

LOS OSOS COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

Draft

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**LOS OSOS COMMUNITY SERVICES DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Directors of Los Osos Community Services District
Los Osos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Osos Community Services District (District), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of the Los Osos Community Services District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Changes in Accounting Principles

As discussed in note 1 to the basic financial statements effective July 1, 2017, the Los Osos Community Services District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. 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 that the management’s discussion and analysis on pages 3 through 10, the budgetary comparison information on pages 44 and 45, the schedule of proportionate share of net pension liability on pages 46, the schedule of pension contributions on pages 47, the schedule of changes in the total OPEB liability and related ratios on page 48, and the schedule of OPEB contributions on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries of the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Los Osos Community Services District’s basic financial statements. The combining nonmajor funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor funds financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor funds financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018, on our consideration of the Los Osos Community Services District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

Santa Maria, California
November 28, 2018

**LOS OSOS COMMUNITY SERVICES
DISTRICT MANAGEMENT'S DISCUSSION
AND ANALYSIS JUNE 30, 2018**

BACKGROUND

The Los Osos Community Services District (the District), a political subdivision of the State of California, was formed on January 1, 1999, pursuant to Ballot Measure K-98 to provide services previously provided by the County of San Luis Obispo (County) in specific benefit zones of what was formerly County Service Area 9. The District operates pursuant to Section 61000 of the California Government Code, currently authorized to provide Water, Fire Protection, Drainage, Street Lighting, and Parks and Recreation Services. The District is governed by a five-member Board of Directors with an operations staff headed by a general manager.

As management of the Los Osos Community Services District, we offer readers of the LOSCSD's financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2018.

We encourage readers to consider the information presented here in conjunction with additional information that we furnish in our letter of transmittal and the District's financial statement.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The basic financial statements include four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the basic financial statements, and 4) required supplementary information. This report also contains other supplementary information in addition to the basic financial statements. The government-wide statements consist of the Statement of Net Position and the Statement of Activities.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned and unused employee vacation balances).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the District include fire protection, parks and recreation, drainage, general government, and street lighting. The business-type activities of the District include water services.

Los Osos Community Services District Management Discussion and Analysis

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the District are in two categories, namely, governmental and proprietary.

In a few instances where trust accounts are held, trust liability accounts are used in the related fund instead of being held in a separate fiduciary category of funds. The wastewater assessment district fund is treated as a fiduciary category fund for the accounting of the on-going wastewater assessments.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. For the purposes of government funds there are currently no long-term debt obligations.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains six individual governmental funds organized according to their type: general and special revenue. The District does not currently have debt service and capital projects type funds in the governmental funds. Information is presented separately in the governmental funds' balance sheet and in the governmental funds' statement of revenues, expenditures, and changes in fund balances for the General Fund and the Fire Fund with all other funds presented into an aggregate column. Due to their small size relative to the fire and water funds, individual fund data for each of the non-major governmental funds (Bayridge, Vista de Oro, Drainage, Parks and Recreation) is provided in the form of combining statements found in the other supplementary information section of this report.

A budgetary comparison statement has been provided for the General Fund and the Fire Fund to demonstrate compliance with budgetary laws of the State of California and policies and ordinances approved by the District's Board of Directors. This statement is shown under the required supplementary section of the report. Individual budgetary data for each of the non-major governmental funds (Bayridge, Vista de Oro, Drainage, Parks and Recreation) is not presented.

Proprietary Funds

There are two types of funds classified as proprietary, namely, enterprise and internal service funds. The District only maintains the enterprise type of proprietary funds. The District uses two enterprise funds to account for its water and wastewater activities. These two enterprise funds are presented in individual columns in the fund financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Wastewater and the Solid Waste Funds operations were eliminated upon the completion of the implementation the Second Amended Plan for Adjustment of Debts for the Los Osos Community Services District as further amended by non-material modifications as ordered by the Bankruptcy Court effective October 15, 2013. The activity in Solid Waste

**Los Osos Community Services District
Management Discussion and Analysis**

Fund was transferred to the County of San Luis Obispo effective December 31, 2013. Effective June 30, 2014, the District transferred the remaining activity of the Wastewater Fund to a Wastewater Fiduciary Fund for the reporting of the remainder of the bond payments being collected through the San Luis Obispo County Tax Rolls.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

The statements are followed by a section of required supplementary information (RSI) that further explains and supports the information in the financial statements. Comparison of Budget to Actual for major governmental funds is shown under this caption.

Other Supplementary Information

Other supplementary information presents data that, although not required, is necessary to provide the reader of the basic financial statements more details to promote understanding of the statements as a whole. The combining statements for the non-major governmental funds are presented here.

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Los Osos Community Services District
Management Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL
STATEMENTS

TABLE A
Statement of Net Position
June 30, 2018

	June 30, 2018			June 30, 2017			Total Change	
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government		Percent Change
Assets:								
Current assets	\$ 2,743,832	\$ 3,503,789	\$ 6,247,621	\$ 2,916,951	\$ 2,367,067	\$ 5,284,018	\$ 963,603	18.2%
Capital assets	895,367	5,569,919	6,465,286	654,421	5,764,679	6,419,100	46,186	0.7%
Total Assets	3,639,199	9,073,708	12,712,907	3,571,372	8,131,746	11,703,118	1,009,789	8.6%
Deferred Outflow of Resources:								
Deferred pensions	174,061	243,346	417,407	88,305	192,162	280,467	136,940	48.8%
Deferred OPEB	3,145	1,553	4,698	-	-	-	4,698	100.0%
Total deferred outflow of resources	177,206	244,899	422,105	88,305	192,162	280,467	141,638	50.5%
Liabilities:								
Current Liabilities	26,575	101,587	128,162	106,472	95,054	201,526	(73,364)	-36.4%
Long-Term Liabilities	631,735	4,665,527	5,297,262	441,277	4,566,062	5,007,339	289,923	5.8%
Total Liabilities	658,310	4,767,114	5,425,424	547,749	4,661,116	5,208,865	216,559	4.2%
Deferred Inflow of Resources:								
Deferred pensions	99,547	24,890	124,437	55,689	19,325	75,014	49,423	65.9%
Total deferred inflow of resources	99,547	24,890	124,437	55,689	19,325	75,014	49,423	65.9%
Net Position:								
Net investment in								
capital assets	895,367	2,054,282	2,949,649	654,421	2,092,933	2,747,354	202,295	7.4%
Restricted	2,747,116	-	2,747,116	2,724,754	-	2,724,754	22,362	0.8%
Unrestricted	(583,935)	2,472,321	1,888,386	(322,936)	1,550,534	1,227,598	660,788	53.8%
Total Net Position	\$ 3,058,548	\$ 4,526,603	\$ 7,585,151	\$ 3,056,239	\$ 3,643,467	\$ 6,699,706	\$ 885,445	13.2%

**Los Osos Community Services District
Management Discussion and Analysis**

**TABLE B
Statement of Activities
June 30, 2018**

	June 30, 2018			June 30, 2017			Total Change
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government	Amount Change
Revenues:							
Program revenues:							
Charges for services	\$ 141,669	\$ 2,598,595	\$ 2,740,264	\$ 139,935	\$ 1,983,590	\$ 2,123,525	\$ 616,739
Operating Grants and Contributions	14,596	-	14,596	9,882	1,522	11,404	3,192
Capital Contributions and Grants	-	-	-	-	-	-	-
General Revenues:							
Property Taxes	2,231,326	178,936	2,410,262	1,933,541	221,449	2,154,990	255,272
Other Taxes	530,244	38,534	568,778	624,956	25,000	649,956	(81,178)
Interest and Investment Income	12,395	11,258	23,653	5,954	4,248	10,202	13,451
Other Revenues	37,121	10,908	48,029	1,263	10,985	12,248	35,781
Total Revenues	2,967,351	2,838,231	5,805,582	2,715,531	2,246,794	4,962,325	843,257
Expenses:							
General Government	617,134	-	617,134	607,567	-	607,567	9,567
Public Safety	2,458,540	-	2,458,540	2,229,348	-	2,229,348	229,192
Health and Sanitation	152,277	-	152,277	60,709	-	60,709	91,568
Street Lighting	9,967	-	9,967	8,444	-	8,444	1,523
Water	-	1,450,480	1,450,480	-	1,580,384	1,580,384	(129,904)
Wastewater Treatment	-	11,878	11,878	-	11,224	11,224	654
Total Expenses	3,237,918	1,462,358	4,700,276	2,906,068	1,591,608	4,497,676	202,600
Net Transfers	436,568	(436,568)	-	373,823	(373,823)	-	-
Change in Net Position	166,001	939,305	1,105,306	183,286	281,363	464,649	640,657
Net position, beginning	3,056,239	3,643,467	6,699,706	2,872,953	3,362,104	6,235,057	464,649
Prior Period Adjustments	(163,692)	(56,169)	(219,861)	-	-	-	(219,861)
Net Position, ending	\$ 3,058,548	\$ 4,526,603	\$ 7,585,151	\$ 3,056,239	\$ 3,643,467	\$ 6,699,706	\$ 885,445

**Los Osos Community Services District
Management Discussion and Analysis**

Analysis of Overall Financial Position and Results of Operations

Statement of Net Position

At the end of fiscal year June 30, 2018, the district is able to report positive balances in both the District as a whole as well as for its separate governmental and business-type activities.

