

Oceano Community Services District

Financial Statements

June 30, 2016

Oceano Community Services District

BOARD OF DIRECTORS

Mary K. Lucey, President

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Management Discussion and Analysis

The management of the Oceano Community Services District (OCSD) has prepared the following narrative for the readers of the District's financial statements to provide an overview and analysis of the District for the year ended June 30, 2016. The District encourages readers to consider the information together with the District's financial statements following this section.

The OCSD is an independent special district serving a population of approximately 7,300. It is governed by a five (5) member Board of Directors elected by voters within the District's boundaries, and 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.

The district provides both governmental-type activities and enterprise activities. Governmental activities include fire and emergency services, and street lighting. 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.

Fire and Emergency Services

The OCSD provides fire and emergency services through the Five Cities Fire Authority (FCFA). The FCFA was created as a "joint exercise of powers authority" through an agreement approved in 2010 between the cities of Arroyo Grande and Grover Beach, and the OCSD. OCSD pays a portion of the annual costs of FCFA services based on funding formula established in the FCFA agreement. One member of the OCSD Board of Directors is appointed to serve OCSD on the FCFA Board of Directors and a second member of the OCSD Board is an alternate member on the FCFA Board. Since the OCSD does not control the operations of FCFA, the financial statements and audit of the FCFA are separate from the OCSD.

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 but has no programs at this time.

Water Services

The District provides potable water service to approximately 2,200 connections. An annual report 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 Annual Consumer Confidence Report 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 adopted in 2005 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 was increasing water in storage during the recent drought.

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 OCSD as well as those of the cities of Arroyo Grande and Grover Beach. Since the OCSD does not control the operations of SSLOCSD, the financial statements and audit of the SSLOCSD are separate from the OCSD. OCSD 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 OCSD 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 four 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 and 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 expenses, and reflects a net budget savings of \$106,442 for the Governmental Fund.

Financial Statement Analysis and Highlights

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

Statements of Net Position as of June 30, 2016 and 2015

	Governmental Funds		Enterprise Funds	
	2016	2015	2016	2015
Current and other assets	\$ 675,607	\$ 1,408,643	\$ 3,391,467	\$ 2,061,466
Capital assets, net	1,776,857	510,397	2,975,589	4,498,840
Total Assets	2,452,464	1,919,040	6,367,056	6,560,306
Deferred Outflow of Resources	9,407	37,387	47,759	19,720
Current liabilities	96,131	88,633	384,659	188,898
Non-current liabilities	95,020	279,894	441,539	253,713
Total Liabilities	191,151	368,527	826,198	442,611
Deferred inflow of resources	11,962	33,529	83,887	18,933
Invested in capital assets, net	1,776,857	510,397	2,884,310	4,385,671
Restricted	189,273	182,642	202,291	201,255
Unrestricted	292,628	861,332	2,418,129	1,531,556
Net Position	\$ 2,258,758	1,554,371	\$ 5,504,730	6,118,482
Prior period adjustment		598,363		(688,989)
Net Position as Restated		\$ 2,152,734		\$ 5,429,493

Most significantly, the Net Position of the District's Governmental and Enterprise Funds changed significantly in the year ended June 30, 2016 as a result of a prior period adjustment relating the construction and inter-fund debt on real property that was developed in 2002 and has been leased to the County of San Luis Obispo for a Sheriff substation. Originally, the real property had been treated as a water and sewer fund shared asset, similar to a joint venture. The real property is now treated as a governmental fund asset, which has increased capital assets for the governmental fund and decreased capital assets in the Enterprise Funds. In addition, since the water and sewer funds originally paid for the development of the Sheriff substation, inter-fund debts due from the Governmental Fund to the Water and Sewer Funds has been established based on a historical analysis of accounting records since 2002. Loan amortization schedules were approved by the Board of Directors to ensure that the Water and Sewer Funds are entirely repaid, including interest, for the original cash expenditure by those funds for the property development.

In addition, the Net Position of the District's Governmental and Enterprise Funds also changed as a result of re-allocating prior year Net Pension Liabilities, Deferred Outflow of Resources and Deferred Inflow of Resources. The changes increase the allocations to the Enterprise Funds and decreases the allocations to the Governmental Funds to better reflect administrative cost allocations that are charged to the Enterprise Funds.

Statements of Net Position as of June 30, 2016 and 2015

	Water Fund		Wastewater Fund		Garbage Fund	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$1,965,198	\$ 1,521,903	\$1,648,594	\$ 1,065,134	\$ 357,071	\$ 323,141
Capital assets, net	1,456,439	1,970,568	1,519,000	2,528,272	150	-
Total Assets	3,421,637	3,492,471	3,167,594	3,593,406	357,221	323,141
Deferred Outflow of Resources	26,663	13,894	18,445	4,973	2,651	853
Current liabilities	924,832	921,056	61,858	124,928	206	14,157
Non-current liabilities	255,468	174,154	149,531	50,949	13,699	6,079
Total Liabilities	1,180,300	1,095,210	211,389	175,877	13,905	20,236
Deferred inflow of Resources	43,439	13,340	30,051	4,774	10,397	819
Invested in capital assets, net	1,381,036	1,876,720	1,503,124		150	
Restricted	202,291	201,255	-	2,508,951		
Unrestricted	641,234	319,840	1,441,475	908,777	335,420	302,939
Net Position	\$2,224,561	2,397,815	\$2,944,599	3,417,728	\$ 335,570	302,939
Prior period adjustment		(266,482)		(419,026)		(3,481)
Net Position as Restated		\$ 2,131,333		\$ 2,998,702		\$ 299,458

In addition to establishing the Sheriff substation as a governmental fund asset, and recognizing an inter-fund debt owed by the Governmental to the Water Fund, prior year loans from the Governmental Fund to the Water Fund, and which were previously recognized as liabilities of the Water Fund, were partially eliminated.

