Agenda Item: 3

Date: November 30, 2026

Los Osos Community Services District
STAFF REPORT

TO: Finance Advisory Committee

FROM: Greg Kwolek, General Manager
Laura Durban, Administrative Services Manager
Adrienne Geidel, Bookkeeper

SUBJECT: Receive and Recommend Approval for the District's Draft Fiscal Year 2025-2026 Financial Audit

STAFF RECOMMENDATION

Staff recommends the Finance Advisory Committee review and recommend to the Board of Directors to receive and file the Draft Fiscal Year Audit for Fiscal Year 2025-2026.

DESCRIPTION

The firm Fetcher & Company was contracted to perform the District's fiscal year 2025-2026 financial audit. District staff facilitated the audit by providing all requested records and reports, as well as being available for direct interviews by the audit team. The resulting state of compliance of Fechter & Company is as follows (excerpt from the Auditor Report page 62):

> *As part of obtaining reasonable assurance about whether the Los Osos Community Services District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.*

Additionally, the auditors did not identify any deficiencies in internal controls that they consider to be material weaknesses. The District corrected two errors in previously issued financial statements, discussed on page 5 of the MD&A and page 52 of the Notes to the Audited Financial Statements. These corrections related to the measurement of compensated absences under GASB Statement No. 101 which was effective for fiscal year 2024-25 but not implemented by the district until 2025-26, a year late. The other adjustment related to the accounting for the solid waste franchise asset and related loan payable, which originally did not account for the time-value of money in the amortization of the loan.

Key Points from 2025-26.
The following are the highlights from fiscal year 2025-26:

- The District's financial position strengthened during the 2025/2026 fiscal year as we anticipated large upcoming projects. Looking at page 6, you'll see the Ending Net Position increased by $2,517,116 million during 2025/2026.
- Water service fees increased by $243,663.
- Government related property tax revenues increased by $133,533.

ASM: _LD__	AGM/DE: ____
DGC: ____	GM: _GK

- Zone B property tax and Special Fire tax revenues performed as expected.
- Governmental expenses increased by $607,067 mainly due to the Schedule A contract costs paid to San Luis Obispo County Fire/CALFIRE.
- Investment income fell $214,208 over FY 2024/2025 as yields and investment fair values declined. The District still earned $395,858 in investment income for FY 2025/2026.

Other Audit Sections of Interest

- Summary of Governmental Funds (General, Fire, Drainage, Non-major) Revenues and Expenses (page13).
- Summary of Proprietary Funds (Water, Wastewater, Solid Waste) Revenues and Expenses (page 17).
- Cash and Investment Summary (starting page 32).
- Discussion on Pension Liabilities (starting at the bottom of page 41).
- Year-end Budgetary Comparison for General (Administration), Fire, Drainage (page 53)
- Combined Balance Sheets for Non-major Governmental Funds; Bayridge, Vista de Oro, Parks & Recreation (page 59).

A copy of the complete audit can be found on the District's website at www.losososcsd.org or by contacting the District's office at 805-528-9370.

FINANCIAL IMPACT

There are no fiscal impacts directly associated with the recommended action.

ATTACHMENT

1. 2025/2026 Final Draft Audit

FECHTER & COMPANY
Certified Public Accountants

LOS OSOS
COMMUNITY SERVICES DISTRICT

Annual Financial Report
and
Supplementary Information
with
Independent Auditor's Report Thereon

June 30, 2026

DRAFT 11-24-2026

LOS OSOS COMMUNITY SERVICES DISTRICT
FOR THE FISCAL YEAR ENDED
2026

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FINANCIAL SECTION

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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 (the District), as of and for the fiscal year ended 2026, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Osos Community Services District, as of 2026, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the previously issued financial statements have been restated to correct a material misstatement. Our opinions are not modified with respect to this matter.

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Responsibilities of Management 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9**,** the budgetary comparison information on pages 53-55, the schedule of proportionate share of net pension liability on page 56, the schedule of pension contributions on page 57, and the schedule of changes in net OPEB liability on page 58, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries of the 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.

Supplementary 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 governmental funds financial statements on pages 59 - 60 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.

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

Other Report Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated DATE, 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, 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.

Fechter & Company
Certified Public Accountants

Sacramento, California
DATE

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This discussion accompanies the Los Osos Community Services District's financial statements for the fiscal year ended June 30, 2026. It explains what changed in the District's finances during the year and why, and describes the decisions and projects expected to affect future years. Read it alongside the financial statements and accompanying notes for more detail.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements give readers two views of the District's finances. The government-wide statements show the District as a whole, including infrastructure, debt, and obligations such as pensions and other postemployment benefits. They separate governmental activities (general government, fire protection, drainage, street lighting, and parks and recreation) from business-type activities (water, the wastewater treatment project, and solid waste). Governmental activities are supported primarily by taxes and assessments. Charges for services are a major source of revenue for business-type activities.

The fund statements show how the District accounts for resources assigned to particular services or purposes. The governmental fund statements focus on resources available to spend in the near term. The reconciliations explain how those statements relate to the government-wide figures, which also account for capital assets and long-term obligations. The proprietary fund statements use the same full accrual basis as the government-wide statements. Starting in fiscal year 2025-26, they show operating results and noncapital subsidies separately from other nonoperating items under GASB Statement No. 103.

The notes provide detail behind the figures in the statements. The budget schedules in the required supplementary information show how the original and final budgets differed and how actual results compared with the final budget.

The District corrected two items reported in prior years. It updated how it measures leave owed to employees under GASB Statement No. 101, which first applied in fiscal year 2024-25. It also corrected the accounting for the solid waste franchise asset and related loan to reflect the time value of money. These corrections increased beginning net position for governmental activities by $18,494 and reduced beginning net position for business-type activities by $73,054. Together, they reduced the District's beginning net position by $54,560, to $21,828,729.

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FINANCIAL SUMMARY

The condensed Statement of Net Position compares the District's financial position at year-end.

	June 30, 2026			June 30, 2025 (restated)			Total
	Governmental	Business-Type	Total	Governmental	Business-Type	Total	Change
Assets:							
Current and other assets	$ 9,540,274	$ 5,560,875	$15,101,149	$ 8,242,816	$ 5,943,064	$14,185,880	$ 915,269
Capital assets	2,170,368	12,156,394	14,326,762	2,331,350	10,732,928	13,064,278	1,262,484
Total assets	11,710,642	17,717,269	29,427,911	10,574,166	16,675,992	27,250,158	2,177,753
Deferred outflows of resources	215,383	299,123	514,506	256,915	386,295	643,210	(128,704)
Liabilities:							
Long-Term liabilities	675,330	3,596,751	4,272,081	825,702	4,194,683	5,020,385	(748,304)
Other liabilities	150,577	786,760	937,337	86,854	773,605	860,459	76,878
Total liabilities	825,907	4,383,510	5,209,417	912,556	4,968,288	5,880,844	(671,427)
Deferred inflows of resources	135,452	251,703	387,155	74,271	109,524	183,795	203,360
Net Position:							
Net investments in capital assets	2,116,825	9,454,284	11,571,109	2,240,219	7,726,258	9,966,477	1,604,632
Restricted	8,625,519	-	8,625,519	7,459,642	-	7,459,642	1,165,877
Unrestricted	222,322	3,926,895	4,149,217	144,393	4,258,217	4,402,610	(253,393)
Total net position	$10,964,666	$13,381,179	$24,345,845	$ 9,844,254	$11,984,475	$21,828,729	$ 2,517,116

The condensed Statement of Activities shows what changed the District's net position.

	June 30, 2026			June 30, 2025 (restated)			Total
	Governmental	Business-Type	Total	Governmental	Business-Type	Total	Change
Revenues							
Program revenues:							
Charges for services	$ 106,665	$ 3,759,342	$ 3,866,007	$ 103,853	$ 3,515,679	$ 3,619,532	$ 246,475
Operating grants and contributions	45,218	245,508	290,726	62,636	113,637	176,273	114,453
Capital grants and contributions	-	150,412	150,412	-	-	-	150,412
General revenues:							
Property taxes	3,350,508	57,949	3,408,457	3,216,975	61,163	3,278,138	130,319
Special assessments	823,703	-	823,703	797,410	-	797,410	26,293
Investment income	239,796	156,062	395,858	323,995	286,071	610,066	(214,208)
Other revenues	1,305	40,155	41,460	812	3,935	4,747	36,713
Total revenues	4,567,195	4,409,428	8,976,623	4,505,681	3,980,485	8,486,166	490,457
Expenses							
General government	893,171	-	893,171	803,055	-	803,055	90,116
Fire protection	3,066,625	-	3,066,625	2,592,363	-	2,592,363	474,262
Drainage	66,260	-	66,260	66,064	-	66,064	196
Street lighting	9,109	-	9,109	9,384	-	9,384	(275)
Parks and recreation	45,249	-	45,249	2,481	-	2,481	42,768
Water	-	2,231,146	2,231,146	-	2,318,364	2,318,364	(87,218)
Wastewater treatment	-	18,437	18,437	-	17,727	17,727	710
Solid waste	-	129,510	129,510	-	158,262	158,262	(28,752)
Total expenses	4,080,414	2,379,093	6,459,507	3,473,347	2,494,353	5,967,700	491,807
Excess before transfers	486,781	2,030,335	2,517,116	1,032,334	1,486,132	2,518,466	(1,350)
Transfers	633,631	(633,631)	-	652,113	(652,113)	-	-
Change in net position	1,120,412	1,396,704	2,517,116	1,684,447	834,019	2,518,466	(1,350)
Beginning net position	9,844,254	11,984,475	21,828,729	8,159,807	11,150,456	19,310,263	2,518,466
Ending net position	$10,964,666	$13,381,179	$24,345,845	$ 9,844,254	$11,984,475	$21,828,729	$ 2,517,116

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DETAILED ANALYSIS OF BALANCES AND TRANSACTIONS

Government-wide results

The District ended the year with net position of $24,345,845, an increase of $2,517,116. Governmental activities accounted for $1,120,412 of the increase, and business-type activities accounted for $1,396,704.

