

LOS OSOS COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2017**

LOS OSOS COMMUNITY SERVICES DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Osos Community Services District (District), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of the Los Osos Community Services District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, the budgetary comparison information on pages 43 and 44, the schedule of funding progress for postemployment benefits on page 45, the schedule of proportionate share of net pension liability on pages 46, and the schedule of pension contributions on pages 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries of the basis financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2018, on our consideration of the Los Osos Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Remy & Haugheim LLP

Santa Maria, California
January 2, 2018

**LOS OSOS COMMUNITY SERVICES
DISTRICT MANAGEMENT'S DISCUSSION
AND ANALYSIS JUNE 30, 2017**

BACKGROUND

The Los Osos Community Services District (the District), a political subdivision of the State of California, was formed on January 1, 1999, pursuant to Ballot Measure K-98 to provide services previously provided by the County of San Luis Obispo (County) in specific benefit zones of what was formerly County Service Area 9. The District operates pursuant to Section 61000 of the California Government Code, currently authorized to provide Fire Protection, Water, Street Lighting, Wastewater, Drainage, and Parks and Recreation Services. The District operates two community septic collection systems pursuant to the wastewater function. The Parks and Recreation function is currently inactive and the only activity is holding in trust and investing funds representing assessments levied for a community pool several years ago. Discussions on activating this function are on-going and pursuance of this goal will be addressed in the future. The District is governed by a five-member Board of Directors with an operations staff headed by a general manager.

As management of the Los Osos Community Services District, we offer readers of the LOSCSD's financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2017.

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

drainage, general government and street lighting. The business-type activities of the District include water services.

Fund Financial Statements

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

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

Governmental Funds

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

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

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

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

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

Proprietary Funds

There are two types of funds classified as proprietary, namely, enterprise and internal service funds. The District only maintains the enterprise type of proprietary funds. The District uses three enterprise funds to account for its water and wastewater activities. These three enterprise funds are presented in individual columns in the fund financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Wastewater and the Solid Waste Funds

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

operations were eliminated upon the completion of the implementation the Second Amended Plan for Adjustment of Debts for the Los Osos Community Services District as further amended by non-material modifications as ordered by the Bankruptcy Court effective October 15, 2013. The activity in Solid Waste Fund was transferred to the County of San Luis Obispo effective December 31, 2013. Effective June 30, 2014, the District transferred the remaining activity of the Wastewater Fund to a Wastewater Fiduciary Fund for the reporting of the remainder of the bond payments being collected through the San Luis Obispo County Tax Rolls.

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

Los Osos Community Services District
Management Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL
STATEMENTS

TABLE A
Statement of Net Position
June 30, 2017

	June 30, 2017			June 30, 2016			Total Change	
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government	Amount Change	Percent Change
Assets:								
Current assets	\$ 2,916,951	\$ 2,367,067	\$ 5,284,018	\$ 2,597,989	\$ 2,216,881	\$ 4,814,870	\$ 469,148	9.7%
Capital assets	654,421	5,764,679	6,419,100	710,550	5,797,500	6,508,050	(88,950)	-1.4%
Total Assets	3,571,372	8,131,746	11,703,118	3,308,539	8,014,381	11,322,920	380,198	3.4%
Deferred Outflow of Resources:								
Deferred pensions	88,305	192,162	280,467	59,099	79,396	138,495	141,972	102.5%
Total deferred outflow of resources	88,305	192,162	280,467	59,099	79,396	138,495	141,972	102.5%
Liabilities:								
Current Liabilities	106,472	95,054	201,526	81,730	108,580	190,310	11,216	5.9%
Long-Term Liabilities	441,277	4,566,062	5,007,339	361,024	4,543,079	4,904,103	103,236	2.1%
Total Liabilities	547,749	4,661,116	5,208,865	442,754	4,651,659	5,094,413	114,452	2.2%
Deferred Inflow of Resources:								
Deferred pensions	55,689	19,325	75,014	51,931	80,014	131,945	(56,931)	-43.1%
Total deferred inflow of resources	55,689	19,325	75,014	51,931	80,014	131,945	(56,931)	-43.1%
Net Position:								
Net investment in capital assets	654,421	2,092,933	2,747,354	710,550	1,974,265	2,684,815	62,539	2.3%
Restricted	2,724,754	-	2,724,754	2,522,571	-	2,522,571	202,183	8.0%
Unrestricted	(322,936)	1,550,534	1,227,598	(360,168)	1,387,839	1,027,671	199,927	19.5%
Total Net Position	\$ 3,056,239	\$ 3,643,467	\$ 6,699,706	\$ 2,872,953	\$ 3,362,104	\$ 6,235,057	\$ 464,649	7.5%