Following the District's Statements of Net Position are the Statements of Revenues, Expenses and Changes in Net Position. The net effect of the transfer of the real property and the changes to inter-fund debt are illustrated. The District also implemented a Water Fund rate increase, with both water rates to encourage conservation during the drought and post-drought water rates. Lastly, the District discontinued billing services for the South San Luis Obispo County Sanitation District and no longer includes those revenues or expenditures within the Sewer Fund statements.

**Statements of Revenues, Expenses, and Changes in Net Position
for the years ended June 30, 2016 and 2015**

	<u>Governmental Funds</u>		<u>Enterprise Funds</u>	
	2016	2015 *	2016	2015 *
Operating Revenues	\$ 579,812	\$ 587,255	\$ 2,721,081	\$ 2,857,038
Operating Expenditures:				
Administrative Expenditures	(738,106)	(611,050)	-	-
Fire Protection	(754,337)	(729,482)	-	-
Street Lighting	(35,357)	(37,630)	-	-
Enterprise Funds			(2,642,416)	(3,099,947)
Net Operating Income (Loss)	<u>(947,988)</u>	<u>(790,907)</u>	<u>78,665</u>	<u>(242,909)</u>
Ad valorem taxes	895,820	854,256	-	-
Other non-operating income	158,192	79,909	1,910	116,412
Capital contributions	-	-	-	-
Total Non-operating Income	<u>1,054,012</u>	<u>934,165</u>	<u>1,910</u>	<u>116,412</u>
Non-Operating Expenditures	-	-	(5,338)	(4,968)
Net Non-Operating Income	<u>1,054,012</u>	<u>934,165</u>	<u>(3,428)</u>	<u>111,444</u>
Change in Net Position	<u>\$ 106,024</u>	<u>\$ 143,258</u>	<u>\$ 75,237</u>	<u>\$ (131,465)</u>

* Note: 2015 balances do not reflect the prior period adjustment.

Most importantly, the Water Fund rate increase helped ensure that the Enterprise Funds went from a Net Loss for the prior fiscal year of \$(131,465) to a Net Income in the amount of \$75,237.

**Statements of Revenues, Expenses, and Changes in Net Position
for the years ended June 30, 2016 and 2015**

	<u>Water Fund</u>		<u>Wastewater Fund</u>		<u>Garbage Fund</u>	
	2016	2015 *	2016	2015 *	2016	2015 *
Operating Revenues	\$2,159,629	\$1,899,278	\$ 480,827	\$ 840,209	\$ 80,625	\$ 117,551
Operating Expenditures	2,063,323	2,111,772	534,569	938,276	44,524	49,899
Net Operating Income / (Loss)	<u>96,306</u>	<u>(212,494)</u>	<u>(53,742)</u>	<u>(98,067)</u>	<u>36,101</u>	<u>67,652</u>
Other non-operating income	1,171	35,026	728	81,360	11	26
Non-operating Expenditures	<u>(4,249)</u>	<u>(4,748)</u>	<u>(1,089)</u>	<u>(220)</u>	<u>-</u>	<u>-</u>
Net Non-operating Income	<u>(3,078)</u>	<u>30,278</u>	<u>(361)</u>	<u>81,140</u>	<u>11</u>	<u>26</u>
Net Income/ (Loss)	<u>\$ 93,228</u>	<u>\$ (182,216)</u>	<u>\$ (54,103)</u>	<u>\$ (16,927)</u>	<u>\$ 36,112</u>	<u>\$ 67,678</u>

* Note: 2015 balances do not reflect the prior period adjustment.

As mentioned, the Water Fund revenues increased as a result of a rate increase that was needed due to prior years' operating losses. Changes in the Wastewater Fund resulted primarily from the termination of billing services for the South San Luis Obispo County Sanitation District. Reduction in operating revenues for the Garbage Fund resulted since the prior year included significant one-time revenues for fees established in the franchise agreement with SCSS Inc.

Capital Assets

The District owns the community fire station, administrative offices, Sheriff's substation, the Oceano Depot, the Community Center and the old fire station plus 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, which is now reflected as revenues of the Governmental Fund. 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 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 2018.

Debt Activities

The District's issued debt is relatively low. The only fund with external debt is the Water Fund, which issued a revenue bond in 1979, which was been subsequently paid in full in 2017. Annual principal payments are \$15,000 and interest paid in fiscal year ended June 30, 2016 was \$3,375.

Internal debt, or borrowing between District funds, is more significant. During the year ended June 30, 2016, the District recorded a change in accounting to more accurately reflect the funding for the construction of the Sheriff's substation in 2002. As a result of the adjustment, the Water Fund inter-fund debt to the Governmental Fund decreased \$193,541 from \$772,937 at June 30, 2015 to \$579,396 at June 30, 2016. The wastewater fund recognized an inter-fund loan receivable in the amount of \$591,943. The combined impact on the Governmental fund inter-fund payables was an increase of \$845,632 as a result of the adjustment.

The prior period adjustment for inter-fund debt was originally approved by the OCSD Board of Directors on April 13, 2016 with an update approved on April 26, 2017. The change was made to reflect the Sheriff's building as a governmental fund asset and to no longer account for the Sheriff's building as a water and sewer fund asset. The change improves the accounting of the facility, since it is not an asset used to provide water or wastewater services to the community, and the change will improve the accounting of inter-fund debt used to construct the facility. The Board of Directors also established annual budget payments for the inter-fund debt so that it can be paid in full to coincide with the term of the lease with the County. The prior period adjustments are described in greater detail in the notes to the financial statements.