The total assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at June 30, 2018 by \$7,585,151.

The District's net position reflects its investments in capital assets, less any related debt that is still outstanding from what was used to acquire those assets. Although the District's investment in its Capital Assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources. This debt must be provided from other sources since the Capital Assets themselves cannot be used to liquidate the liabilities.

The District should be able to maintain a positive trend with the implementation of timely financial reporting, extensive mid-year reviews and adjustments, and continual monitoring of all funds activities. Completing these processes will help ensure that the District has no going concern problems.

Statement of Activities

Overall, the results of operations as shown in the Statement of Activities has an increase in Net Position of \$1,105,306. Total revenues increased over the prior year by \$843,257. Water service fees increased by \$615,005 and property taxes increased by \$255,272. This continuing increase in property tax revenue received is in agreement with the trend in the rest of the County.

Overall expenses in Governmental Activities increased by \$331,850. Total expenses in Business-Type Activities decreased by \$129,250.

Investment income was up \$13,451, in part due to management's decision to invest specific reserve funds in a money market account, rather than a general savings account. The Board of Director's is considering direction to management for modifications to its current investment policy, allowing the General Manager to invest in appropriate areas commensurate with the cash flow and revenue needs of the District.

**Los Osos Community Services District
Management Discussion and Analysis**

**TABLE C
Capital Assets
June 30, 2018**

	June 30, 2018			June 30, 2017			Total Change
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government	Amount Change
Land and Land Rights	\$ 57,375	\$ 498,429	\$ 555,804	\$ 57,375	\$ 498,429	\$ 555,804	\$ -
Construction in Progress Buildings, Structures, and Improvements	-	185,121	185,121	-	138,872	138,872	46,249
Infrastructure	587,410	5,000	592,410	587,410	5,000	592,410	-
Equipment and Systems	310,762	9,461,450	9,772,212	233,431	9,455,627	9,689,058	83,154
	1,711,182	503,371	2,214,553	1,466,215	494,336	1,960,551	254,002
Total Cost	2,666,729	10,653,371	13,320,100	2,344,431	10,592,264	12,936,695	383,405
Less Accumulated Depreciation	(1,771,362)	(5,083,452)	(6,854,814)	(1,690,010)	(4,827,585)	(6,517,595)	(337,219)
Net Position, ending	\$ 895,367	\$ 5,569,919	\$ 6,465,286	\$ 654,421	\$ 5,764,679	\$ 6,419,100	\$ 46,186

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**TABLE D
Long-Term Debt
June 30, 2018**

	June 30, 2018			June 30, 2017			Total Change
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government	Amount Change
Compensated Absences	\$ 26,653	\$ 51,304	\$ 77,957	\$ 21,946	\$ 47,034	\$ 68,980	\$ 8,977
Other Postemployment Benefits Obligation	62,245	272,406	334,651	11,263	49,290	60,553	274,098
Note Payable - CIEDB loan	-	3,515,637	3,515,637	-	3,671,746	3,671,746	(156,109)
Net Pension Liability	542,837	578,846	1,121,683	408,068	550,658	958,726	162,957
Loan Payable to Fiduciary Fund	-	247,334	247,334	-	247,334	247,334	-
Total	\$ 631,735	\$ 4,665,527	\$ 5,297,262	\$ 441,277	\$ 4,566,062	\$ 5,007,339	\$ 289,923

Long-term debt totals \$5,297,262. The increase of \$289,923 represents an increase to Other Postemployment Benefits Obligation of \$274,098 determined by actuarial valuation, as well the increase of \$162,957 for Net Pension Liability.

**Los Osos Community Services District
Management Discussion and Analysis**

Fire and Water Fund Reserves

The District maintains cash reserves in the Fire and Water Funds for various purposes as budgeted annually by the Board of Directors. The reserve balances in each fund are as follows:

Fire Fund:	
General Contingency	\$ 93,676
Vehicle, Equipment, and Fire Engine Replacement	755,081
Capital Outlay	590,107
Public Facilities Fee	40,334
Fire Mitigation	160,449
Total Fire Fund Reserves	<u>\$ 1,639,647</u>

Water Fund:	
General Contingency	\$ 414,183
Capital Outlay	1,214,296
Vehicle and Equipment Replacement	112,042
Water Quality	91,517
Water Stabalization	190,456
Basin Management	50,031
Water Conservation	59,288
Total Water Fund Reserves	<u>\$ 2,131,813</u>

Drainage Fund:	
General Contingency	\$ 32,238
Capital Outlay	195,055
	<u>\$ 227,293</u>

Parks and Recreation Fund:	\$ 291,656
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Significant Events or Disclosures

Through collaboration between the Finance Advisory and Utility Advisory Committees, and an Ad-Hoc group, the District performed a Water Rate Study which was adopted by the Board in March 2017. The Plan evaluated the various revenue requirements of the District including significant capital improvements and dealing with reduced water consumption. The Rate Plan detailed the need for the District to increase water rates significantly over the next three years to cover the cost of compliance with the Los Osos Groundwater Basin Stipulated Judgment and its resulting Groundwater Basin Management Plan. Resolution 2017-11 amended the District's Reserve Policies relating to the Water Enterprise Fund and also revised administrative and property tax allocations for future Water Fund budgets. The first of three annual water rate increases took effect July 1, 2017. The second of the three annual water rate increases took effect July 1, 2018.

More information about the District, its financial condition, policies, governance and management is available on the District website at www.lososocsd.org.

Sincerely,

Renee Osborne
General Manager

LOS OSOS COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 2,474,461	\$ 2,718,199	\$ 5,192,660
Accounts receivable, net	67,193	514,327	581,520
Prepaid items	48,148	66,346	114,494
Deposits		10,000	10,000
Inventory		56,391	56,391
Other assets		900	900
Internal balances	(137,626)	137,626	
Restricted assets-			
Cash and investments	291,656		291,656
Capital assets:			
Non Depreciable:			
Land	57,375	498,429	555,804
Construction in progress		185,121	185,121
Depreciable:			
Buildings, structures, and improvements	587,410	5,000	592,410
Infrastructure	310,762	9,461,450	9,772,212
Plant and equipment	1,711,182	503,371	2,214,553
Accumulated depreciation	(1,771,362)	(5,083,452)	(6,854,814)
Total assets	<u>3,639,199</u>	<u>9,073,708</u>	<u>12,712,907</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred pensions	174,061	243,346	417,407
Deferred OPEB	3,145	1,553	4,698
Total deferred outflow of resources	<u>177,206</u>	<u>244,899</u>	<u>422,105</u>
LIABILITIES			
Accounts payable	12,288	29,598	41,886
Accrued liabilities	13,103	24,161	37,264
Accrued interest payable		44,678	44,678
Deposits	1,184	3,150	4,334
Noncurrent liabilities:			
Due within one year	6,663	223,697	230,360
Due in more than one year	625,072	4,441,830	5,066,902
Total liabilities	<u>658,310</u>	<u>4,767,114</u>	<u>5,425,424</u>
DEFERRED INFLOW OF RESOURCES			
Deferred pensions	99,547	24,890	124,437
Total deferred inflow of resources	<u>99,547</u>	<u>24,890</u>	<u>124,437</u>
NET POSITION			
Net investment in capital assets	895,367	2,054,282	2,949,649
Restricted for:			
Fire and emergency services	2,117,325		2,117,325
Parks and recreation	291,656		291,656
Bayridge functions			
Drainage services	338,135		338,135
Unrestricted	(583,935)	2,472,321	1,888,386
Total net position	<u>\$ 3,058,548</u>	<u>\$ 4,526,603</u>	<u>\$ 7,585,151</u>

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

LOS OSOS COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2018

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Contributions and Grants</u>
Governmental activities:			
General government	\$ 617,134	\$ -	\$ -
Public safety	2,458,540	71,070	14,596
Health and sanitation	152,277	60,632	
Street lighting	9,967	9,967	
Total governmental activities	3,237,918	141,669	14,596
Business-type activities:			
Water	1,450,480	2,598,595	-
Wastewater treatment project	11,878		
Total business-type activities	1,462,358	2,598,595	
Total governmental	\$ 4,700,276	\$ 2,740,264	\$ 14,596

General Revenues:

Taxes:

Property
Special
Other

Investment income

Other general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning of fiscal year

Restatement

Net position - beginning of fiscal year, restated

Net position - end of fiscal year

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

Capital Contributions and Grants	Net (Expenses) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
\$ -	\$ (617,134)	\$ -	\$ (617,134)
	(2,372,874)		(2,372,874)
	(91,645)		(91,645)
	(3,081,653)		(3,081,653)
		1,148,115	1,148,115
		(11,878)	(11,878)
		1,136,237	1,136,237
<u>\$ -</u>	<u>(3,081,653)</u>	<u>1,136,237</u>	<u>(1,945,416)</u>

2,231,326	178,936	2,410,262
530,244		530,244
	38,534	38,534
12,395	11,258	23,653
37,121	10,908	48,029
436,568	(436,568)	
3,247,654	(196,932)	3,050,722
166,001	939,305	1,105,306
3,056,239	3,643,467	6,699,706
(163,692)	(56,169)	(219,861)
2,892,547	3,587,298	6,479,845
<u>\$ 3,058,548</u>	<u>\$ 4,526,603</u>	<u>\$ 7,585,151</u>