Los Osos Community Services District
Management Discussion and Analysis

TABLE B
Statement of Activities
June 30, 2017

	June 30, 2017			June 30, 2016			Total Change
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government	Amount Change
Revenues:							
Program revenues:							
Charges for services	\$ 139,935	\$ 1,983,590	\$ 2,123,525	\$ 138,036	\$ 1,738,257	\$ 1,876,293	\$ 247,232
Operating Grants and Contributions	9,882	1,522	11,404	18,570	1,527	20,097	(8,693)
Capital Contributions and Grants	-	-	-	-	-	-	-
General Revenues:							
Property Taxes	1,933,541	221,449	2,154,990	1,882,664	213,371	2,096,035	58,955
Other Taxes	624,956	25,000	649,956	609,570	25,000	634,570	15,386
Interest and Investment Income	5,954	4,248	10,202	4,407	3,322	7,729	2,473
Other Revenues	1,263	10,985	12,248	120,486	56,058	176,544	(164,296)
Total Revenues	2,715,531	2,246,794	4,962,325	2,773,733	2,037,535	4,811,268	151,057
Expenses:							
General Government	607,567	-	607,567	659,604	-	659,604	(52,037)
Public Safety	2,229,348	-	2,229,348	2,284,999	-	2,284,999	(55,651)
Health and Sanitation	60,709	-	60,709	380,694	-	380,694	(319,985)
Street Lighting	8,444	-	8,444	9,128	-	9,128	(684)
Water	-	1,580,384	1,580,384	-	1,584,485	1,584,485	(4,101)
Wastewater Treatment	-	11,224	11,224	-	17,596	17,596	(6,372)
Total Expenses	2,906,068	1,591,608	4,497,676	3,334,425	1,602,081	4,936,506	(438,830)
Net Transfers	373,823	(373,823)	-	577,701	(577,701)	-	-
Change in Net Position	183,286	281,363	464,649	17,009	(142,247)	(125,238)	589,887
Net position, beginning	2,872,953	3,362,104	6,235,057	2,836,714	3,310,779	6,147,493	87,564
Prior Period Adjustments	-	-	-	19,230	193,572	212,802	(212,802)
Net Position, ending	\$ 3,056,239	\$ 3,643,467	\$ 6,699,706	\$ 2,872,953	\$ 3,362,104	\$ 6,235,057	\$ 464,649

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

**Analysis of Overall Financial Position and Results of
Operations**

Statement of Net Position

At the end of fiscal year June 30, 2017, the district is able to report positive balances in both the district as a whole as well as for its separate governmental and business-type activities.

The total assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at June 30, 2017 by \$6,699,706.

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

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

Statement of Activities

Overall, the results of operations as shown in the Statement of Activities has an increase in Net Position of \$464,649. Total revenues increased over the prior year by \$151,057. Water service fees increased by \$245,333 and property taxes increased by \$58,955. This continuing increase in property tax revenue received is in agreement with the trend in the rest of the County.

Overall expenses in Governmental Activities decreased by \$428,357. Total expenses in Business-Type Activities decreased by \$10,473.

Investment Income was up a modest amount of \$2,473. The Board of Director's is considering direction to management for modifications to its current investment policy, allowing the General Manager to invest in appropriate areas commensurate with the cash flow and revenue needs of the District.