Governmental activities

Higher assessed property values in the District's fire and drainage tax areas increased property tax revenue by $133,533. Investment income fell by about $84,199 as yields declined and the fair value of investments fell. For example, the Local Agency Investment Fund yield averaged 4.11%, down from 4.55% the prior year. Along with the CAL FIRE Schedule A contract, personnel costs rose by about $440,000 after a position was filled and cost-of-living adjustments took effect. The budget assumes personnel are paid at the top salary step. Actual costs were $2,376,174 against a budget of $3,358,062.

Business-type activities

Charges for services rose $243,663, or 6.9%, as water rates increased on July 1, 2025 and customers used more water. Water expenses fell $87,218, reflecting lower pension-related costs and lower spending on power and legal and professional services. Operating grants and reimbursements totaled $245,508 and supported groundwater modeling and related basin projects. The District also received $150,412 in state capital grants for the Program C Well. Investment income fell $130,009 as yields and investment fair values declined. The enterprise funds transferred $633,631 to governmental activities for their share of District administration.

Long-term liabilities

Long-term liabilities decreased $748,304. This included a $263,047 reduction in the District's share of the CalPERS net pension liability following favorable investment returns during the pension measurement period. Total deferred inflows of resources increased $203,360. Pension-related deferred inflows from investment gains will reduce pension expense in future years.

Major fund analysis

General Fund

Fund balance fell $54,484 to $163,952, of which $86,964 was unassigned. The fund receives little revenue directly and received $768,038 in transfers from other funds to cover shared administrative costs. Expenditures exceeded the final budget by $74,734, mainly because of recruitment costs and six weeks of overlap between the outgoing and incoming general managers.

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Fire Fund

Fund balance increased $1,130,531 to $8,400,516. Schedule A contract costs came in $981,888 below budget. Of the ending balance, $8,288,733 is restricted to fire and emergency services under voter-approved taxes and assessments. The Board plans to use these resources for future contract costs and potential fire station improvements.

Water Fund

Net position increased $1,152,660. Operating income was $1,131,582, or $889,732 after accounting for noncapital subsidies. Capital assets increased from $9,860,006 to $11,389,299 as the District advanced several projects, including the water system's supervisory control and data acquisition system (SCADA), the 10th Street Tank rehabilitation, and the State Water Intertie. The Board has designated unrestricted Water Fund net position for capital replacement and rate stabilization.

SIGNIFICANT CAPITAL ASSET AND LONG-TERM FINANCING ACTIVITY

Capital assets

Business-type net capital assets increased by about $1.42 million to $12,156,394. The District completed the Program C Well and the 10th Street Tank rehabilitation and moved $3,725,799 from construction in progress to infrastructure. Capital additions totaled $1,859,305, and $1,525,081 remained in construction in progress at year-end. Remaining contractual commitments were $22,824 for the Water Yard Office, $106,127 for SCADA, $69,258 for the 16th Street Booster Pump, and $447,289 for the State Water Intertie. Governmental capital additions totaled $36,658, mainly for fire equipment and building improvements. The District retired equipment with an original cost of $30,644. Governmental net capital assets fell $160,982 because depreciation exceeded additions. Note 4 provides additional detail.

Long-term financing

The District issued no new debt during the year. Scheduled payments reduced the CIEDB direct borrowing by $202,150 to $2,062,615 and the solid waste franchise loan by $102,410 to $639,495. The CIEDB loan carries a 2.50% interest rate, matures August 1, 2034, and is secured by net water system revenues. The governmental facility lease liability decreased by $39,117 to $53,543. The District has no credit rating. Notes 5 and 6 provide additional detail.

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CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The District's financial outlook reflects the fiscal year 2026-27 budget adopted June 4, 2026, as well as decisions about how to fund major projects. The matters below affect operating costs, revenues, and reserves for fire protection, water, parks, and drainage.

- **Fire services and facilities.** The Fire Fund budget projects $4.18 million in revenues and $4.09 million in expenditures. The District now contracts directly with CAL FIRE for Schedule A services. The $3.15 million contract is about 6% below the prior-year budget for those services. The District is also considering remodeling or rebuilding the fire station and expects to use restricted Fire Fund reserves for improvements. The scope and cost will depend on the option selected.

- **Water rates and reserves.** The Water Fund budget projects $3.54 million in revenues and $2.91 million in expenses and $2.79 million for capital projects. The District plans to use capital reserves to help pay for that work. Effective July 1, 2026, the fixed water service charge rose 2.25% and the charge based on water use rose 7.75% under the adopted Proposition 218 rate schedule. Actual rate revenue will depend in part on customer water use.

- **Water capital projects.** The capital budget includes $1 million for the Los Osos Creek crossing of the State Water Intertie, which would bring in State Water Project supplies and reduce reliance on local groundwater. It also includes $600,000 for the 3rd Street Well project to replace the well building and add blending equipment to address the state's hexavalent chromium standard. Other planned work includes SCADA and the 16th Street Booster Pump.

- **Sunnyside property acquisition.** Voters approved Measure B-26 in June 2026, providing dedicated revenue for parks, including acquisition of the former Sunnyside School property and ongoing park operations and maintenance. The District is evaluating acquisition and financing options with the San Luis Coastal Unified School District. The final purchase terms and financing will determine the timing and amount of the District's payments.

- **Cabrillo stormwater basin.** Temporary repairs restored the basin after the January 2023 storm damage. The District is evaluating grant funding for a permanent repair. The amount of outside funding will determine how much the District needs to fund locally.

For more information about the District, visit www.losososcsd.org.
Thank you,

Gregory Kwolek, General Manager
Los Osos Community Services District

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

DRAFT 11-24-2026

LOS OSOS COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2026

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and investments	$ 8,034,700	$ 4,473,306	$ 12,508,006
Accounts receivable, net	35,607	722,136	757,743
Property tax receivable	1,049,853	12,184	1,062,037
Grants receivable	1,274	26,527	27,801
Inventory	-	57,822	57,822
Prepaid items	189,436	156,507	345,943
Other assets	-	900	900
Internal balances	(111,493)	111,493	-
Total current assets	9,199,377	5,560,875	14,760,252
Non-current assets:			
Restricted cash and investments	340,897	-	340,897
Capital assets, net	2,170,368	12,156,394	14,326,762
Total non-current assets	2,511,265	12,156,394	14,667,659
Total assets	11,710,642	17,717,269	29,427,911
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	209,601	266,360	475,961
Deferred outflows of resources related to OPEB	5,782	32,763	38,545
Total deferred outflows of resources	215,383	299,123	514,506
Liabilities			
Current liabilities:			
Accounts payable	35,795	325,102	360,897
Accrued liabilities	34,689	28,672	63,361
Accrued interest payable	-	21,486	21,486
Compensated absences - current portion	40,087	99,078	139,165
Lease liability - current portion	40,006	-	40,006
Loans payable - current portion	-	312,422	312,422
Total current liabilities	150,577	786,760	937,337
Non-current liabilities:			
Compensated absences	46,195	86,659	132,854
OPEB liability	51,728	293,126	344,854
Lease liability - non-current portion	13,537	-	13,537
Loans payable	-	2,389,688	2,389,688
Net pension liability	563,870	827,278	1,391,148
Total non-current liabilities	675,330	3,596,751	4,272,081
Total liabilities	825,907	4,383,510	5,209,417
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions	108,325	97,982	206,307
Deferred inflows of resources related to OPEB	27,127	153,721	180,848
Total deferred inflows of resources	135,452	251,703	387,155
Net Position			
Net investment in capital assets	2,116,825	9,454,284	11,571,109
Restricted for:			
Fire and emergency services	8,288,733	-	8,288,733
Parks and recreation	336,786	-	336,786
Unrestricted (deficit)	222,322	3,926,895	4,149,217
Total net position	$ 10,964,666	$ 13,381,179	$ 24,345,845

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The accompanying notes are an integral part of these financial statements.

LOS OSOS COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
JUNE 30, 2026

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Primary Government:							
Governmental activities:							
General government	$ 893,171	$ -	$ 42,386	$ -	$ (850,785)	$ -	$ (850,785)
Fire protection	3,066,625	90,667	2,832	-	(2,973,126)	-	(2,973,126)
Drainage	66,260	-	-	-	(66,260)	-	(66,260)
Street lighting	9,109	15,998	-	-	6,889	-	6,889
Parks and recreation	45,249	-	-	-	(45,249)	-	(45,249)
Total governmental activities	4,080,414	106,665	45,218	-	(3,928,531)	-	(3,928,531)
Business-type activities:							
Water	2,231,146	3,303,947	245,508	150,412	-	1,468,721	1,468,721
Wastewater treatment project	18,437	22,490	-	-	-	4,053	4,053
Solid waste	129,510	432,905	-	-	-	303,395	303,395
Total business-type activities	2,379,093	3,759,342	245,508	150,412	-	1,776,169	1,776,169
Total primary government	$ 6,459,507	$ 3,866,007	$ 290,726	$ 150,412	(3,928,531)	1,776,169	(2,152,362)
	General revenues:						
	Taxes:						
	Property taxes				3,350,508	57,949	3,408,457
	Special assessments				823,703	-	823,703
	Investment income				239,796	156,062	395,858
	Other general revenues				1,305	40,155	41,460
	Transfers				633,631	(633,631)	-
	Total general revenues and transfers				5,048,943	(379,465)	4,669,478
	Change in net position				1,120,412	1,396,704	2,517,116
	Net position - beginning				9,825,760	12,057,529	21,883,289
	Prior period adjustment				18,494	(73,054)	(54,560)
	Restated net position - beginning				9,844,254	11,984,475	21,828,729
	Net position - ending				$ 10,964,666	$ 13,381,179	$ 24,345,845

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The accompanying notes are an integral part of these financial statements.