Budget and Rates

The District's budget for the year ended June 30, 2016 reflects the water system rate increase that was approved by the Board of Directors on April 20, 2015. The rates eliminated the Water Fund operating loss of \$212,494 that occurred in the fiscal year ended June 30, 2015 and provided a Water Fund operating increase in net position of \$96,306 for the fiscal year ended June 30, 2016. Establishing fiscal stability for the Water Fund has been important so that the District can move forward with evaluating long-term infrastructure needs and a system that includes significant deferred maintenance and replacement needs. 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 ended June 30, 2016 although the District no longer provides billing services for the South San Luis Obispo County Sanitation District, which reduced wastewater rates charged through OCSD utility bills. The change in billing for the Sanitation District did not have an effect on Wastewater Fund revenues used for OCSD operations.

An increase of 3.25% in garbage rates for the SCS Inc. were approved on October 28, 2015, and inflationary adjustments that will also go into effect on January 1, 2017 and January 1, 2018.

Future Outlook

Overall, the District's financial outlook has improved to a fiscally stable position during the year ended June 30, 2016 from a deteriorating position in the prior year that included significant operating losses.

In addition to the fiscal improvement in the District, significant human resource actions were also approved by the Board of Directors. On October 14, 2015, the District approved a 3 year Memorandum of Understanding with the Service Employees Internal Union (SEIU) Local 620 covering July 1, 2015 – June 30, 2018. The agreement provides for wages to District employees based on comparable wages with other communities and will help ensure stable staffing. On December 9, 2015, the Board of Directors also approved the position of Business and Accounting Manager and eliminated the District's Office Manager and Accountant positions, which will provide long term cost savings while enabling the District to recruit at a higher level of expertise for business and accounting needs.

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 2018. Community workshops will occur 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.



Independent Auditors 'Report on the Financial Statements

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

We have audited the accompanying financial statements of Oceano Community Services District (District), which comprise the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as of the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Independent Auditors 'Report on the Financial Statements – Continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oceano Community Services District as of June 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Prior Period Adjustments

As discussed in Note 9 to the financial statements, in 2016 the District had prior period adjustments related to transfer of sheriffs facilities from the proprietary funds to the general fund, corrections to computation of the District's net pension liability and deferred outflows/inflows of resources related to pensions, and other adjustments. The beginning balances as of July 1, 2015 have been restated for the adjustments. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require management discussion and analysis on pages 1 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 49, be presented to support the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Accounting principles generally accepted in the United States of America require that the Schedules of the District's Proportionate Share of the Net Pension Liability, and the District's Pension Contributions on pages 50 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Caliber Audit + Attest, LLP

San Luis Obispo, California
November 1, 2017

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.

Oceano Community Services District

Statement of Activities
Year Ended June 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenue and Changes in Net Assets</u>			
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities							
Administrative	\$ 738,106	\$ 579,812	\$ -	\$ -	\$ (158,294)	\$ -	\$ (158,294)
Fire protection	754,337	-	-	-	(754,337)	-	(754,337)
Street lighting	35,357	-	-	-	(35,357)	-	(35,357)
Total governmental activities	<u>1,527,800</u>	<u>579,812</u>	<u>-</u>	<u>-</u>	<u>(947,988)</u>	<u>-</u>	<u>(947,988)</u>
Business-type activities							
Water	2,067,572	2,159,629	-	-	-	92,057	92,057
Sewer	535,658	480,827	-	728	-	(54,103)	(54,103)
Garbage	44,524	80,625	-	-	-	36,101	36,101
Total business-type activities	<u>2,647,754</u>	<u>2,721,081</u>	<u>-</u>	<u>728</u>	<u>-</u>	<u>74,055</u>	<u>74,055</u>
Total	<u>\$ 4,175,554</u>	<u>\$ 3,300,893</u>	<u>\$ -</u>	<u>\$ 728</u>	<u>(947,988)</u>	<u>74,055</u>	<u>(873,933)</u>
General Revenues							
Taxes and assessments					895,820	-	895,820
Interest income					1,600	1,182	2,782
Rental income					141,893	-	141,893
Other general revenues					14,699	-	14,699
Total general revenues					<u>1,054,012</u>	<u>1,182</u>	<u>1,055,194</u>
Change in net position					106,024	75,237	181,261
Net position - July 1, 2015 as previously reported					1,554,371	6,118,482	7,672,853
Cumulative effect of change in accounting principle					<u>598,363</u>	<u>(688,989)</u>	<u>(90,626)</u>
Net position - June 30, 2016					<u>\$ 2,258,758</u>	<u>\$ 5,504,730</u>	<u>\$ 7,763,488</u>

See Notes to Financial Statements.

Oceano Community Services District

***Balance Sheet - Governmental Fund
June 30, 2016***

ASSETS

Assets

Cash and investments	\$ 734,495
Due from other funds	519,247
Prepaid expenses	13,808
Total assets	<u>1,267,550</u>

Deferred Outflows of Resources for Pension

9,407

Total assets and deferred outflows of resources

\$ 1,276,957

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 45,433
Accrued wages and benefits	47,448
Customer deposits	3,250
Due to other funds	591,943
Net pension liability	95,020
Total liabilities	<u>783,094</u>

Deferred Inflows of Resources for Pension

11,962

Fund Balance

Nonspendable	533,055
Restricted	189,273
Committed	-
Assigned	-
Unassigned	(240,427)
Total fund balance	<u>481,901</u>

Total liabilities and fund balance

\$ 1,276,957

See Notes to Financial Statements.

Oceano Community Services District

*Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Position
June 30, 2016*

Total fund balance - governmental fund \$ 481,901

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

Capital assets at historical cost	\$ 2,901,485	
Accumulated depreciation	<u>(1,124,628)</u>	
Net		<u>1,776,857</u>

Total net position - governmental activities \$ 2,258,758

See Notes to Financial Statements.

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

*Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance of the Governmental Fund to the Statement of Activities
Year Ended June 30, 2016*

Total net change in fund balance - governmental funds	\$ 120,713
Capital outlays - reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlays of \$23,898, and retirements of \$0, is less than depreciation expense of \$(38,587) in the period.	<u>(14,689)</u>
Change in net position - governmental activities	<u>\$ 106,024</u>

See Notes to Financial Statements.