Los Osos Community Services District
Management Discussion and Analysis

**TABLE C
Capital Assets
June 30, 2017**

	June 30, 2017			June 30, 2016			Total Change
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government	Amount Change
Land and Land Rights	\$ 57,375	\$ 498,429	\$ 555,804	\$ 57,375	\$ 498,429	\$ 555,804	\$ -
Construction in Progress	-	138,872	138,872	-	35,713	35,713	103,159
Buildings, Structures, and Improvements	587,410	5,000	592,410	559,936	5,000	564,936	27,474
Infrastructure	233,431	9,455,627	9,689,058	233,431	9,354,003	9,587,434	101,624
Equipment and Systems	1,466,215	494,336	1,960,551	1,466,215	473,177	1,939,392	21,159
Total Cost	2,344,431	10,592,264	12,936,695	2,316,957	10,366,322	12,683,279	253,416
Less Accumulated Depreciation	(1,690,010)	(4,827,585)	(6,517,595)	(1,606,407)	(4,568,822)	(6,175,229)	(342,366)
Net Position, ending	\$ 654,421	\$ 5,764,679	\$ 6,419,100	\$ 710,550	\$ 5,797,500	\$ 6,508,050	\$ (88,950)

**TABLE D
Long-Term Debt
June 30, 2017**

	June 30, 2017			June 30, 2016			Total Change
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government	Amount Change
Compensated Absences	\$ 21,946	\$ 47,034	\$ 68,980	\$ 16,316	\$ 63,566	\$ 79,882	\$ (10,902)
Other Post Employment Benefits Obligation	11,263	49,290	60,553	8,669	37,936	46,605	13,948
Note Payable - CIEDB loan	-	3,671,746	3,671,746	-	3,823,235	3,823,235	(151,489)
Net Pension Liability	408,068	550,658	958,726	336,039	346,008	682,047	276,679
Loan Payable to Fiduciary Fund	-	247,334	247,334	-	272,334	272,334	(25,000)
Total	\$ 441,277	\$ 4,566,062	\$ 5,007,339	\$ 361,024	\$ 4,543,079	\$ 4,904,103	\$ 103,236

Long-term debt totals \$5,007,339. The increase of \$103,236 represents principal payments as shown in amortization tables, as well the increase of \$276,679 for Net Pension Liability.

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

Fire and Water Fund Reserves

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

Fire Fund:		
General Contingency	\$	83,676
Vehicle, Equipment, and Fire Engine Replacement		716,507
Capital Outlay		567,211
Public Facilities Fee		40,334
Fire Mitigation		153,577
Total Fire Fund Reserves	\$	<u>1,561,305</u>
Water Fund:		
General Contingency	\$	258,783
Capital Outlay		521,423
Vehicle and Equipment Replacement		12,042
Water Quality		91,517
Water Stabalization		256,856
Basin Management		50,031
Water Conservation		59,288
Total Water Fund Reserves	\$	<u>1,249,940</u>

Significant Events or Disclosures

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

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

Sincerely,

Renee Osborne
General Manager

LOS OSOS COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
June 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 2,303,145	\$ 1,905,964	\$ 4,209,109
Accounts receivable, net	166,366	396,009	562,375
Prepaid items	100,000		100,000
Deposits		10,000	10,000
Inventory		54,194	54,194
Other assets		900	900
Restricted assets-			
Cash and investments	347,440		347,440
Capital assets:			
Non Depreciable:			
Land	57,375	498,429	555,804
Construction in progress		138,872	138,872
Depreciable:			
Buildings, structures, and improvements	587,410	5,000	592,410
Infrastructure	233,431	9,455,627	9,689,058
Plant and equipment	1,466,215	494,336	1,960,551
Accumulated depreciation	(1,690,010)	(4,827,585)	(6,517,595)
Total assets	<u>3,571,372</u>	<u>8,131,746</u>	<u>11,703,118</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred pensions	88,305	192,162	280,467
Total deferred outflow of resources	<u>88,305</u>	<u>192,162</u>	<u>280,467</u>
LIABILITIES			
Accounts payable	59,912	29,049	88,961
Accrued liabilities	10,613	16,193	26,806
Accrued interest payable		46,662	46,662
Deposits	1,184	3,150	4,334
Unearned revenue	34,763		34,763
Noncurrent liabilities:			
Due within one year	5,486	192,867	198,353
Due in more than one year	435,791	4,373,195	4,808,986
Total liabilities	<u>547,749</u>	<u>4,661,116</u>	<u>5,208,865</u>
DEFERRED INFLOW OF RESOURCES			
Deferred pensions	55,689	19,325	75,014
Total deferred inflow of resources	<u>55,689</u>	<u>19,325</u>	<u>75,014</u>
NET POSITION			
Net investment in capital assets	654,421	2,092,933	2,747,354
Restricted for:			
Fire and emergency services	2,038,876		2,038,876
Parks and recreation	295,252		295,252
Bayridge functions	32,643		32,643
Drainage services	357,983		357,983
Unrestricted	(322,936)	1,550,534	1,227,598
Total net position	<u>\$ 3,056,239</u>	<u>\$ 3,643,467</u>	<u>\$ 6,699,706</u>