LOS OSOS COMMUNITY SERVICES DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
 June 30, 2018

	General Fund	Fire Fund	Other Governmental Funds	Totals
ASSETS				
Cash and investments	\$ 27,373	\$ 2,061,768	\$ 385,320	\$ 2,474,461
Restricted cash and investments			291,656	291,656
Accounts receivable	924	62,403	3,866	67,193
Prepaid items	21,021	26,656	471	48,148
Due from other funds	1,517			1,517
Total assets	\$ 50,835	\$ 2,150,827	\$ 681,313	\$ 2,882,975
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 9,760	\$ 1,768	\$ 760	\$ 12,288
Accrued liabilities	8,025	5,078		13,103
Deposits	1,184			1,184
Loan from Water Fund			125,087	125,087
Due to other funds			14,056	14,056
Total liabilities	18,969	6,846	139,903	165,718
Fund Balances:				
Nonspendable:				
Prepaid items	21,021	26,656	471	48,148
Restricted:				
Fire and emergency services		2,117,325		2,117,325
Parks and recreation			291,656	291,656
Bayridge functions				
Drainage services			338,135	338,135
Unassigned	10,845		(88,852)	(78,007)
Total fund balances	31,866	2,143,981	541,410	2,717,257
Total liabilities and fund balances	\$ 50,835	\$ 2,150,827	\$ 681,313	\$ 2,882,975

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

LOS OSOS COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS - BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2018

Total fund balances - governmental funds \$ 2,717,257

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

Capital assets at historical cost	\$	2,666,729
Accumulated depreciation		<u>(1,771,362)</u>

Net 895,367

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Compensated absences payable	\$	26,653
Other post employment benefits obligation		62,245
Net pension liability		<u>542,837</u>

Total (631,735)

Deferred outflows and inflows of resources relating to pensions and OPEB: In governmental funds, deferred outflows and inflows of resources relating to pensions and OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions and OPEB are reported.

Deferred inflows of resources relating: to pensions	\$	(99,547)
--	----	----------

Deferred outflows of resources relating: to pensions		174,061
to OPEB		<u>3,145</u>

77,659

Total net position - governmental activities \$ 3,058,548

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

LOS OSOS COMMUNITY SERVICES DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2018

	General Fund	Fire Fund	Other Governmental Funds	Totals
Revenues:				
Property taxes	\$ -	\$ 2,198,774	\$ 32,552	\$ 2,231,326
Special taxes and assessments		434,904	95,340	530,244
Intergovernmental		14,596		14,596
Service charges and fees			70,599	70,599
Public services fees		71,070		71,070
Use of money and property	3,441	6,074	2,880	12,395
Other	941	35,463	717	37,121
Total revenues	4,382	2,760,881	202,088	2,967,351
Expenditures:				
Personnel	155,866	177,567	18,812	352,245
Clothing and uniforms		678		678
Contract services	58,685	12,755		71,440
Contract services - Schedule A		2,168,721		2,168,721
Equipment and tools		41,120	763	41,883
Financial services	3,591	1,120		4,711
Insurance, licenses, and regulatory fees	26,614	20,675	10,907	58,196
Legal and professional	209,837	2,169	4,399	216,405
Office expenses	16,579	9,511	475	26,565
Other expenses	60	3,243		3,303
Rent and utilities	42,874	14,285	13,540	70,699
Repairs and maintenance	64	7,174	11,309	18,547
Travel and training	2,604	1,027	3,216	6,847
Vehicle maintenance and repairs			1,595	1,595
Capital outlay		244,967	87,331	332,298
Debt service:				
Interest			4,763	4,763
Total expenditures	516,774	2,705,012	157,110	3,378,896
Excess of revenues over (under) expenditures	(512,392)	55,869	44,978	(411,545)
Other Financing Sources (Uses):				
Transfers in	507,637			507,637
Transfers out		(50,764)	(20,305)	(71,069)
Total other financing sources (uses)	507,637	(50,764)	(20,305)	436,568
Net change in fund balances	(4,755)	5,105	24,673	25,023
Fund balances - July 1	(134)	2,138,876	671,737	2,810,479
Restatement	36,755		(155,000)	(118,245)
Fund balances - July 1, restated	36,621	2,138,876	516,737	2,692,234
Fund balances - June 30	<u>\$ 31,866</u>	<u>\$ 2,143,981</u>	<u>\$ 541,410</u>	<u>\$ 2,717,257</u>

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

LOS OSOS COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2018

Total net change in fund balances - governmental funds	\$ 25,023
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$332,298 is more than depreciation expense \$(91,352) in the period.	240,946
In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, vacation earned exceeded the amounts used by \$4,707.	(4,707)
In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This fiscal year, the difference between accrual-based OPEB costs and actual employer contribution was:	(2,390)
In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:	(92,871)
Changes in net position - governmental activities	<u>\$ 166,001</u>

Draft

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 June 30, 2018

	Water Fund	Wastewater Treatment Project Fund	Totals
ASSETS			
Current assets:			
Cash and investments	\$ 2,718,199	\$ -	\$ 2,718,199
Accounts receivable, net	506,556		506,556
Accrued revenue receivables	7,771		7,771
Deposits	10,000		10,000
Inventory at cost	56,391		56,391
Prepays	63,838	2,508	66,346
Due from other funds	16,516		16,516
Other assets	900		900
Total current assets	<u>3,380,171</u>	<u>2,508</u>	<u>3,382,679</u>
Noncurrent assets:			
Loans to other funds	125,087		125,087
Capital assets, net of accumulated depreciation	5,411,329	158,590	5,569,919
Total noncurrent assets	<u>5,536,416</u>	<u>158,590</u>	<u>5,695,006</u>
Total assets	<u>8,916,587</u>	<u>161,098</u>	<u>9,077,685</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pensions	243,346		243,346
Deferred OPEB	1,553		1,553
Total deferred outflows of resources	<u>244,899</u>		<u>244,899</u>
LIABILITIES			
Current liabilities:			
Accounts payable	29,598		29,598
Accrued liabilities	24,161		24,161
Accrued interest payable	44,678		44,678
Deposits payable	3,150		3,150
Due to other funds		3,977	3,977
Compensated absences - current portion	12,826		12,826
Loan payables - current portion	160,871	50,000	210,871
Total current liabilities	<u>275,284</u>	<u>53,977</u>	<u>329,261</u>
Noncurrent liabilities:			
Compensated absences	38,478		38,478
OPEB payable	272,406		272,406
Loans payable	3,354,766	197,334	3,552,100
Net pension liability	578,846		578,846
Total noncurrent liabilities	<u>4,244,496</u>	<u>197,334</u>	<u>4,441,830</u>
Total liabilities	<u>4,519,780</u>	<u>251,311</u>	<u>4,771,091</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	24,890		24,890
Total deferred inflows of resources	<u>24,890</u>		<u>24,890</u>
NET POSITION			
Net investment in capital assets	1,895,692	158,590	2,054,282
Unrestricted (deficit)	2,721,124	(248,803)	2,472,321
Total net position	<u>\$ 4,616,816</u>	<u>\$ (90,213)</u>	<u>\$ 4,526,603</u>

Draft

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Fiscal Year Ended June 30, 2018

	Water Fund	Wastewater Treatment Project Fund	Totals
Operating Revenues:			
Utility	\$ 2,598,595	\$ -	\$ 2,598,595
Total operating revenues	<u>2,598,595</u>	<u>-</u>	<u>2,598,595</u>
Operating Expenses:			
Personnel	622,739		622,739
Clothing and uniforms	1,898		1,898
Contract services	41,978		41,978
Equipment and tools	34,321		34,321
Financial services	782	20	802
Insurance, licenses, and regulatory fees	50,276	269	50,545
Legal and professional	86,005	11,480	97,485
Office expenses	30,810	109	30,919
Other expenses	2,007		2,007
Rent and utilities	149,035		149,035
Repairs and maintenance	33,813		33,813
Travel and training	9,496		9,496
Vehicle maintenance and repairs	12,814		12,814
Depreciation	255,867		255,867
Total operating expenses	<u>1,331,841</u>	<u>11,878</u>	<u>1,343,719</u>
Operating income (loss)	<u>1,266,754</u>	<u>(11,878)</u>	<u>1,254,876</u>
Non-Operating Revenues (Expenses):			
Property taxes and assessments	178,936	38,534	217,470
Investment income	11,258		11,258
Other non-operating revenue	10,868	40	10,908
Interest and debt service fee expense	(118,639)		(118,639)
Total non-operating revenues (expenses)	<u>82,423</u>	<u>38,574</u>	<u>120,997</u>
Income before transfers	1,349,177	26,696	1,375,873
Transfers:			
Transfers (out)	(434,030)	(2,538)	(436,568)
Total transfers	<u>(434,030)</u>	<u>(2,538)</u>	<u>(436,568)</u>
Change in net position	<u>915,147</u>	<u>24,158</u>	<u>939,305</u>
Net position (deficit) - July 1	3,757,838	(114,371)	3,643,467
Prior period adjustments	(56,169)		(56,169)
Net position (deficit) - July 1, restated	<u>3,701,669</u>	<u>(114,371)</u>	<u>3,587,298</u>
Net position (deficit) - June 30	<u>\$ 4,616,816</u>	<u>\$ (90,213)</u>	<u>\$ 4,526,603</u>