Oceano Community Services District

**Statement of Net Position - Proprietary Funds
June 30, 2016**

ASSETS	Water Fund	Sewer Fund	Garbage Fund	Total
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:				
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	<u>26,663</u>	<u>18,445</u>	<u>2,651</u>	<u>47,759</u>
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	<u>43,439</u>	<u>30,051</u>	<u>10,397</u>	<u>83,887</u>
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.

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>
<i>Revenues</i>				
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>
<i>Operating Expenses</i>				
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>
<i>Non-operating Revenues (Expenses)</i>				
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	<u>(266,482)</u>	<u>(419,026)</u>	<u>(3,481)</u>	<u>(688,989)</u>
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><i>Water Fund</i></u>	<u><i>Sewer Fund</i></u>	<u><i>Garbage Fund</i></u>	<u><i>Total</i></u>
<i>Cash flows from operating activities:</i>				
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	<u>620,257</u>	<u>32,385</u>	<u>34,712</u>	<u>687,354</u>
<i>Cash flows from capital and related financing activities:</i>				
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	<u>(42,565)</u>	<u>(19,413)</u>	<u>(150)</u>	<u>(62,128)</u>
<i>Cash flows from investing activities:</i>				
Interest income	1,171	-	11	1,182
<i>Net increase in cash and cash equivalents</i>	578,863	12,972	34,573	626,408
<i>Cash and cash equivalents, beginning of year</i>	782,831	986,816	258,294	2,027,941
<i>Cash and cash equivalents, end of year</i>	<u>\$ 1,361,694</u>	<u>\$ 999,788</u>	<u>\$ 292,867</u>	<u>\$ 2,654,349</u>
<i>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</i>				
Operating income (loss)	\$ 96,306	\$ (53,742)	\$ 36,101	\$ 78,665
<i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</i>				
Depreciation/amortization	149,440	128,075	-	277,515
<i>Changes in assets and liabilities:</i>				
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	<u>\$ 620,257</u>	<u>\$ 32,385</u>	<u>\$ 34,712</u>	<u>\$ 687,354</u>

See Notes to Financial Statements.

Oceano Community Services District

Notes to Financial Statements

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

Reporting Entity:

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

The District complies with the United States Generally Accepted Accounting Principles (US GAAP) and all relevant Government Accounting Standards Board (GASB) pronouncements. These technical pronouncements establish criteria for determining the District's activities and functions that are included in the financial statements of a governmental unit. The proprietary funds apply Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) unless those principles conflict with or contradict GASB pronouncements, in which case GASB prevails.

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

Significant Accounting Policies:

Basis of accounting:

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

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

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These statements include separate columns for the governmental and business-type activities of the primary government. Eliminations have been made in the statement of activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). General government expenses are allocated as indirect expenses to the various functions of the District.

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the

Oceano Community Services District

Notes to Financial Statements

exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

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

Fund Financial Statements

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

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

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

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

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

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

Governmental Funds

In the fund financial statements, governmental funds are presented using the modified

Oceano Community Services District

Notes to Financial Statements

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

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

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

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

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

Oceano Community Services District

Notes to Financial Statements

Proprietary Funds

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

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

Use of estimates:

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

Cash and cash equivalents:

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

The District maintains its cash balance in financial institutions in the United States and abroad. The balances at the institutions in the United States are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2016, the District held cash in financial institutions in excess of federally insured limits.

Investments:

The District records investments at fair market value. Changes in fair value are allocated to each participating fund.

Accounts receivable:

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

Oceano Community Services District

Notes to Financial Statements

Inventory:

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

Capital assets:

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

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

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

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

Compensated absences:

The District allows permanent employees to receive compensation for vacation and sick leave. Vacation hours, which accrue from the first day of employment, can be taken immediately and are capped at 320 hours. Sick hours, which accrue from the first day of employment, can be taken immediately and are capped at a maximum of 180 days. The estimate related to compensated absences is based on vacation and sick hours available and current pay rates.

Long-term obligations:

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

Oceano Community Services District

Notes to Financial Statements

Deferred outflows of resources and deferred inflows of resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents the consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then. Currently, the District has deferred outflows of resources for its pension plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time. The District has deferred inflows of resources for its pension plan.

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 District's California Public Employees' Retirement System (CalPERS) plans (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. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 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 (VD)	June 30, 2014
Measurement Date (VD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

The District has adopted accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions. This statement requires accrual-based measurement and recognition of the cost of pension benefits during the periods when employees render their services.

Net position – statement of net position:

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

Oceano Community Services District

Notes to Financial Statements

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

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

Fund balances:

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

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

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

Oceano Community Services District

Notes to Financial Statements

As of June 30, 2016, the following fund balances of governmental funds are presented in the fund financial statements:

	<u><i>General Fund</i></u>
Nonspendable:	
Long-term due from Water Fund	\$ 519,247
Prepaid expenses	13,808
	<u>533,055</u>
Restricted	
Public facilities fees	<u>189,273</u>
Committed	<u>-</u>
Assigned	<u>-</u>
Unassigned fund balance	<u>(240,427)</u>
Total fund balance	<u><u>\$ 481,901</u></u>

Interfund transactions:

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

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

Note 2. Cash and Investments

On June 30, 2016, the District had the following cash and investments on hand:

Cash on hand and in banks	\$ 2,025,737
Investments	1,363,107
Total	<u><u>\$ 3,388,844</u></u>

Oceano Community Services District

Notes to Financial Statements

Investments authorized by the California Government Code:

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

<i>Authorized Investment Type</i>	<i>Maximum Maturity</i>	<i>Maximum Percentage of Portfolio</i>	<i>Maximum Investment In One Issuer</i>
Local Agency bonds	5 years	None	None
U.S. Treasury Obligation	5 years	None	None
State Obligations - CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	180 days	40%	None
		40%	Highest letter and number rating by an NRSRO
Commercial Paper - Pooled Funds	270 days	Of agency's money	Highest letter and number rating by an NRSRO
Commercial Paper - Non-pooled Funds	270 days	25% Of agency's money	Highest letter and number rating by an NRSRO
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	None	None
Placement Service Certificate of Deposits (PSCD)	5 years	30% (inclusive of PSCDs)	None
Placement Service Deposits (PSD)	5 years	30% (combined w/ PSD)	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of base value of portfolio	None
Medium-Term Notes	5 years	30%	"A" Rating
Mutual Funds and Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" Rating
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 years	30%	"AA" Rating

See complete local agency investment guidelines for notes to the table.