BASIC FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

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LOS OSOS COMMUNITY SERVICES DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2026

	General	Fire Fund	Nonmajor Governmental Funds	Total
Assets				
Cash and investments	$ 123,146	$ 7,236,153	$ 675,401	$ 8,034,700
Restricted cash and investments	-	-	340,897	340,897
Accounts receivable, net	398	35,209	-	35,607
Property tax receivable	-	1,044,776	5,077	1,049,853
Grants receivable	-	1,274	-	1,274
Prepaid items	76,988	111,783	665	189,436
Total assets	$ 200,532	$ 8,429,195	$ 1,022,040	$ 9,651,767
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 7,648	$ 22,922	$ 5,225	$ 35,795
Accrued liabilities	28,932	5,757	-	34,689
Loan from Water Fund	-	-	111,493	111,493
Total liabilities	36,580	28,679	116,718	181,977
Fund Balances				
Nonspendable				
Prepaid items	76,988	111,783	665	189,436
Restricted				
Fire and emergency services	-	8,288,733	-	8,288,733
Parks and recreation	-	-	336,786	336,786
Drainage services	-	-	520,490	520,490
Bayridge functions	-	-	43,512	43,512
Vista de Oro			3,869	3,869
Unassigned	86,964	-	-	86,964
Total fund balances	163,952	8,400,516	905,322	9,469,790
Total Liabilities and Fund Balances	$ 200,532	$ 8,429,195	$ 1,022,040	$ 9,651,767

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The accompanying notes are an integral part of these financial statements.

LOS OSOS COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2026

Total fund balances-governmental funds	$ 9,469,790
In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including right-of-use assets, capital assets, and related accumulated amortization and depreciation.	
Capital assets at historical cost	$ 4,378,112
Less: Accumulated depreciation	(2,207,744)
Net	2,170,368
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	(86,282)
Net pension liability	(563,870)
Net OPEB liability	(51,728)
Lease liability	(53,543)
Total	(755,423)
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 outflows of resources relating to:	
Pensions	209,601
OPEB	5,782
Deferred inflows of resources relating to:	
Pensions	(108,325)
OPEB	(27,127)
Total	79,931
Net position of governmental activities	$ 10,964,666

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LOS OSOS COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED
JUNE 30, 2026

	General	Fire Fund	Nonmajor Governmental Funds	Total
Revenues:				
Property taxes	$ -	$ 3,152,915	$ 197,593	$ 3,350,508
Special taxes and assessments	-	727,175	96,528	823,703
Grant revenue	42,386	2,832	-	45,218
Services charges and fees	-	90,667	15,998	106,665
Use of money and property	4,088	208,312	27,396	239,796
Other revenues	631	525	149	1,305
Total revenues	47,105	4,182,426	337,664	4,567,195
Expenditures:				
Personnel	497,124	279,651	13,558	790,333
Clothing and uniforms	299	6,613	-	6,912
Contract services	92,415	6,152	-	98,567
Contract services - Schedule A	-	2,376,174	-	2,376,174
Equipment and tools	-	98,312	367	98,679
Financial services	6,698	-	-	6,698
Insurance, licenses, and regulatory fees	78,121	91,514	11,302	180,937
Legal and professional	97,316	10,388	45,973	153,677
Office expenses	16,980	7,020	188	24,188
Other expenses	29,265	5,704	-	34,969
Rent and utilities	8,393	19,907	11,774	40,074
Travel and training	2,147	766	-	2,913
Repairs and maintenance	69	19,533	6,940	26,542
Vehicle maintenance and repairs	-	-	2,619	2,619
Capital outlay	-	34,156	2,502	36,658
Debt service:				
Principal	39,117	-	-	39,117
Interest and fiscal charges	1,683	-	6,304	7,987
Total expenditures	869,627	2,955,890	101,527	3,927,044
Excess (Deficiency) of Revenues Over Expenditures	(822,522)	1,226,536	236,137	640,151
Other Financing Sources (Uses):				
Transfers in	768,038	-	-	768,038
Transfers out	-	(96,005)	(38,402)	(134,407)
Total other financing sources (uses)	768,038	(96,005)	(38,402)	633,631
Excess (Deficiency) of Revenues and Other Financing Sources Over (under) Expenditures and Other Financing Uses	(54,484)	1,130,531	197,735	1,273,782
Fund balances - beginning	218,436	7,269,985	707,587	8,196,008
Fund balances - ending	$ 163,952	$ 8,400,516	$ 905,322	$ 9,469,790

The accompanying notes are an integral part of these financial statements.

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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 YEAR ENDED
JUNE 30, 2026

Net change in fund balances - total governmental funds	$	1,273,782
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for general capital assets, infrastructure, and other related capital asset adjustments	$	36,658
Less: current year depreciation and amortization		(197,640)
		(160,982)
Expenditures in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the funds:		
Change in the liability for compensated absences		(27,082)
Principal reduction in lease liability		39,117
Change in net pension liability		89,962
Change in deferred pension outflows		(39,590)
Change in deferred pension inflows		(54,644)
Change in net OPEB liability		8,328
Change in deferred OPEB outflows		(1,942)
Change in deferred OPEB inflows		(6,537)
Change in net position of governmental activities	$	1,120,412

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LOS OSOS COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2026

	Water Fund	Wastewater Treatment Project Fund	Solid Waste Fund	Total
Assets				
Current assets:				
Cash and investments	$ 3,652,089	$ 31,727	$ 789,490	$ 4,473,306
Accounts receivable, net	653,462	-	68,674	722,136
Property tax receivable	12,184	-	-	12,184
Grants receivable	26,527	-	-	26,527
Inventory at cost	57,822	-	-	57,822
Prepaids	153,237	3,270	-	156,507
Loan to other funds	111,493	-	-	111,493
Other assets	900	-	-	900
Total current assets	4,667,714	34,997	858,164	5,560,875
Non-current assets:				
Capital assets, net	11,389,299	158,590	608,505	12,156,394
Total non-current assets	11,389,299	158,590	608,505	12,156,394
Total Assets	16,057,013	193,587	1,466,669	17,717,269
Deferred Outflows of Resources				
Deferred outflows of resources related to pensions	266,360	-	-	266,360
Deferred outflows of resources related to OPEB	32,763	-	-	32,763
Total deferred outflows of resources	299,123	-	-	299,123
Liabilities				
Current liabilities:				
Accounts payable	314,979	-	10,123	325,102
Accrued liabilities	22,060	-	6,612	28,672
Accrued interest payable	21,486	-	-	21,486
Compensated absences - current portion	99,078	-	-	99,078
Loans payable - current portion	207,204	-	105,218	312,422
Total current liabilities	664,807	-	121,953	786,760
Non-current liabilities:				
Compensated absences	86,659	-	-	86,659
OPEB liability	293,126	-	-	293,126
Loans payable	1,855,411	-	534,277	2,389,688
Net pension liability	827,278	-	-	827,278
Total non-current liabilities	3,062,474	-	534,277	3,596,751
Total Liabilities	3,727,280	-	656,230	4,383,510
Deferred Inflows of Resources				
Deferred inflows of resources related to pensions	97,982	-	-	97,982
Deferred inflows of resources related to OPEB	153,721	-	-	153,721
Total deferred inflows of resources	251,703	-	-	251,703
Net Position				
Net investment in capital assets	9,326,684	158,590	(30,990)	9,454,284
Unrestricted	3,050,469	34,997	841,429	3,926,895
Total Net Position	$ 12,377,153	$ 193,587	$ 810,439	$ 13,381,179

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The accompanying notes are an integral part of these financial statements.

LOS OSOS COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED
JUNE 30, 2026

	Water Fund	Wastewater Treatment Project Fund	Solid Waste Fund	Total
Operating Revenues:				
Utility	$ 3,303,947	$ 22,490	$ 432,905	$ 3,759,342
Total operating revenues	3,303,947	22,490	432,905	3,759,342
Operating Expenses:				
Personnel	1,066,804	-	-	1,066,804
Clothing and uniforms	1,910	-	-	1,910
Contract services	76,097	-	-	76,097
Equipment and tools	5,110	-	-	5,110
Financial services	-	1,980	-	1,980
Insurance, licenses, and regulatory fees	138,935	307	-	139,242
Legal and professional	256,986	16,150	1,986	275,122
Office expenses	61,068	-	452	61,520
Other expenses	25,511	-	3,655	29,166
Rent and utilities	154,089	-	-	154,089
Travel and training	277	-	-	277
Repairs and maintenance	39,927	-	-	39,927
Vehicle maintenance and repairs	15,640	-	-	15,640
Depreciation and amortization	330,011	-	105,827	435,838
Total operating expenses	2,172,365	18,437	111,920	2,302,722
Operating Income	1,131,582	4,053	320,985	1,456,620
Noncapital Subsidies:				
Property taxes and assessments	57,949	-	-	57,949
Government grants	245,508	-	-	245,508
Transfers out	(545,307)	(3,840)	(84,484)	(633,631)
Total noncapital subsidies	(241,850)	(3,840)	(84,484)	(330,174)
Operating income and noncapital subsidies	889,732	213	236,501	1,126,446
Non-operating Revenue (Expenses):				
Investment income	132,896	-	23,166	156,062
Capital grants	150,412	-	-	150,412
Other non-operating revenue	38,401	-	1,754	40,155
Interest expense and fiscal charges	(58,781)	-	(17,590)	(76,371)
Total non-operating revenue (expenses)	262,928	-	7,330	270,258
Change in net position	1,152,660	213	243,831	1,396,704
Net position - beginning	11,269,974	193,374	594,181	12,057,529
Prior period adjustment	(45,481)	-	(27,573)	(73,054)
Restated net position - beginning	11,224,493	193,374	566,608	11,984,475
Net position - ending	$ 12,377,153	$ 193,587	$ 810,439	$ 13,381,179

The accompanying notes are an integral part of these financial statements.