Draft

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2018

	Water Fund	Wastewater Treatment Project Fund	Totals
Cash Flows From Operating Activities:			
Receipts from customers	\$ 2,482,895	\$ -	\$ 2,482,895
Payments to suppliers	(515,978)	(17,129)	(533,107)
Payments to employees	(617,538)		(617,538)
Net cash provided (used) by operating activities	<u>1,349,379</u>	<u>(17,129)</u>	<u>1,332,250</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition of capital assets	(61,107)		(61,107)
Principal paid on capital debt	(156,109)		(156,109)
Interest paid on capital debt	(120,623)		(120,623)
Net cash provided (used) by capital and related financing activities	<u>(337,839)</u>		<u>(337,839)</u>
Cash Flows from Noncapital Financing Activities:			
Transfers from (to) other funds	(397,749)	(21,445)	(419,194)
Property taxes and assessments	176,318	38,534	214,852
Other revenue	10,868	40	10,908
Net cash provided (used) by noncapital financing activities	<u>(210,563)</u>	<u>17,129</u>	<u>(193,434)</u>
Cash Flows From Investing Activities:			
Interest income	11,258		11,258
Net cash provided (used) by investing activities	<u>11,258</u>		<u>11,258</u>
Net increase (decrease) in cash and cash equivalents	812,235		812,235
Cash and cash equivalents - July 1	1,905,964		1,905,964
Cash and cash equivalents - June 30	<u>\$ 2,718,199</u>	<u>\$ -</u>	<u>\$ 2,718,199</u>
Reconciliation to Statement of Net Position:			
Cash and investments	<u>\$ 2,718,199</u>	<u>\$ -</u>	<u>\$ 2,718,199</u>

Draft

(Continued)

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS (Continued)
 For the Fiscal Year Ended June 30, 2018

	Water Fund	Wastewater Treatment Project Fund	Totals
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 1,266,754	\$ (11,878)	\$ 1,254,876
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation expense	255,867		255,867
Change in assets, liabilities, deferred inflows of resources, and deferred outflows of resources:			
Receivables, net	(115,700)		(115,700)
Inventories	(2,197)		(2,197)
Prepays	(63,838)	(2,508)	(66,346)
Deferred outflows	(51,176)		(51,176)
Accounts payable	3,292	(2,743)	549
Accrued liabilities	7,968		7,968
Compensated absences	4,270		4,270
OPEB payable	10,386		10,386
Net pension liability	28,188		28,188
Deferred inflows	5,565		5,565
Net cash provided (used) by operating activities	<u>\$ 1,349,379</u>	<u>\$ (17,129)</u>	<u>\$ 1,332,250</u>

Draft

LOS OSOS COMMUNITY SERVICES DISTRICT
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
June 30, 2018

	Wastewater Assessment District No. 1 Fund	Low Income Assistance Fund	Total Agency Funds
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
ASSETS			
Cash and investments	\$ 147,749	\$ 21,840	\$ 169,589
Cash with fiscal agent	1,694,128		1,694,128
Loan receivable from District	247,334		247,334
Total assets	<u>\$ 2,089,211</u>	<u>\$ 21,840</u>	<u>\$ 2,111,051</u>
LIABILITIES			
Due to bondholders	\$ 2,089,211	-	\$ 2,089,211
Due to others		21,840	21,840
Total liabilities	<u>\$ 2,089,211</u>	<u>\$ 21,840</u>	<u>\$ 2,111,051</u>

Draft

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

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

The Los Osos Community Services District (District), a political subdivision of the State of California, was formed on January 1, 1999, pursuant to Ballot Measure K-98 to provide services previously provided by San Luis Obispo County (the County) in specific benefits zones of what was formerly County Service Area 9. After formation, the District added solid waste services providing service to all properties in the District. It operates pursuant to Section 61000 of the California Government Code. It is currently authorized to provide Fire Protection, Water, Street Lighting, Drainage, and Parks and Recreation Services. It is governed by a five-member Board of Directors with an operations staff headed by a general manager.

B. Basis of Presentation

Fund Financial Statements:

The fund financial statements provide information about the District's funds. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories with each major fund displayed in a separate column. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.

All remaining governmental funds are aggregated and reported as non-major funds in a single column, regardless of their fund type.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund - The General Fund, more commonly referred to as the Administrative Fund, is the general operating fund of the District and is always classified as a major fund. It is used to account for all other activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The following are Special Revenue Funds:

- 301 – Fire Fund
- 200 – Bayridge (a subdivision where lighting and septic system maintenance are provided)
- 400 – Vista de Oro (a subdivision where lighting and septic system maintenance are provided)
- 800 – Drainage
- 900 – Parks and Recreation

Proprietary Funds

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

Proprietary Funds are as follows:

- 500 – Water
- 600 – Wastewater Treatment Project Fund (This is for the aborted sewer system project and may in the future be reclassified to the governmental category.)

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Fiduciary Funds

The fiduciary funds are accounted for on the accrual basis of accounting. The fund is custodial in nature (assets equal liabilities) a measurement of results of operations is not shown.

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The District maintains two agency funds – Los Osos Community Services District Wastewater Assessment District No. 1 and the Low Income Assistance Fund.

Major Funds

The District reported the following major governmental funds in the accompanying financial statements:

General Fund - This is the District's primary operating fund and is more commonly referred to as the Administrative Fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The fund provides for public administration, overall management, occupancy, computer systems, accounting, legal, consulting, communication, and insurance as it pertains to the District as a whole.

Fire Fund - This fund accounts for activities of Fire Station 15 - South Bay. The fire department provides fire suppression, emergency paramedic services, and fire prevention including public education. Services are provided through a contract with Cal Fire for the entire community. Reserve firefighters and administrative operational costs are paid by the District outside the Cal Fire contract.

The District reports the following major proprietary funds in the accompanying financial statements:

Water Fund - This fund accounts for the operation and maintenance of the District's water distribution system. The water department is responsible for the operation and maintenance of five groundwater supply wells providing treatment, monitoring, and distribution services.

Wastewater Treatment Project Fund - This fund originally accounted for projects relating to the District's wastewater treatment project. Since the wastewater treatment project was stopped, this fund now mainly reflects functions relative to bankruptcy proceedings and assessment costs on the aborted sewer project.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

- a. All governmental funds are accounted for using a "current financial resources" measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. All proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or non-current) associated with the operation of these funds are reported. Proprietary fund equity is classified as net position.

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting

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

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

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

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

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

The fiduciary fund is accounted for on the accrual basis of accounting. Because the fund is custodial in nature (assets equal liabilities) a measurement of results of operations is not shown.

D. Property Taxes

The County levies, bills, and collects property taxes and special assessments for the District. Property taxes levied are recorded as revenue in the fiscal year of levy, due to the adoption of the "alternate method of property tax distribution," known as the Teeter Plan, by the District and the County. The Teeter Plan authorizes the Auditor/Controller of the County to allocate 100% of the secured property taxes billed, excluding unitary tax (whether paid or unpaid). The County remits tax monies to the District every month and twice a month in December and April. The final amount which is "teetered" is remitted in August each year.

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

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

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property Taxes (Continued)

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

E. Cash and Investments

The District pools the cash of all funds, except for monies deposited with fiscal agent in accordance with related bond indentures. The cash and investments balance in each fund represents that fund's equity share of the District's cash and investment pool.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on month-end balances. Interest income on restricted cash and investments with fiscal agents is credited directly to the related fund.

The District's investments are carried at fair value. The fair value of equity and debt securities is determined based on sales prices or bid-and-asked quotations from Securities and Exchange Commission (SEC) registered securities exchanges or NASDAQ dealers. Local Agency Investment Fund (LAIF) determines the fair value of their portfolio quarterly and reports a factor to the District. Changes in fair value are allocated to each participating fund.

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

F. Accounts and Interest Receivable

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

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

G. Prepaid Expenses and Inventory

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

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

H. Restricted Assets

Funds that are under the control of external parties are restricted.

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

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

Government-Wide Statements

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

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

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

Buildings	40-50 years
Improvements other than buildings	5-25 years
Infrastructure	5-60 years
Equipment and systems	5-30 years

Fund Financial Statements

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

J. Accumulated Compensated Absences

Compensated absences comprise unused vacation leave, sick leave, and compensatory time off, which are accrued as earned. Vacation can be accrued to a maximum of 40 days or 320 hours for the regular employees or 448 hours for the shift employees. Upon termination, all accumulated vacation hours up to 240 hours can be paid for the regular employees or up to 336 hours for the shift employees. Sick leave can be accrued up to 180 days or 1,440 hours. Only half of accumulated sick leave hours can be paid on termination to eligible employees. Employees become eligible for sick leave pay-off after completing five years of service. Payments will be based on the pay rate at the time of termination. The District's liability for the current and long-term portions of compensated absences is shown in the government-wide Statement of Net Position for both governmental funds and proprietary funds. Only proprietary funds reflect the long-term portion in the fund financials report, Statement of Net Position. The short-term portion is reflected for both governmental and proprietary funds in the fund financial statements. Computation was based on rates in effect as of the fiscal year-end.