Oceano Community Services District

Notes to Financial Statements

Disclosures relating to interest rate risk:

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

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

<i>Investment Type</i>	<u><i>Remaining Maturity (in Months)</i></u>				
	<i>Carrying Amount</i>	<i>12 Months Or Less</i>	<i>13-24 Months</i>	<i>25-60 Months</i>	<i>More than 60 Months</i>
San Luis Obispo Co. Investment Pool	\$ 1,339,329	\$ 1,339,329	\$ -	\$ -	\$ -
Time Deposits	23,778	23,778	-	-	-
	<u>\$ 1,363,107</u>	<u>\$ 1,363,107</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures relating to credit risk:

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

<i>Investment Type</i>	<i>Carrying Amount</i>	<u><i>Rating as of Fiscal Year End</i></u>				
		<i>Minimum Legal Rating</i>	<i>Exempt from Disclosure</i>	<i>AAA</i>	<i>AA</i>	<i>Not Rated</i>
San Luis Obispo Co. Investment Pool	\$ 1,339,329	N/A	\$ -	\$ -	\$ -	\$ 1,339,329
Time Deposits	23,778	N/A	-	-	-	23,778
	<u>\$ 1,363,107</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,363,107</u>

Oceano Community Services District

Notes to Financial Statements

Concentration of credit risk:

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

Custodial credit risk:

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

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

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

Oceano Community Services District

Notes to Financial Statements

Note 3. Property Taxes

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

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

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

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

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

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

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

Oceano Community Services District

Notes to Financial Statements

Note 4. Capital Assets

The prior period adjustment (Note 9) impact on capital assets is as follows:

	<i>Balance July 1, 2015, as previously reported</i>	<i>Prior Period Adjustment</i>	<i>Balance July 1, 2015, as restated</i>
<i>Governmental Activities</i>			
Capital assets, not depreciated:			
Land	<u>\$ 385,390</u>	<u>\$ 225,000</u>	<u>\$ 610,390</u>
Capital assets, depreciated:			
Buildings and improvements	637,168	1,407,803	2,044,971
Vehicles and equipment	<u>214,505</u>	<u>7,722</u>	<u>222,227</u>
Total capital assets, depreciated	851,673	1,415,525	2,267,198
Accumulated depreciation	<u>(726,665)</u>	<u>(359,376)</u>	<u>(1,086,041)</u>
Net depreciable capital assets	<u>125,008</u>	<u>1,056,149</u>	<u>1,181,157</u>
Net capital assets	<u><u>\$ 510,398</u></u>	<u><u>\$ 1,281,149</u></u>	<u><u>\$ 1,791,547</u></u>
<i>Business-Type Activities</i>			
Capital assets, not depreciated:			
Land	<u>\$ 231,000</u>	<u>\$ (225,000)</u>	<u>\$ 6,000</u>
Capital assets, depreciated:			
Buildings and improvements	8,168,071	(1,407,803)	6,760,268
Software	195,918	-	195,918
Vehicles and equipment	<u>767,067</u>	<u>(7,722)</u>	<u>759,345</u>
Total capital assets, depreciated	9,131,056	(1,415,525)	7,715,531
Accumulated depreciation	<u>(4,863,216)</u>	<u>359,376</u>	<u>(4,503,840)</u>
Net depreciable capital assets	<u>4,267,840</u>	<u>(1,056,149)</u>	<u>3,211,691</u>
Net capital assets	<u><u>\$ 4,498,840</u></u>	<u><u>\$ (1,281,149)</u></u>	<u><u>\$ 3,217,691</u></u>

Oceano Community Services District

Notes to Financial Statements

Capital assets activity for the fiscal year ended June 30, 2016 was as follows:

	<i>Balance July 1, 2015, as restated</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance June 30, 2016</i>
<i>Governmental Activities</i>				
Capital assets, not depreciated:				
Land	\$ 610,390	\$ -	\$ -	\$ 610,390
Capital assets, depreciated:				
Buildings and improvements	2,044,971	-	-	2,044,971
Vehicles and equipment	222,227	23,897	-	246,124
Total capital assets, depreciated	2,267,198	23,897	-	2,291,095
Accumulated depreciation	(1,086,041)	(38,587)	-	(1,124,628)
Net depreciable capital assets	1,181,157	(14,690)	-	1,166,467
Net capital assets	<u>\$ 1,791,547</u>	<u>\$ (14,690)</u>	<u>\$ -</u>	<u>\$ 1,776,857</u>
<i>Business-Type Activities</i>				
Capital assets, not depreciated:				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Capital assets, depreciated:				
Buildings and improvements	6,760,268	33,013	-	6,793,281
Software	195,918	-	-	195,918
Vehicles and equipment	759,345	2,400	(3,510)	758,235
Total capital assets, depreciated	7,715,531	35,413	(3,510)	7,747,434
Accumulated depreciation	(4,503,840)	(277,515)	3,510	(4,777,845)
Net depreciable capital assets	3,211,691	(242,102)	-	2,969,589
Net capital assets	<u>\$ 3,217,691</u>	<u>\$ (242,102)</u>	<u>\$ -</u>	<u>\$ 2,975,589</u>