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LOS OSOS COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED
JUNE 30, 2026

	Water Fund	Wastewater Treatment Project Fund	Solid Waste Fund	Total
Cash Flows From Operating Activities:				
Cash collected from customers	$ 3,229,653	$ 22,490	$ 428,664	$ 3,680,807
Cash payments to suppliers for goods and services	(847,174)	(21,740)	(3,776)	(872,690)
Cash payments for employee services	(1,054,780)	-	-	(1,054,780)
Net cash provided by operating activities	1,327,700	750	424,888	1,753,338
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(1,859,304)	-	-	(1,859,304)
Government grants	150,412	-	-	150,412
Principal paid on debt	(202,150)	-	(102,410)	(304,560)
Interest paid on debt	(60,886)	-	(17,590)	(78,476)
Net cash used in capital and related financing activities	(1,971,928)	-	(120,000)	(2,091,928)
Cash Flows From Non-capital Financing Activities:				
Transfers to other funds	(545,307)	(3,840)	(84,484)	(633,631)
Property taxes and assessments	58,347	-	-	58,347
Government grants	218,981	-	-	218,981
Other non-operating revenue	38,401	-	1,754	40,155
Principal receipt on interfund debt	60,009	-	-	60,009
Net cash used in non-capital financing activities	(169,569)	(3,840)	(82,730)	(256,139)
Cash Flows from Investing Activities:				
Interest on investments	132,896	-	23,166	156,062
Net cash provided by investing activities	132,896	-	23,166	156,062
Net increase (decrease) in cash and cash equivalents	(680,901)	(3,090)	245,324	(438,667)
Cash and cash equivalents, beginning of year	4,332,990	34,817	544,166	4,911,973
Cash and cash equivalents, end of year	$ 3,652,089	$ 31,727	$ 789,490	$ 4,473,306

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The accompanying notes are an integral part of these financial statements.

(Continued)

LOS OSOS COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED
JUNE 30, 2026

	Water Fund	Wastewater Treatment Project Fund	Solid Waste Fund	Total
Reconciliation of operating income to net cash provided by operating activities				
Operating Income	$ 1,131,582	$ 4,053	$ 320,985	$ 1,456,620
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization of fixed assets	330,011	-	105,827	435,838
Changes in assets, liabilities, deferred inflows of resources, and deferred outflows of resources:				
Receivables, net	(74,294)	-	(4,241)	(78,535)
Prepaids	(11,090)	(3,270)	-	(14,360)
Inventory	2,537	-	-	2,537
Deferred outflows - pension	76,169	-	-	76,169
Deferred outflows - OPEB	11,003	-	-	11,003
Accounts payable	(63,071)	(33)	(691)	(63,795)
Accrued liabilities	4,860	-	3,008	7,868
Compensated absences	(1,908)	-	-	(1,908)
OPEB liability	(47,194)	-	-	(47,194)
Net pension liability	(173,085)	-	-	(173,085)
Deferred inflows - pension	105,134	-	-	105,134
Deferred inflows - OPEB	37,045	-	-	37,045
Net cash provided by operating activities	$ 1,327,700	$ 750	$ 424,888	$ 1,753,338

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The accompanying notes are an integral part of these financial statements.

LOS OSOS COMMUNITY SERVICES DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2026

	Wastewater Assessment District No. 1 Fund	Low Income Assistance Fund	Total Fiduciary Funds
Assets			
Cash and investments	$ 26	$ 9,353	$ 9,379
Cash with fiscal agents	2,191,489	-	2,191,489
Accounts receivable, net	3,956	-	3,956
Accrued property tax receivable	37,544	-	37,544
Total assets	2,233,015	9,353	2,242,368
Fiduciary Net Position	$ 2,233,015	$ 9,353	$ 2,242,368

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The accompanying notes are an integral part of these financial statements.

LOS OSOS COMMUNITY SERVICES DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED
JUNE 30, 2026

	Wastewater Assessment District No. 1 Fund	Low Income Assistance Fund	Total Fiduciary Funds
Additions			
Property tax revenue	$ 1,042,682	$ -	$ 1,042,682
Investment income	57,867	-	57,867
Total additions	1,100,549	-	1,100,549
Deductions			
Administration fee	22,490		22,490
Debt service - principal	705,000	-	705,000
Debt service - interest	295,450	-	295,450
Total deductions	1,022,940	-	1,022,940
Net change in fiduciary net position	77,609	-	77,609
Fiduciary net position - beginning	2,155,406	9,353	2,164,759
Fiduciary net position - ending	$ 2,233,015	$ 9,353	$ 2,242,368

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The accompanying notes are an integral part of these financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

DRAFT 11-24-2026

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 (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, solid waste, 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 the 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 nonmajor 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.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

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 street lighting is provided)
400 – Vista de Oro (a subdivision where street lighting is 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.)
650 – Solid Waste Fund

Fiduciary Funds

The fiduciary funds are 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.

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.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

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 reported 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.

Solid Waste Fund - This fund provides trash cleanup and recycling services for the community through a franchise agreement with a private company.

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.

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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. Fiduciary activities are not included in these statements.

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 funds are accounted for on the accrual basis of accounting. Both a statement of fiduciary net position and a statement of changes in fiduciary net position are presented for these funds.

DRAFT 11-24-2026

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 on a monthly basis. The final amount which is "teetered" is remitted in July each year.

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

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

Tax levies are attached to property 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 agents 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.

DRAFT 11-24-2026

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Investments (continued)

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, Grants, 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 and grants 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, 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 funds receivable primarily consists 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.

DRAFT 11-24-2026

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets

The accounting treatment of 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.

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

The District's solid waste collection franchise, acquired by assignment from the County of San Luis Obispo effective April 1, 2022, is reported as an intangible capital asset under GASB Statement No. 51. Because it was acquired through a long-term, noninterest-bearing obligation payable over 120 months, the franchise and the related obligation were recorded at the present value of the payments with interest imputed at 2.5% (the District's estimated incremental borrowing rate at acquisition) under GASB Codification Section I30 (GASB Statement No. 62). The franchise is carried at cost less accumulated amortization and amortized straight-line over the 10-year franchise term.

The District's right-to-use lease assets are reported as intangible capital assets. The District's accounting policy for these assets and the related liabilities is described in section K. *Lease.*

The franchise and right-to-use assets are each reported separately, by major class, within the capital assets note; right-to-use assets are not combined with owned assets of the same type.

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.

DRAFT 11-24-2026

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Compensated Absences

Employees of the District may accumulate vacation, holiday, sick leave, and compensatory time off based on established personnel policies. Vacation, sick, and holiday are earned proportionally throughout the year and may be carried over subject to limits. Vacation and compensatory time are paid out upon termination or retirement while sick time remaining at retirement can be paid out to eligible employees at a rate of fifty percent or be used as service years under the pension plan. Sick time expected to be used is estimated using historical experience. Accrued compensated absences at year end represents all vacation, holiday, compensatory time and estimated sick expected to be used as well as pay related costs.

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. Leases

Leases are accounted for under GASB Statement No. 87 Leases, which requires a lessee to recognize a lease liability and an intangible right-of-use leased asset. The District uses it's incremental borrowing rate to calculate the lease liability and right-of-use asset at the onset or modification of the lease. Right-of-use leased assets are amortized over the lease term.

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 (Public Employees' Pension Reform Act), 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 CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Other Post-Employment 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.

DRAFT 11-24-2026

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Deferred Outflows and Inflows of Resources

The Statement of Net Position reports a separate section for deferred outflows and inflows of resources. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. The District reports deferred outflows and inflows of resources related to pensions and other postemployment benefits (OPEB); refer to Note 8 and Note 9.

O. Interfund Transactions

The 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

Net position is classified as either net investment in capital assets, restricted, or unrestricted.

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.

DRAFT 11-24-2026

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Implementation of Accounting Pronouncements

During the fiscal year ended June 30, 2026, the District adopted GASB Statement No. 103, *Financial Reporting Model Improvements*; GASB Statement No. 104, *Disclosure of Certain Capital Assets*; and GASB Statement No. 105, *Subsequent Events*, which was early adopted as encouraged. The adoption of these standards affected only the presentation and disclosures in the accompanying financial statements and had no effect on the District's financial position, changes in net position, fund balances, or cash flows.

GASB Statement No. 103, *Financial Reporting Model Improvements*, revised certain financial reporting presentation and disclosure requirements, including management's discussion and analysis, budgetary comparison information, and the reporting of unusual or infrequent items. The adoption of this statement resulted in presentation and disclosure changes to the District's financial statements but had no effect on the District's financial position, changes in net position, or cash flows.

GASB Statement No. 104 requires lease assets, intangible right-to-use assets, subscription assets, and other intangible assets to be disclosed separately within the capital assets note, and establishes disclosures for capital assets held for sale.

GASB Statement No. 105 defines the subsequent events time frame, requires disclosure of the date through which subsequent events have been evaluated, and clarifies the disclosures for recognized and nonrecognized events.