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2017

	Expenses	Charges for Services	Program Revenues Operating Contributions and Grants
Governmental activities:			
General government	\$ 607,567	\$ -	\$ -
Public safety	2,229,348	69,336	9,882
Health and sanitation	60,709	62,061	
Street lighting	8,444	8,538	
Total governmental activities	2,906,068	139,935	9,882
Business-type activities:			
Water	1,580,384	1,983,590	1,522
Wastewater treatment project	11,224		
Total business-type activities	1,591,608	1,983,590	1,522
Total governmental	\$ 4,497,676	\$ 2,123,525	\$ 11,404

General Revenues:

Taxes:

Property

Special

Other

Investment income

Other general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning of fiscal year

Net position - end of fiscal year

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

Capital Contributions and Grants	Net (Expenses) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
\$ -	\$ (607,567)	\$ -	\$ (607,567)
	(2,150,130)		(2,150,130)
	1,352		1,352
	94		94
	(2,756,251)		(2,756,251)
		404,728	404,728
		(11,224)	(11,224)
		393,504	393,504
\$ -	(2,756,251)	393,504	(2,362,747)
	1,933,541	221,449	2,154,990
	624,956		624,956
		25,000	25,000
	5,954	4,248	10,202
	1,263	10,985	12,248
	373,823	(373,823)	
	2,939,537	(112,141)	2,827,396
	183,286	281,363	464,649
	2,872,953	3,362,104	6,235,057
	\$ 3,056,239	\$ 3,643,467	\$ 6,699,706

LOS OSOS COMMUNITY SERVICES DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2017

	General Fund	Fire Fund	Other Governmental Funds	Totals
ASSETS				
Cash and investments	\$ 35,955	\$ 1,877,514	\$ 389,676	\$ 2,303,145
Restricted cash and investments		52,188	295,252	347,440
Accounts receivable		163,750	2,616	166,366
Prepaid items		100,000		100,000
Due from other funds	13,910			13,910
Total assets	\$ 49,865	\$ 2,193,452	\$ 687,544	\$ 2,930,861
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 43,649	\$ 14,366	\$ 1,897	\$ 59,912
Accrued liabilities	5,166	5,447		10,613
Deposits	1,184			1,184
Unearned revenue		34,763		34,763
Due to other funds			13,910	13,910
Total liabilities	49,999	54,576	15,807	120,382
Fund Balances:				
Nonspendable:				
Prepaid items		100,000		100,000
Restricted:				
Fire and emergency services		2,038,876		2,038,876
Parks and recreation			295,252	295,252
Bayridge functions			32,643	32,643
Drainage services			357,983	357,983
Unassigned	(134)		(14,141)	(14,275)
Total fund balances	(134)	2,138,876	671,737	2,810,479
Total liabilities, deferred inflows of resources, and fund balances	\$ 49,865	\$ 2,193,452	\$ 687,544	\$ 2,930,861

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

LOS OSOS COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS - BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2017

Total fund balances - governmental funds \$ 2,810,479

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

Capital assets at historical cost	\$	2,344,431
Accumulated depreciation		<u>(1,690,010)</u>

Net 654,421

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

Compensated absences payable	\$	21,946
Other post employment benefits obligation		11,263
Net pension liability		<u>408,068</u>

Total (441,277)

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

32,616

Total net position - governmental activities

\$ 3,056,239

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

LOS OSOS COMMUNITY SERVICES DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Fiscal Year Ended June 30, 2017

