arbitration, we both acknowledge that, in the event of a dispute over fees charged by the accountant, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury and instead we are accepting the use of arbitration for resolution.

In the interest of facilitating our services to the District, we may communicate by facsimile transmission or send electronic mail over the Internet. Such communications may include information that is confidential to the District. Our firm employs measures in the use of facsimile machines and computer technology designed to maintain data security. While we will use reasonable efforts to keep such communications secure in accordance with our obligations under applicable laws and professional standards, you recognize and accept that we have no control over the unauthorized interception of these communications.

You are also responsible to notify us in advance of your intent to print our report, in whole or in part, and to give us the opportunity to review such printed matter before its issuance. This includes brochures, pamphlets, annual reports, web site, etc. You agree to indemnify Caliber Audit & Attest,

LLP from any and all claims that may arise from any differences between the electronic version of the financial statements and audit report presented on your web site, now and in the future, and the signed version of the financial statements and audit report provided to management by Caliber Audit & Attest, LLP. With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your Internet website, you understand that electronic sites are a means of distributing information and, therefore, we are not required to read the information contained in those sites or to consider the consistency of other information in the electronic site with the original document.

We appreciate the opportunity to be of service to Oceano Community Services District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,



Gary Jensen, CPA, ABV, CFF

Caliber Audit & Attest, LLP

RESPONSE:

This letter correctly sets forth the understanding of Oceano Community Services District.

By: _____

Title: _____

Date: _____