K. Long-Term Liabilities

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

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

L. 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 Los Osos Community Services District California Public Employees' Retirement System (CalPERS) Miscellaneous, Miscellaneous PEPRA, Safety Fire, and Safety Fire PEPRA Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by Cal PERS. 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.

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. Deferred Outflows and Inflows of Resources

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

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has two items which qualify for reporting in this category, refer to Note 7 and Note 8 for a detailed listing of the deferred outflows of resources the District has recognized.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category; refer to Note 7 for a detailed listing of the deferred inflows of resources the District has recognized.

O. Interfund Transactions

Following is a description of the three basic types of interfund transactions that can be made during the fiscal year and the related accounting policies:

1. Interfund services provided and used - transactions for services rendered or facilities provided. These transactions are recorded as revenues in the receiving fund and expenditures in the disbursing fund.
2. Reimbursements (expenditure transfers) - transactions to reimburse a fund for specific expenditures incurred for the benefit of another fund. These transactions are recorded as expenditures in the disbursing fund and a reduction of expenditures in the receiving fund.
3. Transfers - all interfund transactions which allocate resources from one fund to another fund. These transactions are recorded as transfers in and out.

P. Equity Classifications

Government-Wide Statements

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

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

Q. Future Accounting Pronouncements

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

Statement No. 83	"Certain Asset Retirement Obligations"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Future Accounting Pronouncements (Continued)

Statement No. 88	"Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 89	"Accounting for Interest Cost Incurred Before the End of a Construction Period"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.
Statement No. 90	"Majority Equity Interests-an Amendment of GASB Statements No. 14 and No. 61"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.

R. New Accounting Pronouncements

For the fiscal year ended June 30, 2018, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." This Statement is effective for periods beginning after June 15, 2017. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. Implementation of the GASB Statements No. 75 and the impact on the District's financial statements are explained in Note 8 - Postemployment Benefits Other than Pensions and Note 14 - Restatements.

S. Use of Estimates

The financial statements have been prepared in accordance with principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by Management. Actual results could differ from these amounts.

NOTE 2 – CASH AND INVESTMENTS

Draft

Investments of the District are governed by the California Government Code and by the District's investment policy. The General Manager of the District acts as the District Finance Officer and Treasurer who is tasked to perform investment functions in accordance with the investment policy. The objectives of the policy are safety, liquidity, yield, and compliance with State and Federal laws and regulations.

Investments of the District as of June 30, 2018

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	N/A	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase and Reserve Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	15%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
State Registered Warrants, Notes or Bonds	N/A	None	None
Notes and Bonds for other Local California Agencies	5 years	None	None
Local Agency Investment Fund	5 years	None	None

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (Continued)

The composition of cash and investments as of June 30, 2018, by fund type is as follows:

	Available for Operations	Restricted	Total
General Fund	\$ 27,373	\$ -	\$ 27,373
Special Revenue Funds	2,447,088	291,656	2,738,744
Proprietary Funds	2,718,199		2,718,199
Fiduciary Funds		1,863,717	1,863,717
	<u>\$ 5,192,660</u>	<u>\$ 2,155,373</u>	<u>\$ 7,348,033</u>

Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of the District's debt instruments or Agency's agreements:

Cash and investments	\$ 5,192,660
Cash and investments - restricted	<u>291,656</u>
Total cash and investments, statement of net position	5,484,316
Cash and investments, statement of fiduciary net position	169,589
Cash and investments with fiscal agents, statement of fiduciary net position	<u>1,694,128</u>
Total cash and investments	<u>\$ 7,348,033</u>

On June 30, 2018, the District had the following cash and investments on hand:

Deposits with financial institutions	\$ 1,316,926
Imprest funds	900
Bank time deposits	52,501
State investment pool	647,090
Money market	<u>5,330,616</u>
Total cash and investments	<u>\$ 7,348,033</u>

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District had investments in the State Investment Pool, money market funds, and bank time deposits, however, these external pools or deposits measured at cost are not required to be measured under Level 1, 2 or 3.

Disclosure Relating to Interest Rate Risk

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

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosure Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2018:

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Bank time deposits	\$ 52,501	\$ 52,501	\$ -	\$ -	\$ -
LAIF	647,090	647,090			
Money market	3,636,488	3,636,488			
Held by bond trustees:					
Money market	1,694,128	1,694,128			
	<u>\$ 6,030,207</u>	<u>\$ 6,030,207</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The District has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations. Presented below is the minimum rating required by (where applicable) the California Government Code, the investment policy, or debt agreements, and the actual rating as of the fiscal year ended June 30, 2018 for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	Aa	Not Rated
Bank time deposits	\$ 52,501	N/A	\$ -	\$ -	\$ -	\$ 52,501
LAIF	647,090	N/A				647,090
Money market	3,636,488	N/A				3,636,488
Held by bond trustees:						
Money market	1,694,128					1,694,128
	<u>\$ 6,030,207</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,030,207</u>

Concentration of Credit Risk

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

The biggest investment of the District is in money market funds, comprising eighty-five percent (85%) of all investments. This is managed by the District's bank. This investment is indexed to earn ten basis points above that earned monthly by the State Investment Pool. These are collateralized up to 110% in compliance with State law with the collaterals held by a separate trustee bank.

The next major investment of the District, not considering those held by bond trustee, is investment in the State Investment Pool, more commonly known as LAIF. Investment in LAIF comprises fourteen percent (14%) of all invested funds. This fund is not registered with the Securities and State Commission as an investment company but is required to invest according to California State Code. The fund is under the oversight of the Treasurer of the State of California through the Local Investment Advisory Board that consists of five members as designated by statute. Market valuation is conducted quarterly by the State Treasurer's office. In addition, it also conducts a monthly fair market valuation of all securities held against carrying costs. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based on the District's pro-rata share of the fair value of the entire portfolio net of any amortized costs as provided by LAIF.

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk (Continued)

Investment of funds held by bond trustee is governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the District's investment policy. Current agreement of the District with bond trustee directs the trustee to invest in money market funds duly registered under the Federal Securities Act of 1933 and under the Investment Company Act of 1940 and having a rating by Standard and Poor's (S&P) of AAAm-G or AAAm or in any other investment acceptable to the bond insurer.

Custodial Credit Risk

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

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

NOTE 3 – INTERFUND TRANSACTIONS

Interfund activity during the fiscal year ended June 30, 2018, was as follows:

Interfund Transfers:

<u>Major Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 507,637	\$ -
Fire		50,764
<u>Nonmajor Governmental Funds:</u>		
Bayridge		2,538
Vista de Oro		2,538
Drainage		10,153
Parks and Recreation		5,076
<u>Proprietary Funds:</u>		
Water		434,030
Wastewater Treatment Plant		2,538
	<u>\$ 507,637</u>	<u>\$ 507,637</u>

Due To/Due From:

<u>Major Governmental Fund:</u>	<u>Due From</u>	<u>Due To</u>
General	\$ 1,517	\$ -
<u>Nonmajor Governmental Fund:</u>		
Vista de Oro		14,056
<u>Proprietary Funds:</u>		
Water	16,516	
Wastewater Treatment Plant		3,977
	<u>\$ 18,033</u>	<u>\$ 18,033</u>

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – INTERFUND TRANSACTIONS (Continued)

Interfund Loans Receivable and Payable

Interfund loans receivable and payable are formal loan agreements within the District to borrow money from the Water Fund. The balances at June 30, 2018, are as follows:

	<u>Loan Receivable</u>	<u>Loan Payable</u>
Nonmajor Governmental Funds:		
Bayridge	\$ -	\$ 100,877
Vista de Oro		24,210
Proprietary Fund:		
Water	125,087	
	<u>\$ 125,087</u>	<u>\$ 125,087</u>

NOTE 4 – CAPITAL ASSETS

Governmental activities:

	<u>Balance at July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2018</u>
Capital assets not being depreciated				
Land	\$ 57,375	\$ -	\$ -	\$ 57,375
Total capital assets not being depreciated	<u>\$ 57,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,375</u>
Capital assets being depreciated				
Buildings, structures, and improvements	\$ 587,410	\$ -	\$ -	\$ 587,410
Infrastructure	233,431	87,331	(10,000)	310,762
Plant and equipment	1,466,215	244,967		1,711,182
Total capital assets being depreciated	<u>2,287,056</u>	<u>332,298</u>	<u>(10,000)</u>	<u>2,609,354</u>
Less accumulated depreciation				
Buildings, structures, and improvements	438,532	23,272		461,804
Infrastructure	230,417	5,134	(10,000)	225,551
Plant and equipment	1,021,061	62,946		1,084,007
Total accumulated depreciation	<u>1,690,010</u>	<u>91,352</u>	<u>(10,000)</u>	<u>1,771,362</u>
Total capital assets being depreciated, net	<u>\$ 597,046</u>	<u>\$ 240,946</u>	<u>\$ -</u>	<u>\$ 837,992</u>
Net capital assets	<u>\$ 654,421</u>	<u>\$ 240,946</u>	<u>\$ -</u>	<u>\$ 895,367</u>