R. 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.

DRAFT 11-24-2026

NOTE 2 – CASH AND INVESTMENTS

The District's cash and investments at June 30, 2026 consisted of the following:

Cash and Investments:	
Cash on hand	$ 700
Deposits with Financial Institutions	399,349
Subtotal - cash	400,049
Investments:	
Local agency investment fund	2,545,378
California Asset Management Program (CAMP)	407,606
Money market funds	1,401,354
Certificate of deposits	2,913,207
U.S. Government Issues	5,190,688
Money market funds - held by trustees	1,490,813
U.S. Government Issues - held by trustees	700,676
Subtotal - investments	14,649,722
Total Cash and Investments	$ 15,049,771

The composition of cash and investments as of June 30, 2026, by fund type and restriction is as follows:

	Available for Operations	Restricted	Total
General Fund	$ 123,146	$ -	$ 123,146
Special Revenue Funds	7,911,554	340,897	8,252,451
Proprietary Funds	4,473,306	-	4,473,306
Fiduciary Funds	9,379	2,191,489	2,200,868
	$ 12,517,385	$ 2,532,386	$ 15,049,771

Investments

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.

DRAFT 11-24-2026

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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. At June 30, 2026, the District's U.S. Government issues of $5,891,364 (including $700,676 held by bond trustees) and negotiable certificates of deposit of $2,913,207 are valued using matrix pricing (Level 2 inputs). The District's positions in LAIF and CAMP and its money market funds are not subject to the fair value hierarchy.

Investments of the District as of 2026

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Boards	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 (LAIF)	5 years	None	None

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value is 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 short-term and long-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.

DRAFT 11-24-2026

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 trustees) to market rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of 2026:

		Remaining Maturity (in Months)			
Investment Type	Carrying Amount	12 Months or Less	13 - 24 Months	25 - 60 Months	More than 60 Months
LAIF	$ 2,545,378	$ 2,545,378	$ -	$ -	$ -
CAMP	407,606	407,606	-	-	-
Money market funds	1,401,354	1,401,354	-	-	-
Certificate of deposits	2,913,207	744,868	741,930	1,426,409	-
U.S. Government Issues	5,190,688	804,473	1,055,567	3,330,648	-
Held by bond trustees:					
Money market funds	1,490,813	1,490,813	-	-	-
U.S. Government Issues	700,676	100,058	212,465	388,153	-
	$ 14,649,722	$ 7,494,550	$ 2,009,962	$ 5,145,210	$ -

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 2026 for each investment type.

		Minimum	Rating as of Fiscal Year End		
Investment Type	Carrying Amount	Legal Rating	Aa1	Aa	Not Rated
LAIF	$ 2,545,378	N/A	$ -	$ -	$ 2,545,378
CAMP	407,606	N/A	-	-	407,606
Money market funds	1,401,354	N/A	-	-	1,401,354
Certificate of deposits	2,913,207	N/A	-	-	2,913,207
U.S. Government Issues	5,190,688	N/A	4,628,675	-	562,013
Held by bond trustees:					
Money market funds	1,490,813	N/A	-	-	1,490,813
U.S. Government Issues	700,676	N/A	700,676	-	-
	$ 14,649,722		$ 5,329,351	$ -	$ 9,320,371

DRAFT 11-24-2026

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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.

Expressed as a percentage of the District's total investments, the District's investments are in U.S. government issues (40.2%), certificates of deposit (19.9%), the Local Agency Investment Fund (LAIF) (17.4%), money market funds (19.7%), and the California Asset Management Program (CAMP) (2.8%). The U.S. government issues, certificates of deposit, and money market funds are managed by the District's bank and investment advisor; these are indexed to earn ten basis points above that earned monthly by the State Investment Pool and are collateralized up to 110%, in compliance with State law, with the collateral held by a separate trustee bank. The District's remaining investments are held in two external investment pools, LAIF and CAMP, described below.

A portion of the District's investments is invested in the State Investment Pool, more commonly known as LAIF, which comprises 17.4% of the District's total investments. This fund is not registered with the Securities and Exchange Commission as an investment company but is required to invest according to California Government 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.

The District also invests in the California Asset Management Program (CAMP), a joint powers authority established under California Government Code §6500 et seq. to provide public agencies with investment and cash management services, comprising 2.8% of the District's total investments. CAMP is not registered with the Securities and Exchange Commission, and the District's investment is reported at its pro-rata share of the fair value of the pool as provided by CAMP.

Investment of debt proceeds held by bond trustees is governed by the provisions of the Wastewater Assessment District No. 1 bond indenture rather than the general provisions of the California Government Code or the District's investment policy. These funds are reported in the Statement of Fiduciary Net Position as cash with fiscal agents. The current agreement of the District with the bond trustee directs the trustee to invest in money market funds and U.S. Treasuries, 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.

DRAFT 11-24-2026

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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 District's deposits are held in one financial institution. As of year-end, the aggregate bank balance was $408,477, of which $250,000 was covered by federal depository insurance. The remaining $158,477 was uninsured but collateralized in accordance with the California Government Code, with the pledged securities held by the pledging financial institution's trust department or agent in the name of the District's depository pool. Accordingly, the District's deposits were not exposed to custodial credit risk at year-end.

The investment in the LAIF 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. As investments in external investment pools, the District's positions in LAIF and CAMP, and its investments in money market funds, are not subject to the custodial credit risk disclosure requirements of GASB Statement No. 40.

NOTE 3 – INTERFUND TRANSACTIONS

Interfund activity during the fiscal year ended 2026, was as follows:

Interfund Transfers:

	Transfers In	Transfers Out
Major Governmental Funds		
General	$ 768,038	$ -
Fire	-	96,005
Nonmajor Governmental Funds		
Bayridge	-	1,920
Vista de Oro	-	1,920
Parks and Recreation	-	15,361
Drainage	-	19,201
Proprietary Funds		
Water	-	545,307
Wastewater Treatment Plan	-	3,840
Solid Waste	-	84,484
	$ 768,038	$ 768,038

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NOTE 3 – INTERFUND TRANSACTIONS

Interfund Loans:

In February 2023, the board of directors approved a loan of $300,000 from the Water Fund to the Drainage Fund, with a 5-year term, at an interest rate adjusted annually to the quarterly LAIF rate for the quarter ending in March. Principal and interest payments for the year ended 2026, were $60,009 and $6,304, respectively. The balance of the loan at 2026 was as follows:

	Loan Receivable	Loan Payable
Nonmajor Governmental Fund		
Drainage	$ -	$ 111,493
Proprietary Fund		
Water	111,493	-
	$ 111,493	$ 111,493

NOTE 4 – CAPITAL ASSETS

Government-Type Activities	Balance at June 30, 2025	Additions	Dispositions	Transfers/ Adjustments	Balance at June 30, 2026
Capital assets not being depreciated:					
Land	$ 57,375	$ -	$ -	$ -	$ 57,375
Construction in progress	966,550	2,502	-	-	969,052
Total capital assets not being depreciated	1,023,925	2,502	-	-	1,026,427
Capital assets being depreciated:					
Buildings, structures, and improvements	598,871	15,958	-	-	614,829
Infrastructure	378,520	-	-	-	378,520
Plant and equipment	2,214,558	18,198	(30,644)	-	2,202,112
Right-of-use leased facilities	156,224	-	-	-	156,224
Total capital assets being depreciated	3,348,173	34,156	(30,644)	-	3,351,685
Less: accumulated depreciation					
Buildings, structures, and improvements	(551,813)	(4,434)	-	-	(556,248)
Infrastructure	(240,223)	(21,589)	-	-	(261,812)
Plant and equipment	(1,183,618)	(142,324)	30,644	-	(1,295,299)
Right-of-use leased facilities	(65,093)	(29,292)	-	-	(94,385)
Total accumulated depreciation	(2,040,747)	(197,640)	30,644	-	(2,207,744)
Net capital assets being depreciated	1,307,425	(163,484)	-	-	1,143,941
Governmental-type activities capital assets, net	$ 2,331,350	$ (160,982)	$ -	$ -	$ 2,170,368

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NOTE 4 – CAPITAL ASSETS (CONTINUED)

Business-Type Activities	Restated Balance at June 30, 2025	Additions	Dispositions	Transfers/ Adjustments	Balance at June 30, 2026
Capital assets not being depreciated:					
Land	$ 498,429	$ -	$ -	$ -	$ 498,429
Construction in progress	3,391,575	1,859,305	-	(3,725,799)	1,525,081
Total capital assets not being depreciated	3,890,004	1,859,305	-	(3,725,799)	2,023,510
Capital assets being depreciated:					
Building and improvements	268,178	-	-	-	268,178
Infrastructure	12,192,268	-	-	3,725,799	15,918,067
Plant and equipment	600,582	-	-	-	600,582
Franchise rights (intangible)	1,058,269	-	-	-	1,058,269
Total capital assets being depreciated	14,119,297	-	-	3,725,799	17,845,096
Less: accumulated depreciation					
Building and improvements	(43,746)	(8,773)	-	-	(52,519)
Infrastructure	(6,309,689)	(310,152)	-	-	(6,619,841)
Plant and equipment	(579,001)	(11,086)	-	-	(590,087)
Franchise rights (intangible)	(343,938)	(105,827)	-	-	(449,765)
Total accumulated depreciation	(7,276,374)	(435,838)	-	-	(7,712,212)
Net capital assets being depreciated	6,842,923	(435,838)	-	3,725,799	10,132,884
Business-type activities, capital assets, net	$ 10,732,927	$ 1,423,467	$ -	$ -	$ 12,156,394

Depreciation and amortization 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	$ 31,159
Fire protection	144,892
Drainage	19,504
Parks and recreation	2,085
Total governmental activities depreciation expense	$ 197,640
Business-Type Activities:	
Water services	$ 435,838
Total business-type activities depreciation expense	$ 435,838

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NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of changes in the District's long-term liabilities for the fiscal year ended 2026:

	Restated Balance at June 30, 2025	Additions	Reductions	Balance at June 30, 2026	Current Portion	Non-Current Portion
Governmental Activities:						
Compensated absences	$ 59,200	$ 27,082	$ -	$ 86,282	$ 40,087	$ 46,195
Other post-employment benefits liability	60,056	-	(8,328)	51,728	-	51,728
Lease liability	92,660	-	(39,117)	53,543	40,006	13,537
Net pension liability	653,832	-	(89,962)	563,870	-	563,870
Total Governmental Activities	$ 865,748	$ 27,082	$ (137,407)	$ 755,423	$ 80,093	$ 675,330
Business-Type Activities:						
Compensated absences	$ 187,644	$ -	$ (1,907)	$ 185,737	$ 99,078	$ 86,659
Other post-employment benefits liability	340,320	-	(47,194)	293,126	-	293,126
Water Fund						
Loan payable - Direct borrowing	2,264,765	-	(202,150)	2,062,615	207,204	1,855,411
Solid Waste Fund						
Loan payable	741,905	-	(102,410)	639,495	105,218	534,277
Net pension liability	1,000,363	-	(173,085)	827,278	-	827,278
Total Business-Type Activities	$ 4,534,997	$ -	$ (526,746)	$ 4,008,251	$ 411,500	$ 3,596,751

Interest expense of $84,358 on long-term debt has been included in the direct expenses of individual functions on the government-wide statement of activities. All interest on long-term debt is reported as a direct expense of the program for which borrowing is related.