Oceano Community Services District

Notes to Financial Statements

Note 5. Long Term Debt – Revenue Bonded Debt

The outstanding revenue bonded debt of the Oceano Community Services District at June 30, 2016 is:

Date of Issue	1979
Interest Rate	5.00%
Maturity Date	2020
Amount of Original Issue	<u>\$ 318,300</u>
Outstanding June 30, 2015	\$ 75,000
Issued current fiscal year	-
Redeemed current fiscal year	<u>15,000</u>
Outstanding June 30, 2016	<u>\$ 60,000</u>

The annual requirement to amortize the revenue bond payable outstanding as of June 30, 2016 is as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 15,000	\$ 2,625	\$ 17,625
2018	15,000	1,875	16,875
2019	15,000	1,125	16,125
2020	15,000	375	15,375
	<u>\$ 60,000</u>	<u>\$ 6,000</u>	<u>\$ 66,000</u>

Note 6. Capital Lease Obligation

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 assets acquired under capital leases totaled \$55,626 for the year ended June 30, 2016. The related accumulated depreciation was \$14,835 and the net book value was \$40,792. Depreciation expense related to the leased vehicle for the year ended June 30, 2016 was \$11,125.

Oceano Community Services District

Notes to Financial Statements

Capital lease obligations consist of the following at June 30, 2016:

Rabobank, 4.423% implicit rate of interest at time of signing, payable in monthly installments of \$756, due in February 2020	\$ 31,279
Less current maturities	<u>(7,841)</u>
Capital lease obligations, less current maturities	<u><u>\$ 23,438</u></u>

At June 30, 2016, future minimum lease payments under the capital lease obligations and the net present value of the future minimum lease payments are as follows:

<i>Fiscal Year</i>	
<u>Ending June 30</u>	
2017	\$ 9,067
2018	9,067
2019	9,067
2020	<u>6,045</u>
Total future minimum lease payments	33,246
Less amount representing interest	<u>(1,967)</u>
Present value of future minimum lease payments	<u><u>\$ 31,279</u></u>

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

Plan description

All qualified permanent and probationary employees participate in the District's cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government 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. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. New members employed after January 1, 2013, who do not have

Oceano Community Services District

Notes to Financial Statements

reciprocity with other public agency pension plans, are designated as PEPRA Miscellaneous and are subject to the provisions of California Government Code Section 7522 et seq. and AB 197. All other members are designated as Classic employees.

The District's Safety Plan is closed to new entrants. The District executed a Joints Powers of Authority Agreement with the cities of Arroyo Grande and Grover Beach dated June 7, 2010 creating and establishing the Five Cities Fire Authority. Pursuant to the terms of the agreement, the District no longer employs safety members and the District's Safety Plan continues to exist for the purpose of providing those retirement benefits earned prior to the creation of the Five Cities Fire Authority.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

Hire date	Miscellaneous	
	Prior to January 1, 2013 (Classic)	On or after January 1, 2013 (PEPRA)
Benefit formula	2.0% @ 55	2.0% @ 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	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	8.003%	6.237%

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 District's Plans are 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 Local Government is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The District's Safety Plan is closed to new entrants, and as a result, the annual contributions for the Safety Plan is the actuarially determined amount needed to finance the plan's unfunded accrued liability.

Oceano Community Services District

Notes to Financial Statements

For the year ended June 30, 2016, the District made the following contributions to the Plans:

Miscellaneous - Classic	\$	43,654
Miscellaneous - PEPR		4,700
Safety		4,369
Total	<u>\$</u>	<u>52,723</u>

Pension liabilities, pension expenses, and deferred outflows and inflows of resources related to pensions:

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability (asset) of each Plan as follows:

Miscellaneous - Classic	\$	376,921
Miscellaneous - PEPR		(487)
Safety		68,846
Total Net Pension Liability	<u>\$</u>	<u>445,280</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 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 plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for each Plan as of June 30, 2014 and 2015 was as follows:

Proportion - June 30, 2014	0.006757%
Proportion - June 30, 2015	0.006576%
Change - Increase (Decrease)	-0.000181%

For the year ended June 30, 2016, the District recognized a pension expense of \$16,721. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Oceano Community Services District

Notes to Financial Statements

	<u><i>Deferred Outflows of Resources</i></u>	<u><i>Deferred Inflows of Resources</i></u>
Pension contributions subsequent to measurement date	\$ 52,723	\$ -
Differences between actual and expected experience	2,374	-
Changes in assumptions	-	30,036
Change in employer's proportion	3,827	22,157
Differences between the employer's contributions and the employer's proportionate share of contributions	-	24,264
Net differences between projected and actual earnings on plan investments	-	15,072
Other changes	(1,758)	4,320
Total	<u>\$ 57,166</u>	<u>\$ 95,849</u>

A total of \$52,723 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30

2017	\$ (38,080)
2018	(37,206)
2019	(29,243)
2020	19,202
2021	-
Thereafter	-

Oceano Community Services District

Notes to Financial Statements

Actuarial Assumptions:

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	<u><i>Miscellaneous</i></u>	<u><i>Safety</i></u>
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Projected Salary Increase	(1)	(1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	(3)	(3)

(1) Depending on age, service and type of employment.

(2) Net of pension plan investment expenses, including inflation.

(3) The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2015 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate:

The discount rate used to measure the total pension liability was 7.65% for each plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, the amortization and smoothing periods recently adopted by the CALPERs Board were used. The crossover test was performed for a miscellaneous agent rate plan and a safety agent rate plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the rate plans, the tests revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The crossover test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section. 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 of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CALPERs staff look into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the

Oceano Community Services District

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expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

Amortization of Deferred Outflows and Deferred Inflows of Resources

The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over a five-year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period, and the remaining Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over the remaining amortization periods. The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments in the Schedule of Collective Pension Amounts represents the unamortized balance relating to the current measurement period and the prior measurement periods on a net basis.