Business-type activities:

	<u>Balance at July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2018</u>
Capital assets not being depreciated				
Land	\$ 498,429	\$ -	\$ -	\$ 498,429
Construction in progress	138,872	46,249		185,121
Total capital assets not being depreciated	<u>\$ 637,301</u>	<u>\$ 46,249</u>	<u>\$ -</u>	<u>\$ 683,550</u>
Capital assets being depreciated				
Building and improvements	\$ 5,000	\$ -	\$ -	\$ 5,000
Infrastructure	9,455,627	5,823		9,461,450
Plant and equipment	494,336	9,035		503,371
Total capital assets being depreciated	<u>9,954,963</u>	<u>14,858</u>		<u>9,969,821</u>
Less accumulated depreciation				
Building and improvements	5,000			5,000
Infrastructure	4,398,393	228,569		4,626,962
Plant and equipment	424,192	27,298		451,490
Total accumulated depreciation	<u>4,827,585</u>	<u>255,867</u>		<u>5,083,452</u>
Total capital assets being depreciated, net	<u>\$ 5,127,378</u>	<u>\$ (241,009)</u>	<u>\$ -</u>	<u>\$ 4,886,369</u>
Net capital assets	<u>\$ 5,764,679</u>	<u>\$ (194,760)</u>	<u>\$ -</u>	<u>\$ 5,569,919</u>

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to function and programs based on their usage of the related assets. The amounts allocated to each function or program were as follows:

Governmental Activities:		
General administration	\$	7,489
Public safety		78,729
Health and sanitation		5,134
Total governmental activities depreciation expense	\$	<u>91,352</u>
Business-type Activities:		
Water services	\$	<u>255,867</u>
Total business-type activities depreciation expense	\$	<u>255,867</u>

NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of changes in the District's long-term liabilities for the fiscal year ended June 30, 2018:

	Balance at July 1, 2017	Additions	Reductions	Restatement	Balance at June 30, 2018	Current Portion	Long Term Portion
Governmental Activities:							
Compensated Absences	\$ 21,946	\$ 6,053	\$ 2,373	\$ -	\$ 26,653	\$ 6,663	\$ 19,990
Other Post Employment Benefits Obligation	11,263	4,826	2,453	48,609	62,245		62,245
Net Pension Liability	408,068	164,877	30,108		542,837		542,837
Total Governmental Activities	\$ 441,277	\$ 175,756	\$ 33,907	\$ 48,609	\$ 631,735	\$ 6,663	\$ 625,072
Business-Type Activities:							
Compensated Absences	\$ 47,034	\$ 28,269	\$ 23,999	\$ -	\$ 51,304	\$ 12,826	\$ 38,478
Other Post Employment Benefits Obligation	49,290	21,123	10,737	212,730	272,406		272,406
Water Fund:							
Loan Payable	3,671,746		156,109		3,515,637	160,871	3,354,766
Wastewater Treatment Project Fund:							
Loan Payable to Fiduciary Fund	247,334				247,334	50,000	197,334
Net Pension Liability	550,658	96,047	67,859		578,846		578,846
Total Business-Type Activities	\$ 4,566,062	\$ 145,439	\$ 258,704	\$ 212,730	\$ 4,665,527	\$ 223,697	\$ 4,441,830

NOTE 6 – LOANS PAYABLE

Loan Payable to Fiduciary Fund

The District used \$714,268 bond reserve funds on September 1, 2006, to cover amounts the District had spent from the bond redemption funds. As part of the bankruptcy settlement, the District is to pay back the reserve fund with its bond administration fee plus \$25,000 annually. As of June 30, 2018, the District owed \$247,334. The District's scheduled payment in May 2018 was not made so the District plans to pay \$50,000 in the following fiscal year. See Note 13 – Contingencies and Commitments for further details.

California Infrastructure and Economic Development Bank

On December 6, 2004, the District entered into a loan agreement with the California Infrastructure and Economic Development Bank (CIEDB) for a principal amount of \$5 million for the purpose of constructing and upgrading water delivery facilities. The loan is for a term of thirty years ending in August 2034 with an interest rate of 3.05% per annum. Annual payments average \$278,000 per year including interest. Debt service payments are due in August and February each year. Water revenues were pledged to guarantee the loan. All projects covered by the loan were completed and closed out in January 2009. The outstanding principal balance of the loan at June 30, 2018, was \$3,515,637.

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – LOANS PAYABLE (Continued)

California Infrastructure and Economic Development Bank (Continued)

California Infrastructure and Economic Development Bank				
For the Fiscal Year Ending June 30	Principal	Interest	Annual Administrative Fee	Total
2019	\$ 160,871	\$ 104,773	\$ 10,547	\$ 276,191
2020	165,777	99,792	10,064	275,633
2021	170,834	94,659	9,567	275,060
2022	176,044	89,369	9,054	274,467
2023	181,413	83,918	8,526	273,857
2024-2028	993,516	331,823	34,128	1,359,467
2029-2033	1,154,556	168,325	18,289	1,341,170
2034-2035	512,626	15,754	2,320	530,700
Total	<u>\$ 3,515,637</u>	<u>\$ 988,413</u>	<u>\$ 102,495</u>	<u>\$ 4,606,545</u>

NOTE 7 – PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the District's separate Safety and Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Miscellaneous Classic Plan and all Safety Plan members with five years of total service are eligible to retire at age 50 and new Miscellaneous members/PEPRA Plan members with five years of total service are eligible to retire at age 52, with statutorily reduced benefits. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Pre-Retirement Option Settlement. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Contribution rates are based on the Actuarial Valuation Report as of June 30, 2016. The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
	Classic Member Hired Prior to January 1, 2013*	New Member Hired On or after January 1, 2013
Hire Date		
Benefit formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.46% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.50%
Required employer contribution rates	9.599% + \$34,831	6.908% + \$65

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – PENSION PLANS (Continued)

A. General Information about the Pension Plans (Continued)

	Safety	
	Classic Member Hired Prior to January 1, 2013*	New Member Hired On or after January 1, 2013
Hire Date		
Benefit formula	2% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	50-57
Monthly benefits, as a % of eligible compensation	2.0-2.7%	2.0% to 2.7%
Required employee contribution rates	9%	12.25%
Required employer contribution rates	\$10,728	12.729% +\$19

* A new employee may transfer into the Classic Member formula if he/she comes from another agency participating in the CalPERS or reciprocal retirement system and did not have more than a six month break in service.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$13,143 for the Safety Plan and \$84,824 for the Miscellaneous Plan for the fiscal year ended June 30, 2018.

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

At June 30, 2018, the District reported net pension liabilities for its proportionate shares of the net position liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 723,558
Safety	398,125
	<u>\$ 1,121,683</u>

The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2017, the District's proportionate share of the net pension liability for each Plan as of June 30, 2016 and June 30, 2017 was as follows:

	Miscellaneous	Safety
Proportion-June 30, 2016	0.01761%	0.00670%
Proportion-June 30, 2017	0.01835%	0.00666%
Change-Increase (Decrease)	<u>0.00074%</u>	<u>-0.00004%</u>

For the fiscal year ended June 30, 2018, the District recognized pension expense of \$188,065. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – PENSION PLANS (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,833	\$ 15,985
Changes in assumptions	197,259	15,074
Net difference between projected and actual earnings on retirement plan investments	44,046	
Adjustment due to differences in proportion	54,821	38,056
Changes in proportion and differences between District contributions and proportionate share of contributions	17,481	55,322
District contributions subsequent to the measurement date	97,967	
	<u>\$ 417,407</u>	<u>\$ 124,437</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

\$97,967 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

Fiscal year ending June 30,	Amount
2019	\$ 40,604
2020	114,901
2021	65,519
2022	(26,021)
	<u>\$ 195,003</u>

Actuarial Assumptions

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

	<u>Miscellaneous and Safety</u>
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return (1)	7.00%
Mortality	Derived using CalPERS' Membership Data for all Funds (1)

(1) Net of pension plan investment and administrative expenses including inflation

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – PENSION PLANS (Continued)

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

Change in Assumptions

In December 2016, as part of the Asset Liability Management (ALM) review cycle, the CalPERS Board approved to lower the financial reporting discount rate for PERF C from 7.65% to 7.15%.

Discount Rate

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

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

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100.0%		

(a) An expected inflation of 2.5% was used for this period.

(b) An expected inflation of 3.0% was used for this period.

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – PENSION PLANS (Continued)

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

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

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

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 1,144,116	\$ 628,297
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 723,558	\$ 398,125
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 375,245	\$ 209,970

Pension Plan Fiduciary Net Position

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

C. Payable to the Pension Plan

At June 30, 2018, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2018.

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NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

Plan administration. The District provides post-retirement medical coverage through CalPERS under the Public Employees Medical and Hospital Care Act (PEMHCA), also referred to as PERS Health.

Benefits provided. The District offers the same medical plans to its retirees as to its active employees, with the general exception that upon reaching age 65 and becoming eligible for Medicare, the retiree must join one of the Medicare Supplement coverages offered under PEMHCA.