NOTE 6 – LOANS PAYABLE

California Infrastructure and Economic Development Bank – Direct Borrowing

On December 6, 2004, the District entered into a direct borrowing 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 on August 1, 2034, with an interest rate of 3.05% per annum. The loan was modified on October 1, 2021, to a rate of 2.50% per annum and the same expiration date of August 1, 2034. Debt service payments are due in August and February each year. Net water system 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 2026, was $2,062,615. In the event of a default, all unpaid principal and accrued interest would come due immediately in full with overdue installment payments accruing interest at the lesser of 12% per annum or the maximum rate permitted by law.

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NOTE 6 – LOANS PAYABLE (CONTINUED)

Future annual repayment requirements for this debt are as follows:

Fiscal Year Ended June 30	Principal	Interest	Annual Administrative Fee	Total
2027	$ 207,204	$ 48,975	$ 6,188	$ 262,367
2028	212,384	43,731	5,566	261,681
2029	217,694	38,355	4,929	260,978
2030	223,136	32,844	4,276	260,256
2031	228,714	27,196	3,607	259,517
2032-2035	973,483	49,425	7,391	1,030,299
Total	$ 2,062,615	$ 240,526	$ 31,957	$ 2,335,098

Solid Waste Collection Franchise Agreement

Effective April 1, 2022, the District entered into an agreement with the County of San Luis Obispo to accept the assignment of a Franchise Agreement for solid waste collection. In consideration of the assignment of the Franchise Agreement by the County, the District agreed to pay the County $1,196,772 over a 120-month period, interest-free, with monthly payments of $10,000. Because the obligation is payable over an extended period with no stated interest rate, the District recorded the obligation and the related franchise asset at the present value of the future payments ($1,058,269), determined using an imputed interest rate of 2.5%; the District's estimated incremental borrowing rate at the date of the agreement in accordance with GASB Codification Section I30 (GASB Statement No. 62). The difference between the total payments and their present value is recognized as interest expense over the term of the obligation. The franchise, reported as an intangible capital asset under GASB Statement No. 51, is amortized on the straight-line basis over the term of the franchise agreement (See Note 4).

Future payments to the County under this agreement are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2027	$ 105,218	$ 14,782	$ 120,000
2028	107,879	12,121	120,000
2029	110,607	9,393	120,000
2030	113,404	6,596	120,000
2031	116,272	3,728	120,000
thereafter	86,115	870	86,985
Total	$ 639,495	$ 47,490	$ 686,985

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NOTE 7 – LEASES

The District entered into a 48-month lease for office space which began on November 1, 2023, and extends through October 31, 2027, for $3,400 per month. This lease obligation falls under the scope of GASB 87 as discussed in Note 1. Adoption required lessees to recognize operating and capital lease right-of-use assets and liabilities on the Statement of Net Position, with related amortization and interest expense on the Statement of Activities.

Future minimum lease payments under this lease agreement are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2027	$ 40,006	$ 794	$ 40,800
2028	13,537	63	13,600
Total	$ 53,543	$ 857	$ 54,400

Weighted average interest rate is 2.25% and remaining life of lease is 1.33 years.

The District leases office equipment under a lease agreement requiring monthly payments of $399 through fiscal year 2028. Management determined that the lease was immaterial to the financial statements and, accordingly, did not recognize a lease liability or corresponding right-to-use asset under GASB lease accounting requirements. Lease expense related to this agreement totaled $6,247 during the fiscal year.

NOTE 8 – 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.

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NOTE 8 – PENSION PLANS (CONTINUED)

Contribution rates are based on the Actuarial Valuation Report as of June 30, 2024. The Plans' provisions and benefits in effect at 2026, are summarized as follows:

	Miscellaneous	
Hire Date	Hired Prior to January 1, 2013*	Hired on or After January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 - 63	52 - 67
Required employee contribution rates	7.00%	8.25%
Required employer contribution rates	13.31% + $93,089	8.18% + $6,972

	Safety	
Hire Date	Hired Prior to January 1, 2013*	Hired on or After January 1, 2013
Benefit formula	2.0% @ 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
Required employee contribution rates	9.00%	14.50%
Required employer contribution rates	21.92% + $58,998	14.72% + $1,336

* 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 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 $64,798 for the Safety Plan and $218,349 for the Miscellaneous Plan for the fiscal year ended 2026.

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NOTE 8 – PENSION PLANS (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflow/inflows of Resources Related to Pensions

At 2026, 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	$ 916,918
Safety	474,230
	$ 1,391,148

The net pension liability was measured as of June 30, 2025 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2024 rolled forward to June 30, 2025 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, 2026, the District's proportionate share of the net pension liability for each Plan as of June 30, 2025 and June 30, 2026 was as follows:

	Miscellaneous	Safety	Total
Proportion - June 30, 2025	0.02281%	0.00756%	0.01364%
Proportion - June 30, 2026	0.02298%	0.00760%	0.01360%
Change - Increase (Decrease)	0.00018%	0.00004%	-0.00004%

For the fiscal year ended 2026, the District recognized pension expense of $8,218. 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.

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NOTE 8 – PENSION PLANS (CONTINUED)

At 2026, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ 154,887	$ -
Net differences between projected and actual earnings on pension plan investments	-	174,944
Differences between employer's contributions and proportionate share of contributions	29,215	982
Change in employer's proportion	8,712	30,381
District contributions subsequent to the measurement date	283,147	-
Total	$ 475,961	$ 206,307

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.

$283,147 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, 2027.

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 Ended June 30	Amount
2027	$ 167,054
2028	(37,493)
2029	(76,184)
2030	(66,870)
Total	$ (13,493)

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NOTE 8 – PENSION PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2024 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous and Safety
Measurement Date	June 30, 2025
Valuation Date	June 30, 2024
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit	Contract COLA up to 2.30% until PPPA (2) floor on purchasing power applies, 2.30% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. Post-retirement mortality rates are based on CalPERS' experience and include generational mortality improvement using 80 percent of Scale MP 2020 published by the Society of Actuaries. For more details, please refer to the 2021 experience study report that can be found on the CalPERS website.

(2) Purchasing Power Protection Allowance (PPPA) is a benefit designed to restore the original purchasing power of CalPERS retirees to a predetermined limit.

Discount Rate

The discount rate used to measure the total pension liability was 6.90 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 6.90 percent discount rate is appropriate and the use of municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 6.90 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.

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NOTE 8 – PENSION PLANS (CONTINUED)

Discount Rate (continued)

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

The table below reflects the expected real rates of return by asset class as of June 30 2025:

Asset Class	Assumed Asset Allocation (1)	Real Return (2)
Public Equity	37.00%	4.56%
Private Equity	17.00%	5.56%
Fixed Income	28.00%	2.53%
Real Assets	15.00%	3.03%
Private Debt	8.00%	4.93%
Strategic Leverage	-5.00%	1.56%

(1) Figures are based on the 2024 Mid-Cycle Asset Liability Management study.
(2) An expected inflation of 2.30% is used for this period.

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

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 6.90 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.90 percent) or 1- percentage point higher (7.90 percent) than the current rate:

	Miscellaneous	Safety
1% Decrease	5.90%	5.90%
Net Pension Liability	$ 1,690,622	$ 752,356
Current Discount Rate	6.90%	6.90%
Net Pension Liability	$ 916,919	$ 474,229
1% Increase	7.90%	7.90%
Net Pension (Asset) Liability	$ 280,168	$ 246,712

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NOTE 8 – PENSION PLANS (CONTINUED)

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 2026, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended 2026.

NOTE 9 – POST-EMPLOYMENT 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 $162 per month in 2025. 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 0.08% of premium administrative fee on behalf of employees and retirees.

Employees Covered

As of June 30, 2025, actuarial valuation date, the following current and former employees were covered by the benefit terms under the District's Plan:

Active plan members	10
Inactive plan members or beneficiaries currently receiving benefits	1
Total	11

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NOTE 9 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Contributions

The District currently finances benefits on a pay-as-you-go basis. No assets are held in trust.

Net OPEB Liability

The District's Net OPEB Liability was measured as of June 30, 2025 and the total OPEB liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of June 30, 2025. 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:

Discount rate	5.20%
Salary increases	2.80%
Inflation rate	2.30%
Healthcare cost trend rate	5.50% for 2025 through 2034; 4.50% for 2035 through 2074; and 4.00% for 2075 and later years

Mortality rates were based on the most recent experience study for CalPERS members.