	General Fund	Fire Fund	Other Governmental Funds	Totals
Revenues:				
Property taxes	\$ -	\$ 1,903,022	\$ 30,519	\$ 1,933,541
Special taxes and assessments		529,402	95,554	624,956
Intergovernmental		9,882		9,882
Service charges and fees			70,599	70,599
Public services fees		69,336		69,336
Use of money and property	732	3,584	1,638	5,954
Other	39	1,107	117	1,263
Total revenues	771	2,516,333	198,427	2,715,531
Expenditures:				
Personnel	154,503	164,940		319,443
Clothing and uniforms		6,379		6,379
Contract services	55,491	1,874,609		1,930,100
Equipment and tools		20,043	2,690	22,733
Financial services	3,470	48		3,518
Insurance, licenses, and regulatory fees	30,074	21,645	12,985	64,704
Legal and professional	245,873	332	14,496	260,701
Office expenses	17,442	31,494	692	49,628
Other expenses	382	969		1,351
Rent and utilities	38,812	12,229	25,995	77,036
Repairs and maintenance	110	14,003	5,903	20,016
Travel and training	6,461	2,468	1,362	10,291
Vehicle maintenance and repairs			1,760	1,760
Capital outlay		27,474		27,474
Total expenditures	552,618	2,176,633	65,883	2,795,134
Excess of revenues over (under) expenditures	(551,847)	339,700	132,544	(79,603)
Other Financing Sources (Uses):				
Transfers in	562,139	15,800		577,939
Transfers out	(15,800)	(118,049)	(70,267)	(204,116)
Total other financing sources (uses)	546,339	(102,249)	(70,267)	373,823
Net change in fund balances	(5,508)	237,451	62,277	294,220
Fund balances - July 1	5,374	1,901,425	609,460	2,516,259
Fund balances - June 30	\$ (134)	\$ 2,138,876	\$ 671,737	\$ 2,810,479

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

LOS OSOS COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2017

Total net change in fund balances - governmental funds	\$ 294,220
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$27,474 is less than depreciation expense \$(83,603) in the period.	(56,129)
In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, vacation earned exceeded the amounts used by \$5,630.	(5,630)
In the statement of activities, postemployment benefits are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, benefits earned exceeded the amounts used by \$2,594.	(2,594)
In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:	<u>(46,581)</u>
Changes in net position - governmental activities	<u>\$ 183,286</u>

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 June 30, 2017

	Water Fund	Wastewater Treatment Project Fund	Totals
ASSETS			
Current assets:			
Cash and investments	\$ 1,905,964	\$ -	\$ 1,905,964
Accounts receivable, net	390,856		390,856
Accrued revenue receivables	5,153		5,153
Deposits	10,000		10,000
Inventory at cost	54,194		54,194
Due from other funds	22,884		22,884
Other assets	900		900
Total current assets	<u>2,389,951</u>		<u>2,389,951</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	5,606,089	158,590	5,764,679
Total noncurrent assets	<u>5,606,089</u>	<u>158,590</u>	<u>5,764,679</u>
Total assets	<u>7,996,040</u>	<u>158,590</u>	<u>8,154,630</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pensions	192,162		192,162
Total deferred outflows of resources	<u>192,162</u>		<u>192,162</u>
LIABILITIES			
Current liabilities:			
Accounts payable	26,306	2,743	29,049
Accrued liabilities	16,193		16,193
Accrued interest payable	46,662		46,662
Deposits payable	3,150		3,150
Due to other funds		22,884	22,884
Compensated absences - current portion	11,758		11,758
Loan payables - current portion	156,109	25,000	181,109
Total current liabilities	<u>260,178</u>	<u>50,627</u>	<u>310,805</u>
Noncurrent liabilities:			
Compensated absences	35,276		35,276
OPEB payable	49,290		49,290
Loans payable	3,515,637	222,334	3,737,971
Net pension liability	550,658		550,658
Total noncurrent liabilities	<u>4,150,861</u>	<u>222,334</u>	<u>4,373,195</u>
Total liabilities	<u>4,411,039</u>	<u>272,961</u>	<u>4,684,000</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	19,325		19,325
Total deferred inflows of resources	<u>19,325</u>		<u>19,325</u>
NET POSITION			
Net investment in capital assets	1,934,343	158,590	2,092,933
Unrestricted (deficit)	1,823,495	(272,961)	1,550,534
Total net position	<u>\$ 3,757,838</u>	<u>\$ (114,371)</u>	<u>\$ 3,643,467</u>