Employees become eligible to retire and receive District-paid healthcare benefits upon attainment of age 50 and 5 years of covered PERS service, or by attaining qualifying disability retirement status. The District's contribution on behalf of retirees is the same as for active employees - 100% of the PEMHCA premium for retiree and covered dependents, but not to exceed \$128 per month. Benefits continue for the lifetime of the retiree with survivor benefits extended to surviving spouses for PERS annuitants who elect pension options with survivor benefits.

The District pays a 0.31% of premium administrative fee on behalf of employees and retirees.

Employees Covered

As of June 30, 2017, actuarial valuation, the following current and former employees were covered by the benefit terms under the District's Plan:

Active plan members	7
Inactive plan members or beneficiaries currently receiving benefits	<u>3</u>
Total	<u>10</u>

Contributions

The District currently finances benefits on a pay-as-you-go basis.

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Net OPEB Liability

The District's Net OPEB Liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of June 30, 2017. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

Actuarial assumptions. The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.00%
Healthcare cost trend rate	6.00% for 2017, 5.00% for 2018 and later years
PEMHCA Minimum increase rate	4.00% for 2019 and later

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

Actuarial assumptions used in the June 30, 2017 valuation were based on a review of plan experience during the period July 1, 2015 to June 30, 2017.

The long-term expected rate of return on OPEB 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. To achieve the goal set by the investment policy, plan assets will be managed to earn, on a long-term basis, a rate of return equal to or in excess of the target rate of return of 3.13 percent.

Discount rate. GASB 75 requires a discount rate that reflects the following:

- a) The long-term expected rate of return on OPEB plan investments — to the extent that the OPEB plan's fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return;
- b) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher — to the extent that the conditions in (a) are not met.

To determine a resulting single (blended) rate, the amount of the plan's projected fiduciary net position (if any) and the amount of projected benefit payments is compared in each period of projected benefit payments. The discount rate used to measure the District's total OPEB liability is based on these requirements and the following information:

Reporting Date	Measurement Date	Long-Term Expected Return of Plan Investments (if any)	Municipal Bond 20 Year High Grade Rate Index	Discount Rate
June 30, 2018	June 30, 2017	4.00%	3.13%	3.13%

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Changes in the OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017 (Valuation Date June 30, 2017)	<u>\$ 321,892</u>
Changes recognized for the measurement period:	
Service cost	16,079
Interest	9,870
Changes of assumptions	
Contributions - employer	
Net investment income	
Benefit payments	(13,190)
Administrative expense	
Net Changes	<u>12,759</u>
Balance at June 30, 2018 (Measurement Date June 30, 2017)	<u>\$ 334,651</u>

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13 percent) or 1-percentage-point higher (4.13 percent) than the current discount rate:

	1% Decrease <u>2.13%</u>	Discount Rate <u>3.13%</u>	1% Increase <u>4.13%</u>
Net OPEB Liability	387,305	334,651	292,341

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.00 percent decreasing to 4.00 percent) or 1-percentage-point higher (7.00 percent decreasing to 6.00 percent) than the current healthcare cost trend rates:

	1% Decrease <u>4.00%</u>	Trend Rate <u>5.00%</u>	1% Increase <u>6.00%</u>
Net OPEB Liability	288,906	334,651	392,132

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of \$25,949. As of the fiscal year ended June 30, 2018, the District reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	<u>\$ 4,698</u>	<u>\$ -</u>
	<u>\$ 4,698</u>	<u>\$ -</u>

The \$4,698 deferred outflow for OPEB contributions subsequent to the measurement date will be recognized in OPEB expense in the fiscal year ended June 30, 2019.

NOTE 9 – OPERATING LEASES

The District has commitments to lease certain office equipment and facilities. The District leases its administrative facilities for \$2,900 a month. A new five-year lease began in November 2016 for Suites 102 and 106. The District leases a copier at \$374 a month. This lease is renewable annually at the District's option in September each year.

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – FUND DEFICITS

As of June 30, 2018, the following funds had a fund deficit:

Non-major Governmental Funds:	
Bayridge Fund	\$ 50,378
Vista de Oro Fund	38,003
Proprietary Fund:	
Wastewater Treatment Project Fund	90,213
Total	<u>\$ 178,594</u>

NOTE 11 – FIDUCIARY BONDED DEBT – NON-DISTRICT DEBT

This debt is held in a trustee capacity for the homeowners of the Wastewater Assessment District No. 1 where the assessments are received from the Assessment District's property owners as collected on the County tax roll in order to pay the 2002 Wastewater Improvement Bonds debt service payments.

Wastewater Improvement Bonds

Wastewater Improvement Bonds			
For the Fiscal Year Ending June 30	Principal	Interest	Total
2019	\$ 530,000	\$ 613,250	\$ 1,143,250
2020	555,000	586,125	1,141,125
2021	585,000	557,625	1,142,625
2022	615,000	527,625	1,142,625
2023	645,000	496,125	1,141,125
2024-2028	3,730,000	1,951,750	5,681,750
2029-2033	4,770,000	894,500	5,664,500
2034	1,100,000	27,500	1,127,500
Total	<u>\$ 12,530,000</u>	<u>\$ 5,654,500</u>	<u>\$ 18,184,500</u>

NOTE 12 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, property loss and damage, errors and omissions, and employee injury. The District carries all its insurance coverage over these risks and also for Workers' Compensation through the Special Districts Risk Management Authority (SDRMA). This agency is a Joint Powers Authority (JPA) consisting of special districts in the State of California. It is governed by a seven-member Board of Directors. All seven are elected at large from the membership to serve four year terms. It has about 505 public agencies participating in the Property/Liability program and 442 agencies in its Workers' Compensation program. SDRMA's audit report for the fiscal year 2016-17 shows it had Net Position of about \$50.2 million.

The District has never incurred any uninsured losses since its inception.

NOTE 13 – CONTINGENCIES AND COMMITMENTS

Commitment to Pay into the 2002 Bond Reserve

On September 2, 2006, the District used \$714,268 of fiduciary fund bond reserves for the Wastewater Project. As part of the Amended Bankruptcy Plan, the Class 5 Secured Claim of MBIA Insurance Corp. arose out of the bonds that were issued by LOCSD Wastewater Assessment District No. 1 to fund part of the Wastewater Project (Old Project).

MBIA was the insurer of those bonds. As stated above the District used bond reserves for District purposes. The District has committed to pay at least \$25,000 per year. This amount plus any investment income earned by all funds held by the bond trustee will be used to bring the reserve account to its required level of \$1,158,500.

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 – CONTINGENCIES AND COMMITMENTS (Continued)

Commitment to Pay into the 2002 Bond Reserve (Continued)

In FY 2014/2015 the District in cooperation with US Bank conducted a full audit of this fund from its inception through June 30, 2015. After making the payments for FY 2013/2014, FY 2014/2015, and processing all payments currently held by the LOCSD for prior years, the Reserve balance as of June 30, 2018 is \$918,002. As of June 30, 2018, \$247,334 less interest earned in the Reserve account is still needed to restore the reserve to its required level. For FY 2015/2016 the LOCSD Board authorized a \$12 per parcel administrative charge be included on the San Luis Obispo Tax Rolls as allowed by the bond documents. Consistent with the bankruptcy order these funds are to be used to pay the MBIA claim by making the payments annually to US Bank to restore the fund in the Improvement Bond Reserve. The \$25,000 bank transfer order for the fiscal year ended June 30, 2018 was not filled and as a result the District will make \$50,000 in payments in the next fiscal year.

Other Commitments

In September 2007, the District entered into an Interlocutory Stipulated Judgment (ISJ) with three other water purveyors in the community. The judgment was intended to provide a coordinated effort of all parties to manage the water basin by first preparing a comprehensive plan to address deficiencies that threaten the long-term viability of the water basin. The judgment provided for an equitable sharing of costs. The District's share is thirty-nine percent (39%). The District is current on this commitment which is funded in its annual budget.

NOTE 14 – RESTATEMENTS

The District had the following restatements for the fiscal year ended June 30, 2018:

	<u>Statement of Activities</u>		<u>Fund Statements</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
Governmental Funds:				
Governmental Activities				
The District adopted the new GASB 75 for reporting of OPEB.	\$ (45,447)	\$ -	\$ -	\$ -
General Fund				
Overstatement of accounts payable in the prior year.	36,755		36,755	
Bayridge Fund				
In the past, the loan from the Water Fund was misclassified as a transfer instead of as a formal loan agreement.	(125,000)		(125,000)	
Vista de Oro Fund				
In the past, the loan from the Water Fund was misclassified as a transfer instead of as a formal loan agreement.	(30,000)		(30,000)	
Proprietary Funds:				
Water Fund				
In the past, the loans with Bayridge and Vista de Oro funds were misclassified as a transfer instead of as a formal loan agreement.		155,000		155,000
The District adopted the new GASB 75 for reporting of OPEB.		(211,169)		(211,169)
	<u>\$ (163,692)</u>	<u>\$ (56,169)</u>	<u>\$ (118,245)</u>	<u>\$ (56,169)</u>

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REQUIRED SUPPLEMENTARY INFORMATION