The actuarial assumptions used in the June 30, 2025 valuation were based on the results of the most recent applicable experience study and a review of plan experience during the period June 30, 2023 to June 30, 2025.

Discount rate. For OPEB plans that do not have irrevocable trust accounts, GASB 75 requires a discount rate equal to the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The District does not have an irrevocable trust account for prefunding OPEB liabilities. The discount rate used to measure the total OPEB liability was based on the Bond Buyer 20-Bond GO Index.

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NOTE 9 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Changes in OPEB Liability

	Net OPEB Liability
Balance at June 30, 2025	$ 400,376
Changes recognized for the measurement period:	
Service cost	25,173
Interest	16,853
Difference between expected and actual experience	(41,440)
Changes of assumptions	(53,997)
Contributions - employer	(2,111)
Net Changes	(55,522)
Balance at June 30, 2026	$ 344,854

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 (4.20 percent) or 1-percentage-point higher (6.20 percent) than the current discount rate:

	1% Decrease (4.20%)	Discount Rate (5.20%)	1% Increase (6.20%)
Net OPEB Liability	$ 386,569	$ 344,854	$ 309,366

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 or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (4.50% current, 3.00% ultimate, 3.00% Medicare)	Trend Rate (5.50% current, 4.00% ultimate, 4.00% Medicare)	1% Increase (6.50% current, 5.00% ultimate, 5.00% Medicare)
Net OPEB Liability	$ 302,892	$ 344,854	$ 395,888

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NOTE 9 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

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

For the fiscal year ended 2026, the District recognized OPEB expense of $24,808. As of the fiscal year ended 2026, 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
Differences between actual and expected experience	$ 27,048	$ (75,087)
Changes in assumptions	11,497	(105,761)
Total	$ 38,545	$ (180,848)

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Fiscal Year Ended June 30	Amount
2027	$ (40,393)
2028	(38,920)
2029	(24,284)
2030	(12,282)
2031	(12,283)
Thereafter	(14,141)
Total	$ (142,303)

NOTE 10 – 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. The 2002 bonds were refunded on February 14, 2019, for a total savings of $1,211,139.

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NOTE 10 – FIDUCIARY BONDED DEBT – NON-DISTRICT DEBT (CONTINUED)

Future annual repayment requirements for this debt are as follows:

Fiscal Year Ended June 30	Wastewater Improvement Refunding Bonds		
	Principal	Interest	Total
2027	$ 740,000	$ 259,325	$ 999,325
2028	775,000	221,450	996,450
2029	820,000	181,575	1,001,575
2030	860,000	139,575	999,575
2031	900,000	104,575	1,004,575
2032-2034	2,875,000	139,563	3,014,563
Total	$ 6,970,000	$ 1,046,063	$ 8,016,063

NOTE 11 – 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 508 public agencies participating in the Property/Liability program and 424 agencies in its Workers' Compensation program. SDRMA's audit report for the fiscal year 2024-25, the latest one available, shows it had Net Position of about $108.1 million.

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

NOTE 12 – CONTINGENCIES AND COMMITMENTS

Interlocutory Stipulated Judgment

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.

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NOTE 13 – PRIOR YEAR ADJUSTMENT

In fiscal year 2025-26, the District corrected two errors in previously issued financial statements:

Compensated absences - The liability was not measured in accordance with GASB Statement No. 101, effective for fiscal year 2024-25 due to the estimated sick expected to be used not being included in the calculation. The error affected the adoption in 2025 and the compensated absences liability for both governmental and business-type funds.

Solid waste franchise - The franchise asset and related loan payable were recorded at the undiscounted payments rather than present value with imputed interest at 2.5% (Notes 4 and 6). The error affected fiscal years 2022 through 2025 and the franchise asset, loan payable, amortization expense, and interest expense. At June 30, 2025, the correction reduced the franchise asset by $92,441 and the loan payable by $64,867.

The effects on net position by reporting unit were as follows:

	Governmental Activities	Business-Type Activities	Water Fund	Solid Waste Fund
Net position as previously reported	$ 9,825,760	$ 12,057,529	$ 11,269,974	$ 594,181
Compensated absence accrual corrections	18,494	(45,481)	(45,481)	-
Solid Waste Franchise correction	-	(27,573)	-	(27,573)
Total prior period adjustments	18,494	(73,054)	(45,481)	(27,573)
Net position, beginning of year restated	$ 9,844,254	$ 11,984,475	$ 11,224,493	$ 566,608

NOTE 14 – SUBSEQUENT EVENTS

Effective July 1, 2026, the District entered into a three-year agreement directly with the California Department of Forestry and Fire Protection (CAL FIRE). Under the agreement, CAL FIRE provides fire protection and emergency services at Fire Station 15 for fiscal years 2027 through 2029. Before this agreement, fire services were provided under a contract administered through the County of San Luis Obispo. Contract calls for costs not to exceed $9,798,466 over the three-year term, of which $3,154,461 is allocated for fiscal year 2026-27. These amounts will be reported in the Fire Fund and in governmental activities.

On June 2, 2026, voters approved Measure B-26, a Los Osos Community Services District special tax to acquire and maintain the Sunnyside Elementary School site. The District begins receiving Measure B-26 special tax revenues in fiscal year 2026-27. The tax is levied at $185 per year per parcel for 15 years. Revenues are estimated at approximately $ 1,113,700.00 annually and will be reported in the Parks and Recreation fund and in governmental activities. As of DATE, the District had not purchased the Sunnyside Elementary School site.

Management has evaluated subsequent events through DATE, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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LOS OSOS COMMUNITY SERVICES DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED
JUNE 30, 2026

	Original Budget	Variance: Original to Final	Final Budget	Variance: Final to Actual	Actual Amounts
Revenues:					
Use of money and property	$ 4,500	$ -	$ 4,500	$ (412)	$ 4,088
Grant revenue	-	22,355	22,355	20,031	42,386
Other revenues	-	-	-	631	631
Total revenues	4,500	22,355	26,855	20,250	47,105
Expenditures:					
Personnel	444,225	-	444,225	(52,899)	497,124
Clothing and uniforms	200	-	200	(99)	299
Contract services	56,770	(22,803)	79,573	(12,842)	92,415
Financial services	7,500	-	7,500	802	6,698
Insurance, licenses, and regulatory fees	76,518	(1,861)	78,379	258	78,121
Legal and professional	107,700	-	107,700	10,384	97,316
Office expenses	24,100	1,909	22,191	5,211	16,980
Other expenses	225	-	225	(29,040)	29,265
Rent and utilities	50,510	-	50,510	1,317	49,193
Travel and training	4,500	235	4,265	2,118	2,147
Repairs and maintenance	290	165	125	56	69
Total expenditures	772,538	(22,355)	794,893	(74,734)	869,627
Excess (Deficiency) of Revenues Over (Under) Expenditures	(768,038)	-	(768,038)	(54,484)	(822,522)
Other Financing Sources:					
Transfers in	768,038	-	768,038	-	768,038
Total other financing sources	768,038	-	768,038	-	768,038
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	-	-	(54,484)	(54,484)
Fund balances - beginning	218,436	-	218,436	-	218,436
Fund balances - ending	$ 218,436	$ -	$ 218,436	$ (54,484)	$ 163,952

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LOS OSOS COMMUNITY SERVICES DISTRICT
BUDGETARY COMPARISON SCHEDULE
FIRE FUND
FOR THE YEAR ENDED
JUNE 30, 2026

	Original Budget	Variance: Original to Final	Final Budget	Variance: Final to Actual	Actual Amounts
Revenues:					
Property taxes	$ 3,057,467	$ -	$ 3,057,467	$ 95,448	$ 3,152,915
Special taxes and assessments	720,310	-	720,310	6,865	727,175
Grant revenue	-	-	-	2,832	2,832
Services charges and fees	67,134	-	67,134	23,533	90,667
Use of money and property	150,000	-	150,000	58,312	208,312
Other revenues	-	-	-	525	525
Total revenues	3,994,911	-	3,994,911	187,515	4,182,426
Expenditures:					
Personnel	304,225	-	304,225	24,574	279,651
Clothing and uniforms	5,000	-	5,000	(1,613)	6,613
Contract services	9,400	1,190	8,210	2,058	6,152
Contract services - Schedule A	3,358,062	-	3,358,062	981,888	2,376,174
Equipment and tools	70,500	(37,620)	108,120	9,808	98,312
Financial services	60	-	60	60	-
Insurance, licenses, and regulatory fees	99,900	1,800	98,100	6,586	91,514
Legal and professional	24,500	-	24,500	14,112	10,388
Office expenses	9,600	1,000	8,600	1,580	7,020
Other expenses	9,500	(1,670)	11,170	5,466	5,704
Rent and utilities	18,705	(4,440)	23,145	3,238	19,907
Travel and training	1,300	-	1,300	534	766
Repairs and maintenance	33,250	1,100	32,150	12,617	19,533
Capital outlay	2,000	(32,912)	34,912	756	34,156
Contingency	226,500	-	226,500	226,500	-
Total expenditures	4,172,502	(71,552)	4,244,054	1,288,164	2,955,890
Excess (Deficiency) of Revenues Over (Under) Expenditures	(177,591)	(71,552)	(249,143)	1,475,679	1,226,536
Other Financing Uses:					
Transfers out	(96,005)	-	(96,005)	-	(96,005)
Total other financing uses	(96,005)	-	(96,005)	-	(96,005)
Excess (Deficiency) of Revenues and Other Financing Sources Over (under) Expenditures and Other Financing Uses	(273,596)	(71,552)	(345,148)	1,475,679	1,130,531
Fund balances - beginning	7,269,985	-	7,269,985	-	7,269,985
Fund balances - ending	$ 6,996,389	$ (71,552)	$ 6,924,837	$ 1,475,679	$ 8,400,516

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NOTE 1 – BUDGETARY INFORMATION

The Board of Directors adopts an annual budget for each fund at a public hearing. Budgets for governmental funds are adopted on the modified accrual basis of accounting, consistent with generally accepted accounting principles. The final budget amounts include all amendments approved by the Board during the year.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2026, General Fund expenditures of $869,627 exceeded final appropriations of $794,893 by $74,734. Fire Fund expenditures did not exceed appropriations.