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Fiscal Year Ended June 30, 2017

	Water Fund	Wastewater Treatment Project Fund	Totals
Operating Revenues:			
Utility	\$ 1,983,590	\$ -	\$ 1,983,590
Total operating revenues	<u>1,983,590</u>	<u>-</u>	<u>1,983,590</u>
Operating Expenses:			
Personnel	686,461		686,461
Clothing and uniforms	1,958		1,958
Contract services	51,095		51,095
Equipment and tools	37,654		37,654
Financial services	381	135	516
Insurance, licenses and regulatory fees	56,224	269	56,493
Legal and professional	155,741	10,481	166,222
Office expenses	58,369		58,369
Other expenses	2,359		2,359
Rent and utilities	121,318		121,318
Repairs and maintenance	13,009		13,009
Travel and training	4,536		4,536
Vehicle maintenance and repairs	8,673	339	9,012
Depreciation	258,763		258,763
Total operating expenses	<u>1,456,541</u>	<u>11,224</u>	<u>1,467,765</u>
Operating income (loss)	<u>527,049</u>	<u>(11,224)</u>	<u>515,825</u>
Non-Operating Revenues (Expenses):			
Property taxes and assessments	221,449	25,000	246,449
Investment income	4,238	10	4,248
Other non-operating revenue	10,985		10,985
Intergovernmental revenues	1,522		1,522
Interest expense	(123,843)		(123,843)
Total non-operating revenues (expenses)	<u>114,351</u>	<u>25,010</u>	<u>139,361</u>
Income before transfers	641,400	13,786	655,186
Transfers:			
Transfers (out)	(348,527)	(25,296)	(373,823)
Total transfers	<u>(348,527)</u>	<u>(25,296)</u>	<u>(373,823)</u>
Change in net position	292,873	(11,510)	281,363
Net position (deficit) - July 1	<u>3,464,965</u>	<u>(102,861)</u>	<u>3,362,104</u>
Net position (deficit) - June 30	<u>\$ 3,757,838</u>	<u>\$ (114,371)</u>	<u>\$ 3,643,467</u>

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 For the Fiscal Year Ended June 30, 2017

	Water Fund	Wastewater Treatment Project Fund	Totals
Cash Flows From Operating Activities:			
Receipts from customers	\$ 1,952,626	\$ -	\$ 1,952,626
Payments to suppliers	(508,738)	(12,481)	(521,219)
Payments to employees	(669,830)		(669,830)
Net cash provided (used) by operating activities	<u>774,058</u>	<u>(12,481)</u>	<u>761,577</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition of capital assets	(225,942)		(225,942)
Principal paid on capital debt	(151,489)		(151,489)
Interest paid on capital debt	(125,768)		(125,768)
Net cash provided (used) by capital and related financing activities	<u>(503,199)</u>		<u>(503,199)</u>
Cash Flows from Noncapital Financing Activities:			
Transfers from (to) other funds	(371,411)	(2,412)	(373,823)
Property taxes and assessments	222,282	25,000	247,282
Intergovernmental revenues	1,522		1,522
Principal paid on debt		(25,000)	(25,000)
Other revenue	10,985		10,985
Net cash provided (used) by noncapital financing activities	<u>(136,622)</u>	<u>(2,412)</u>	<u>(139,034)</u>
Cash Flows From Investing Activities:			
Interest income	4,238	10	4,248
Net cash provided (used) by investing activities	<u>4,238</u>	<u>10</u>	<u>4,248</u>
Net increase (decrease) in cash and cash equivalents	138,475	(14,883)	123,592
Cash and cash equivalents - July 1	1,767,489	14,883	1,782,372
Cash and cash equivalents - June 30	<u>\$ 1,905,964</u>	<u>\$ -</u>	<u>\$ 1,905,964</u>
Reconciliation to Statement of Net Position:			
Cash and investments	<u>\$ 1,905,964</u>	<u>\$ -</u>	<u>\$ 1,905,964</u>