Draft

LOS OSOS COMMUNITY SERVICES DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Use of money and property	\$ -	\$ -	\$ 3,441	\$ 3,441
Other			941	941
Total revenues			4,382	4,382
Expenditures:				
Personnel	149,353	152,124	155,866	(3,742)
Contract services	53,913	53,913	58,685	(4,772)
Financial services	3,000	3,725	3,591	134
Insurance, licenses, and regulatory fees	30,996	30,996	26,614	4,382
Legal and professional	239,960	239,960	209,837	30,123
Office expenses	17,420	17,420	16,579	841
Other expenses	200	300	60	240
Rent and utilities	40,679	40,679	42,874	(2,195)
Repairs and maintenance	110	110	64	46
Travel and training	5,050	5,050	2,604	2,446
Total expenditures	540,681	544,277	516,774	27,503
Excess of revenues over (under) expenditures	(540,681)	(544,277)	(512,392)	31,885
Other Financing Sources (Uses)				
Transfers in	540,681	544,277	507,637	(36,640)
Total other financing sources (uses)	540,681	544,277	507,637	(36,640)
Net change in fund balance			(4,755)	(4,755)
Fund balance - July 1	(134)	(134)	(134)	
Restatement			36,755	36,755
Fund balances - July 1, restated	(134)	(134)	36,621	36,755
Fund balance - June 30	\$ (134)	\$ (134)	\$ 31,866	\$ 32,000

LOS OSOS COMMUNITY SERVICES DISTRICT
FIRE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 2,014,307	\$ 2,014,307	\$ 2,198,774	\$ 184,467
Special taxes and assessments	569,096	569,096	434,904	(134,192)
Intergovernmental	2,000	2,000	14,596	12,596
Public services fees	67,134	67,134	71,070	3,936
Use of money and property			6,074	6,074
Other	34,763	59,763	35,463	(24,300)
Total revenues	2,687,300	2,712,300	2,760,881	48,581
Expenditures:				
Personnel	152,679	160,109	177,567	(17,458)
Clothing and uniforms	3,200	2,530	678	1,852
Contract services	9,030	8,845	12,755	(3,910)
Contract services - Schedule A	2,164,108	2,164,208	2,168,721	(4,513)
Equipment and tools	135,811	131,863	41,120	90,743
Financial services	1,820	2,171	1,120	1,051
Insurance, licenses, and regulatory fees	23,200	21,850	20,675	1,175
Legal and professional	2,600	2,709	2,169	540
Office expenses	11,530	9,175	9,511	(336)
Other expenses	4,650	4,688	3,243	1,445
Rent and utilities	11,057	13,946	14,285	(339)
Repairs and maintenance	7,050	9,170	7,174	1,996
Travel and training	7,275	2,668	1,027	1,641
Capital outlay	165,000	180,500	244,967	(64,467)
Total expenditures	2,699,010	2,714,432	2,705,012	9,420
Excess of revenues over (under) expenditures	(11,710)	(2,132)	55,869	58,001
Other Financing Sources (Uses)				
Transfers out	(54,068)	(54,068)	(50,764)	3,304
Total other financing sources (uses)	(54,068)	(54,068)	(50,764)	3,304
Net change in fund balance	(65,778)	(56,200)	5,105	61,305
Fund balance - July 1	2,138,876	2,138,876	2,138,876	
Fund balance - June 30	\$ 2,073,098	\$ 2,082,676	\$ 2,143,981	\$ 61,305

LOS OSOS COMMUNITY SERVICES DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 Last 10 Years*
 As of June 30, 2018

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

	2018	2017	2016	2015
Proportion of the net pension liability	0.01131%	0.01108%	0.00994%	0.00998%
Proportionate share of the net pension liability	\$ 1,121,683	\$ 958,726	\$ 682,047	\$ 621,010
Covered payroll	\$ 554,757	\$ 655,035	\$ 619,826	\$ 413,539
Proportionate share of the net pension liability as a percentage of covered payroll	202.19%	146.36%	110.04%	150.17%
Plan's total pension liability	\$ 37,161,348,332	\$ 33,358,627,624	\$ 31,771,217,402	\$ 30,829,966,631
Plan's fiduciary net position	\$ 27,244,095,376	\$ 24,705,532,291	\$ 24,907,305,871	\$ 24,607,502,515
Plan fiduciary net position as a percentage of the total pension liability	73.31%	74.06%	78.40%	79.82%

Notes to Schedule:

Changes in assumptions

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

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

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

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

LOS OSOS COMMUNITY SERVICES DISTRICT
SCHEDULE OF CONTRIBUTIONS
 Last 10 Years*
 As of June 30, 2018

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 97,967	\$ 89,855	\$ 109,190	\$ 95,817
Contribution in relation to the actuarially determined contributions	(97,967)	(89,855)	(109,190)	(95,817)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 557,148	\$ 554,757	\$ 655,035	\$ 619,826
Contributions as a percentage of covered payroll	17.58%	16.20%	16.67%	15.46%

Notes to Schedule

Valuation Date: 6/30/2016

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2017/2018 were derived from the June 30, 2017 funding valuation report.

Actuarial Cost Method Entry Age Normal

Amortization Method/Period For details, see June 30, 2016 funding valuation report.

Inflation 2.75%

Salary Increases Varies by entry age and service

Payroll Growth 3.00%

Investment Rate of Return 7.0% net of pension plan investment and administrative expenses; includes inflation.

Retirement Age The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.

Mortality The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

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

LOS OSOS COMMUNITY SERVICES DISTRICT
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
 Last 10 Years*
 As of June 30, 2018

Measurement Period	2018
Total OPEB Liability	
Service cost	\$ 16,079
Interest on the total OPEB liability	9,870
Actual and expected experience difference	
Changes in assumptions	
Changes in benefit terms	
Benefit payments	(13,190)
Net change in total OPEB Liability	<u>12,759</u>
Total OPEB liability- beginning	321,892
Total OPEB liability- ending (a)	<u>\$ 334,651</u>
Covered payroll	<u>\$ 430,762</u>
Total OPEB liability as a percentage of covered payroll	77.69%

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*- Fiscal year 2018 was the 1st year of implementation, therefore only one year is shown.

LOS OSOS COMMUNITY SERVICES DISTRICT
SCHEDULE OF OPEB CONTRIBUTIONS
Last 10 Years*
As of June 30, 2018

As of June 30, 2018, the plan is not administered through a qualified trust. Therefore there is no Actuarially Determined Contribution (ADC). Benefit payments of \$4,698 were made on a pay-as-you-basis for the fiscal year ended June 30, 2018.

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SUPPLEMENTARY INFORMATION

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LOS OSOS COMMUNITY SERVICES DISTRICT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
 June 30, 2018

	Bayridge	Vista de Oro	Drainage	Parks and Recreation	Total
ASSETS					
Cash and investments	\$ 49,714	\$ -	\$ 335,606	\$ -	\$ 385,320
Restricted cash and investments				291,656	291,656
Accounts receivable	640	263	2,963		3,866
Prepays	471				471
Total assets	\$ 50,825	\$ 263	\$ 338,569	\$ 291,656	\$ 681,313
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 326	\$ -	\$ 434	\$ -	\$ 760
Loan from Water Fund	100,877	24,210			125,087
Due to other funds		14,056			14,056
Total liabilities	101,203	38,266	434		139,903
Fund Balances:					
Nonspendable:					
Prepaid items	471				471
Restricted			338,135	291,656	629,791
Unassigned	(50,849)	(38,003)			(88,852)
Total fund balances (deficit)	(50,378)	(38,003)	338,135	291,656	541,410
Total liabilities and fund balances	\$ 50,825	\$ 263	\$ 338,569	\$ 291,656	\$ 681,313

LOS OSOS COMMUNITY SERVICES DISTRICT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2018

	Bayridge	Vista de Oro	Drainage	Parks and Recreation	Total
Revenues:					
Property taxes	\$ 8,917	\$ -	\$ 23,635	\$ -	\$ 32,552
Special taxes and assessments			95,340		95,340
Service charges and fees	54,831	15,768			70,599
Use of money and property	8	9	508	2,355	2,880
Other			717		717
Total revenues	63,756	15,777	120,200	2,355	202,088
Expenditures:					
Personnel			18,812		18,812
Equipment and tools			763		763
Insurance, licenses, and regulatory fees	800	500	9,607		10,907
Legal and professional	1,872	883	769	875	4,399
Office expenses			475		475
Rent and utilities	6,402	2,533	4,605		13,540
Repairs and maintenance	6,324	2,263	2,722		11,309
Travel and training			3,216		3,216
Vehicle maintenance and repairs			1,595		1,595
Capital outlay			87,331		87,331
Debt service:					
Interest	3,841	922			4,763
Total expenditures	19,239	7,101	129,895	875	157,110
Excess of revenues over (under) expenditures	44,517	8,676	(9,695)	1,480	44,978
Other Financing Sources (Uses)					
Transfers out	(2,538)	(2,538)	(10,153)	(5,076)	(20,305)
Total other financing sources (uses)	(2,538)	(2,538)	(10,153)	(5,076)	(20,305)
Net change in fund balances	41,979	6,138	(19,848)	(3,596)	24,673
Fund balances - July 1	32,643	(14,141)	357,983	295,252	671,737
Restatement	(125,000)	(30,000)			(155,000)
Fund balances - July 1, restated	(92,357)	(44,141)	357,983	295,252	516,737
Fund balances (deficit) - June 30	\$ (50,378)	\$ (38,003)	\$ 338,135	\$ 291,656	\$ 541,410