NOTE 3 – EXPLANATION OF SIGNIFICANT BUDGET VARIANCES

General Fund: Grant revenue exceeded budget due to the receipt of a PEG grant to upgrade the District's Board Room audiovisual (AV) equipment. Personnel expenses exceeded budget due to the hiring of a new General Manager and the associated six-week overlap period between management positions. Contract services exceeded budget due to the purchase of equipment funded by the grant received. Other expenses exceeded budget due to the use of a recruitment agency to assist with the General Manager search. Legal and professional fees were below budget because fewer legal services were required during the fiscal year than anticipated.

Fire Fund: Tax revenue exceeded budget because actual receipts from the County were greater than the County's original estimate. Personnel expenses were below budget because several Reserve Firefighter positions remained unfilled, resulting in salary and related benefit savings. Schedule A expenses were below budget because the contract budget was based on the highest staffing level, while actual staffing did not reach that level. Equipment and tools expenses were below budget because several planned purchases were deferred to the following fiscal year. Insurance expenses were below budget due to an overestimate of property and liability insurance costs. Legal and professional fees were below budget because fewer legal services were required during the fiscal year than anticipated. Repairs and maintenance expenses were below budget because, rather than repairing an existing garage door, the District purchased and capitalized a replacement door.

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LOS OSOS COMMUNITY SERVICES DISTRICT

Required Supplementary Information

Schedule of Proportionate Share of Net Pension Liability

June 30, 2026

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

Last 10 Fiscal years

Measurement Date	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021
Proportion of the net pension liability	0.01360%	0.01364%	0.01367%	0.01388%	0.01298%
Proportionate share of the net pension liability	1,391,148	1,654,195	1,705,219	1,603,561	702,001
Covered payroll	989,569	936,999	883,525	1,081,269	791,876
Proportionate share of the net pension liability as a percentage of its covered payroll	140.58%	176.54%	193.00%	148.30%	88.65%
Plan's total pension liability ($ in millions)	56,701	55,321	52,442	49,526	46,175
Plan Fiduciary net position ($ in millions)	43,174	43,194	39,967	37,975	40,767
Plan Fiduciary net position as a percentage of the total pension liability	76.14%	78.08%	76.21%	76.68%	88.29%

Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Proportion of the net pension liability	0.01238%	0.01192%	0.01150%	0.01131%	0.01108%
Proportionate share of the net pension liability	1,347,404	1,221,783	1,108,225	1,121,683	958,726
Covered payroll	885,730	647,852	557,148	554,757	655,035
Proportionate share of the net pension liability as a percentage of its covered payroll	152.12%	188.59%	198.91%	202.19%	146.36%
Plan's total pension liability ($ in millions)	43,703	41,426	38,945	37,161	33,359
Plan Fiduciary net position ($ in millions)	32,823	31,179	29,309	27,244	24,706
Plan Fiduciary net position as a percentage of the total pension liability	75.10%	75.26%	75.26%	73.31%	74.06%

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LOS OSOS COMMUNITY SERVICES DISTRICT

Required Supplementary Information

Schedule of Pension Contributions

June 30, 2026

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

Last 10 Fiscal Years

Measurement Date	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021
Actuarially determined contribution	$ 283,147	$ 266,200	$ 232,092	$ 233,721	$ 212,396
Contributions in relation to the actuarially determined contribution	283,147	266,200	232,092	233,721	212,396
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 989,569	$ 936,999	$ 883,525	$ 1,081,269	$ 791,876
Contributions as a percentage of covered payroll	28.61%	28.41%	26.27%	21.62%	26.82%

Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Actuarially determined contribution	$ 182,935	$ 132,010	$ 124,126	$ 97,967	$ 89,855
Contributions in relation to the actuarially determined contribution	182,935	132,010	124,126	97,967	89,855
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 885,730	$ 647,852	$ 557,148	$ 554,757	$ 655,035
Contributions as a percentage of covered payroll	20.65%	20.38%	22.28%	17.66%	13.72%

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LOS OSOS COMMUNITY SERVICES DISTRICT
Required Supplementary Information
Schedule of Changes in Net OPEB Liability
June 30, 2026

Last 10 Fiscal years*

	2026	2025	2024	2023	2022
Net OPEB liability					
Service cost	$ 25,173	$ 33,280	$ 34,267	$ 36,498	$ 30,439
Interest	16,853	15,124	12,243	7,384	10,847
Differences between expected and actual experience	(41,440)	-	43,281	-	(143,682)
Change in assumptions	(53,997)	(5,626)	(26,618)	(92,036)	41,751
Benefit payments	(2,111)	(1,848)	(2,462)	(2,396)	(4,698)
Net change in Net OPEB liability	(55,522)	40,930	60,711	(50,550)	(65,343)
Net OPEB liability - beginning	400,376	359,446	298,735	349,285	414,628
Net OPEB liability - ending	$ 344,854	$ 400,376	$ 359,446	$ 298,735	$ 349,285
Covered payroll	$ 1,152,611	$ 1,098,184	$ 1,056,695	$ 861,702	$ 809,885
Net OPEB liability as a percentage of covered payroll	29.9%	36.5%	34.0%	34.7%	43.1%
Plan fiduciary net position as a percentage of the total	0.00%	0.00%	0.00%	0.00%	0.00%

	2021	2020	2019	2018
Net OPEB liability				
Service cost	$ 20,634	$ 17,904	$ 16,561	$ 16,079
Interest	11,519	12,311	10,271	9,870
Differences between expected and actual experience	-	(24,615)	-	-
Change in assumptions	38,564	26,747	(22,494)	-
Benefit payments	(6,872)	(7,433)	(13,120)	(13,190)
Net change in Net OPEB liability	63,845	24,914	(8,782)	12,759
Net OPEB liability - beginning	350,783	325,869	334,651	321,892
Net OPEB liability - ending	$ 414,628	$ 350,783	$ 325,869	$ 334,651
Covered payroll	$ 775,403	$ 815,856	$ 567,108	$ 430,762
Net OPEB liability as a percentage of covered payroll	53.5%	43.0%	57.5%	77.7%
Plan fiduciary net position as a percentage of the total	0.00%	0.00%	0.00%	0.00%

As of June 30, 2025, the plan is not administered through a qualified trust. Therefore, there is no Actuarially Determined Contribution (ADC).

* Fiscal year ended June 30, 2018 was the first year of implementation.
Additional years will be presented as they become available.

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SUPPLEMENTARY INFORMATION

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LOS OSOS COMMUNITY SERVICES DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2026

	Bayridge	Vista de Oro	Parks and Recreation	Drainage	Total
Assets					
Cash and investments	$ 43,520	$ 3,965	$ -	627,916	$ 675,401
Restricted cash and investments	-	-	340,897	-	340,897
Property tax receivable	175	84	-	4,818	5,077
Prepaid	-	-	-	665	665
Total Assets	$ 43,695	$ 4,049	$ 340,897	$ 633,399	$1,022,040
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 183	$ 180	$ 4,111	751	$ 5,225
Interfund loan	-	-	-	111,493	111,493
Total liabilities	183	180	4,111	112,244	116,718
Fund Balances					
Restricted	43,512	3,869	336,786	521,155	905,322
Total fund balances	43,512	3,869	336,786	521,155	905,322
Total Liabilities and Fund Balances	$ 43,695	$ 4,049	$ 340,897	$ 633,399	$1,022,040

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LOS OSOS COMMUNITY SERVICES DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED
JUNE 30, 2026

	Bayridge	Vista de Oro	Parks and Recreation	Drainage	Total
Revenues:					
Property taxes	$ -	$ -	$ 100,000	$ 97,593	$ 197,593
Special taxes and assessments	-	-	-	96,528	96,528
Services charges and fees	9,999	5,999	-	-	15,998
Use of money and property	822	-	10,399	16,175	27,396
Other revenues	-	-	-	149	149
Total revenues	10,821	5,999	110,399	210,445	337,664
Expenditures:					
Personnel	-	-	-	13,558	13,558
Insurance, licenses, and regulatory fees	873	496	99	9,834	11,302
Legal and professional	83	82	43,065	2,743	45,973
Office expenses	-	-	-	188	188
Equipment and tools	-	-	-	367	367
Rent and utilities	5,431	2,144	-	4,199	11,774
Repairs and maintenance	-	-	-	6,940	6,940
Vehicle maintenance and repairs	-	-	-	2,619	2,619
Capital outlay	-	-	2,352	150	2,502
Debt service:					
Interest and fiscal charges	-	-	-	6,304	6,304
Total expenditures	6,387	2,722	45,516	46,902	101,527
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,434	3,277	64,883	163,543	236,137
Other Financing Uses:					
Transfers out	(1,920)	(1,920)	(15,361)	(19,201)	(38,402)
Total other financing uses	(1,920)	(1,920)	(15,361)	(19,201)	(38,402)
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing Uses	2,514	1,357	49,522	144,342	197,735
Fund balances - beginning	40,998	2,512	287,264	376,813	707,587
Fund balances - ending	$ 43,512	$ 3,869	$ 336,786	$ 521,155	$ 905,322

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OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Osos Community Services District (the District), as of and for the fiscal year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Los Osos Community Services District's basic financial statements and have issued our report thereon dated DATE.

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of the District, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Los Osos Community Services District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fechter & Company
Certified Public Accountants

Sacramento, California
DATE

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