(Continued)

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

LOS OSOS COMMUNITY SERVICES DISTRICT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2017

	Water Fund	Wastewater Treatment Project Fund	Totals
	<u>Fund</u>	<u>Fund</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 527,049	\$ (11,224)	\$ 515,825
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation expense	258,763		258,763
Change in assets, liabilities, deferred inflows of resources, and deferred outflows of resources:			
Receivables, net	(30,964)		(30,964)
Inventories	3,537		3,537
Deferred outflows	(112,766)		(112,766)
Accounts payable	(958)	(1,257)	(2,215)
Accrued liabilities	(9,386)		(9,386)
Compensated absences	(16,532)		(16,532)
OPEB payable	11,354		11,354
Net pension liability	204,650		204,650
Deferred inflows	(60,689)		(60,689)
Net cash provided (used) by operating activities	<u>\$ 774,058</u>	<u>\$ (12,481)</u>	<u>\$ 761,577</u>

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

LOS OSOS COMMUNITY SERVICES DISTRICT
FIDUCIARY FUND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 June 30, 2017

	Agency Fund
	<u> </u>
ASSETS	
Cash and investments	\$ 106,769
Cash with fiscal agent	1,795,991
Loan receivable from District	<u>247,334</u>
Total assets	<u><u>\$ 2,150,094</u></u>
LIABILITIES	
Due to bondholders	<u>\$ 2,150,094</u>
Total liabilities	<u><u>\$ 2,150,094</u></u>

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

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

B. Basis of Presentation

Fund Financial Statements:

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

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

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

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

Proprietary Funds

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

Proprietary Funds are as follows:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Fiduciary Funds

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

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

Major Funds

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

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting

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

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

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

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

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

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

D. Property Taxes

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property Taxes (Continued)

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

E. Cash and Investments

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

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

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

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

F. Accounts and Interest Receivable

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

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

G. Prepaid Expenses and Inventory

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

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

H. Restricted Assets

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

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

Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

J. Accumulated Compensated Absences

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

K. Long-Term Liabilities

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

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

L. Pensions

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Deferred Outflows and Inflows of Resources

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

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

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

M. Interfund Transactions

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

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

N. Equity Classifications

Government-Wide Statements

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

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

O. Future Accounting Pronouncements

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

Statement No. 75	"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 81	"Irrevocable Split-Interest Agreements"	The provisions of this statement are effective for fiscal years beginning after December 15, 2016.
Statement No. 82	"Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Future Accounting Pronouncements (Continued)

Statement No. 83	"Certain Asset Retirement Obligations"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 85	"Omnibus 2017"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 86	"Certain Debt Extinguishment Issues"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.

P. Use of Estimates

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

NOTE 2 – CASH AND INVESTMENTS

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

Investments of the District as of June 30, 2017

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

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

The composition of cash and investments as of June 30, 2017, by fund type is as follows:

	Available for Operations	Restricted	Total
General Fund	\$ 35,955	\$ -	\$ 35,955
Special Revenue Funds	2,267,190	347,440	2,614,630
Proprietary Funds	1,905,964		1,905,964
Fiduciary Funds		1,902,760	1,902,760
	<u>\$ 4,209,109</u>	<u>\$ 2,250,200</u>	<u>\$ 6,459,309</u>

Classification

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

Cash and investments	\$ 4,209,109
Cash and investments - restricted	347,440
Total cash and investments, statement of net position	<u>4,556,549</u>
Cash and investments, statement of fiduciary net position	106,769
Cash and investments with fiscal agents, statement of fiduciary net position	1,795,991
Total cash and investments	<u>\$ 6,459,309</u>

On June 30, 2017, the District had the following cash and investments on hand:

Deposits with financial institutions	\$ 1,889,599
Imprest funds	12,874
Bank time deposits	52,188
State investment pool	639,532
Money market	3,865,116
Total cash and investments	<u>\$ 6,459,309</u>