Deferred outflows of resources and deferred inflows of resources relating to Differences Between Expected and Actual Experience and Changes of Assumptions should be amortized over the Expected Average Remaining Service Lifetime (EARSL) of members provided with pensions through the Plan determined as of the beginning of the related measurement period. The EARSL for the Plan for the June 30, 2016 measurement date is 3.7 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of all active employees) by 127,009 (the total number of participants: active, inactive, and retired) in the Plan. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

The Schedule of Collective Pension Amounts does not reflect employer-specific amounts such as changes in proportion, differences between actual employer contributions and employers' proportionate shares of contributions, and employer contributions to the Plan subsequent to the measurement date as defined in GASB Statement No. 68 paragraphs 54, 55, and 57. Appropriate treatment of such amounts is the responsibility of the District.

Oceano Community Services District

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

The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, 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 or 1-percentage point higher than the current rate:

<i>1% Decrease</i>		6.65%
Net Pension Liability	\$	776,164

<i>Current Discount Rate</i>		7.65%
Net Pension Liability	\$	445,280

<i>1% Increase</i>		8.65%
Net Pension Liability	\$	183,379

Pension Plan Fiduciary net Position:

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

Note 8. Joint Venture

State Water Project:

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

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

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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 \$819,164. All of the District's disbursements were paid to the SLOFCD, which is obligated to pay to DWR and CCWA the District's proportionate share of costs to those agencies.

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

The District's current fiscal year San Luis Obispo County Flood Control and Water Conservation District expense totaled \$433,135.

Oceano Community Services District

Notes to Financial Statements

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 rate share of operating costs to FCFA based on a funding formula, calculated annually. In 2015, it was determined that adherence to the funding formula had not occurred in prior years. Any recalculation of prior year funding, and adjustments that may be made to remedy differences between actual funding and funding that would have adhered to the agreement establishing the joint powers authority is indeterminable at this time.

The FCFA governing board consists of one member appointed from each participating entity and shall be appointed as determined by the respective City Council or Board of Directors. All financial decisions are made by this three-member board. The District contributed \$754,337 to FCFA during the fiscal year ended June 30, 2016 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. Prior Period Adjustments

The District had prior period adjustments relating to inter-fund activities and allocations. The adjustments primarily relate to the construction of real property that was developed and leased to the County of San Luis Obispo for a Sheriff substation, and for pension liabilities allocation between District Funds in accordance with GASB 68.

The development of the real property leased to the County was originally recognized in 2002 as an asset of the Water and Sewer Funds since those funds provided the cash to pay for the costs of developing the property. The prior period adjustment makes a correction to recognize the asset in the Governmental Fund and establishes corresponding inter-fund loans that are due to the Water and Sewer Funds. The amount of the inter-fund loans established were based on original cash expenditures of each fund, an evaluation of lease revenues received by each fund since 2002, and an interest rate of 6% which reflects long-term funding rates in 2002 to determine the unamortized principal balance of inter-fund loans as if they had been originally established in 2002. Loan amortization schedules were approved by the Board of Directors on April 26, 2017 to ensure that the Water and Sewer Funds are entirely repaid.

Oceano Community Services District

Notes to Financial Statements

In addition, a correction was also made related to the re-allocating prior year net pension liabilities, deferred outflow of resources and deferred inflow of resources. The adjustments increase the allocations to the Enterprise Funds to more accurately reflect administrative cost allocations of general governmental costs that are charged to the Enterprise Funds, and decreases the net amounts recognized by the Governmental Fund.

Beginning fund balance and net position for the General Fund was decreased by \$682,786 and Governmental capital assets was increased by \$1,281,149 for a total increase of \$598,363 due to overstatement (understatement) of the assets and liabilities in the prior year, as noted in the following schedules.

Beginning net position for the Water, Sewer, and Garbage proprietary funds were decreased by (\$266,482), (\$419,026), and (\$3,481), respectively, due to the overstatement (understatement) of assets and liabilities in the prior year, as noted in the following schedules.

The net results of District activities decreased by \$90,628 due to the overstatement (understatement) of assets and liabilities in the prior year.

Governmental:

	<u><i>Governmental General Fund</i></u>	<u><i>Governmental Capital Assets</i></u>	<u><i>Total Governmental</i></u>
Fund balance/net position			
June 30, 2015, as previously stated	\$ 1,043,974	\$ 510,397	\$ 1,554,371
 Sheriff office building transfer from proprietary to governmental - understatement of assets	 (845,633)	 1,281,149	 435,516
 Correction of estimated net pension liability and deferred outflows/inflows of resources related to pensions	 178,467	 -	 178,467
 Other adjustments	 (15,620)	 -	 (15,620)
 Fund balance/net position			
June 30, 2015, as restated	<u>\$ 361,188</u>	<u>\$ 1,791,546</u>	<u>\$ 2,152,734</u>

Oceano Community Services District

Notes to Financial Statements

Proprietary:

	<u><i>Water Fund</i></u>	<u><i>Sewer Fund</i></u>	<u><i>Garbage Fund</i></u>	<u><i>Total</i></u>
Fund balance/net position June 30, 2015, as previously stated	\$ 2,397,815	\$ 3,417,728	\$ 302,939	\$ 6,118,482
Sheriff office building transfer from proprietary to governmental - understatement of assets	(128,454)	(299,726)	-	(428,180)
Correction of estimated net pension liability and deferred outflows/inflows of resources related to	(143,260)	(122,360)	(17,019)	(282,639)
Other adjustments	<u>5,232</u>	<u>3,060</u>	<u>13,538</u>	<u>21,830</u>
Fund balance/net position June 30, 2015, as restated	<u>\$ 2,131,333</u>	<u>\$ 2,998,702</u>	<u>\$ 299,458</u>	<u>\$ 5,429,493</u>

Government-wide Financial Statements:

	<u><i>Governmental Activities</i></u>	<u><i>Business-type Activities</i></u>
Net position June 30, 2015, as previously stated	\$ 1,554,371	\$ 6,118,482
Overstatement (understatement) of assets and liabilities	<u>598,363</u>	<u>(688,989)</u>
Net position June 30, 2015, as restated	<u>\$ 2,152,734</u>	<u>\$ 5,429,493</u>

Oceano Community Services District
Notes to Financial Statements

Prior Period Adjustment to Accounts:

	<u>Governmental General Fund</u>	<u>Governmental Capital Assets</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>
Cash increase (decrease)	\$ 9,494	\$ -	\$ (3,137)	\$ (6,362)	\$ -
Due to/from increase (decrease)	(845,633)	-	261,411	599,853	-
Capital assets increase (decrease)	-	1,281,149	(384,345)	(896,804)	-
Deferred outflows increase (decrease)	(28,152)	-	12,672	12,348	1,682
Deferred inflows (increase) decrease	11,264	-	(62,727)	(44,820)	(6,439)
Net pension liability (increase) decrease	195,355	-	(93,205)	(89,888)	(12,262)
Other (increase) decrease	(25,114)	-	2,849	6,647	13,538
Fund balance/net position increase (decrease)	<u>\$ (682,786)</u>	<u>\$ 1,281,149</u>	<u>\$ (266,482)</u>	<u>\$ (419,026)</u>	<u>\$ (3,481)</u>

Note 10. Contingencies

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

Note 11. Subsequent Events

The date to which events occurring after June 30, 2016 have been evaluated for possible adjustment to the financial statements or disclosure is November 1, 2017, which is the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

Oceano Community Services District

Required Supplementary Information

General Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<i>Variance with Final Budget</i>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
<i>Revenues</i>				
Taxes and assessments	\$ 853,927	\$ 853,927	\$ 895,820	\$ 41,893
Interest income	1,500	1,500	1,600	100
Rental income	139,740	139,740	141,893	2,153
Administration cost allocation	641,261	641,261	579,812	(61,449)
Other	38,500	38,500	14,699	(23,801)
Total revenue	<u>1,674,928</u>	<u>1,674,928</u>	<u>1,633,824</u>	<u>(41,104)</u>
<i>Operating Expenses</i>				
Salaries and wages	359,526	359,526	344,667	14,859
Payroll taxes and employee benefits	128,257	128,257	113,766	14,491
Liability insurance	22,500	22,500	12,475	10,025
Repairs and maintenance	48,500	74,272	22,360	51,912
Vehicle operations and maintenance	500	500	93	407
Administrative services	18,000	18,000	10,977	7,023
Data processing	5,000	5,000	3,879	1,121
Dues and fees	25,000	25,000	9,987	15,013
Education	6,500	6,500	1,655	4,845
Legal fees	74,000	74,000	71,057	2,943
Miscellaneous	11,137	11,137	3,380	7,757
Office expense	15,000	15,000	19,694	(4,694)
Street lighting	43,500	43,500	35,357	8,143
Professional fees	49,500	49,500	34,869	14,631
Supplies	1,000	1,000	-	1,000
Utilities	48,400	48,400	50,660	(2,260)
Public safety	754,667	754,667	754,337	330
Total operating expenses	<u>1,610,987</u>	<u>1,636,759</u>	<u>1,489,213</u>	<u>147,546</u>
expenditures	<u>\$ 63,941</u>	<u>\$ 38,169</u>	144,611	<u>\$ 106,442</u>
Transfer for purchase of fixed assets			(23,898)	
Fund balance - June 30, 2015 as previously reported			1,043,974	
Cumulative effect of change in accounting principle			(682,786)	
Fund balance - June 30, 2016			<u>\$ 481,901</u>	

Note: Actual amounts include a credit of \$18,599 to pension expense, in comparison to actual pension contributions as a result of GASB 68 reporting requirements. Without the credit to expense, the budget savings of \$106,442 would be \$87,843.

Oceano Community Services District

***Required Supplementary Information
Schedule of The District's Proportionate Share of the Net Pension Liability
Last 10 Years*
As of June 30, 2016***

	<i>Fiscal Year End</i>	
	<i>6/30/16</i>	<i>6/30/15</i>
Measurement date	6/30/2015	6/30/2014
Proportion of the net pension liability	0.006576%	0.006757%
Proportionate share of the net pension liability	\$ 445,280	\$ 420,438
District's covered-employee payroll*	\$ 453,904	\$ 312,044
Proportionate share of the net pension liability as percentage of covered-employee payroll	99.44%	134.74%
Plan's fiduciary net pension as a percentage of the total	78.40%	79.82%

* For the year ending on the measurement date

Notes to schedule:

Benefit changes - None.

Changes in assumptions - None.

Other - The District's Safety Plan is closed to new entrants. The District executed a Joints Powers of Authority Agreement with the cities of Arroyo Grande and Grover Beach dated June 7, 2010 creating and establishing the Five Cities Fire Authority. Pursuant to the terms of the agreement, the District no longer employs safety members and the District's Safety Plan continues to exist for the purpose of providing those retirement

Note: Fiscal year 2015 was the first year of implementation; therefore, only two years are shown.

Required Supplementary Information
Schedule of Pension Contribution Supplementary Information
Last 10 Years*
As of June 30, 2016

	Fiscal Year End	
	6/30/16	6/30/15
Actuarially determined contribution	\$ 52,723	\$ 49,702
Contribution in relation to the actuarially determined contribution	52,723	49,702
Contribution deficiency (excess)	-	-
District's covered-employee payroll*	\$ 437,408	\$ 453,904
Contributions as a percentage of covered-employee payroll	12.05%	10.95%

* For the fiscal year ending on the date shown

Notes to schedule:

Valuation Date:	6/30/2014
Measurement Date:	6/30/2015
Reporting Date:	6/30/2016