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

Disclosure Relating to Interest Rate Risk

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

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosure Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2017:

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Bank time deposits	\$ 52,188	\$ 52,188	\$ -	\$ -	\$ -
LAIF	639,532	639,532			
Money market	2,069,125	2,069,125			
Held by bond trustees:					
Money market	1,795,991	1,795,991			
	<u>\$ 4,556,836</u>	<u>\$ 4,556,836</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations. Presented below is the minimum rating required by (where applicable) the California Government Code, the investment policy, or debt agreements, and the actual rating as of the fiscal year ended June 30, 2017 for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	Aa	Not Rated
Bank time deposits	\$ 52,188	N/A	\$ -	\$ -	\$ -	\$ 52,188
LAIF	639,532	N/A				639,532
Money market	2,069,125	N/A				2,069,125
Held by bond trustees:						
Money market	1,795,991					1,795,991
	<u>\$ 4,556,836</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,556,836</u>

Concentration of Credit Risk

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

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

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

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk (Continued)

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

Custodial Credit Risk

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

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

NOTE 3 – INTERFUND TRANSACTIONS

Transfers between funds during the fiscal year ended June 30, 2017, were as follows:

Interfund Transfers:

<u>Major Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 562,139	\$ 15,800
Fire	15,800	118,049
<u>Nonmajor Governmental Funds:</u>		
Bayridge		8,432
Vista de Oro		5,621
Drainage		44,971
Parks and Recreation		11,243
<u>Proprietary Funds:</u>		
Water		348,527
Wastewater Treatment Plant		25,296
	<u>\$ 577,939</u>	<u>\$ 577,939</u>

Due To/Due From:

<u>Major Governmental Fund:</u>	<u>Due From</u>	<u>Due To</u>
General	\$ 13,910	\$ -
<u>Nonmajor Governmental Fund:</u>		
Vista de Oro		13,910
<u>Proprietary Funds:</u>		
Water	22,884	
Wastewater Treatment Plant		22,884
	<u>\$ 36,794</u>	<u>\$ 36,794</u>

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 – CAPITAL ASSETS

Governmental activities:

	Balance at July 1, 2016	Additions	Retirements	Balance at June 30, 2017
Capital assets not being depreciated				
Land	\$ 57,375	\$ -	\$ -	\$ 57,375
Total capital assets not being depreciated	<u>\$ 57,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,375</u>
Capital assets being depreciated				
Buildings, structures, and improvements	\$ 559,936	\$ 27,474	\$ -	\$ 587,410
Infrastructure	233,431			233,431
Plant and equipment	1,466,215			1,466,215
Total capital assets being depreciated	<u>2,259,582</u>	<u>27,474</u>		<u>2,287,056</u>
Less accumulated depreciation				
Buildings, structures, and improvements	416,884	21,648		438,532
Infrastructure	227,147	3,270		230,417
Plant and equipment	962,376	58,685		1,021,061
Total accumulated depreciation	<u>1,606,407</u>	<u>83,603</u>		<u>1,690,010</u>
Total capital assets being depreciated, net	<u>\$ 653,175</u>	<u>\$ (56,129)</u>	<u>\$ -</u>	<u>\$ 597,046</u>
Net capital assets	<u>\$ 710,550</u>	<u>\$ (56,129)</u>	<u>\$ -</u>	<u>\$ 654,421</u>

Business-type activities:

	Balance at July 1, 2016	Additions	Retirements	Transfers	Balance at June 30, 2017
Capital assets not being depreciated					
Land	\$ 498,429	\$ -	\$ -	\$ -	\$ 498,429
Construction in progress	35,713	135,622		(32,463)	138,872
Total capital assets not being depreciated	<u>\$ 534,142</u>	<u>\$ 135,622</u>	<u>\$ -</u>	<u>\$ (32,463)</u>	<u>\$ 637,301</u>
Capital assets being depreciated					
Building and improvements	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Infrastructure	9,354,003	69,161		32,463	9,455,627
Plant and equipment	473,177	21,159			494,336
Total capital assets being depreciated	<u>9,832,180</u>	<u>90,320</u>		<u>32,463</u>	<u>9,954,963</u>
Less accumulated depreciation					
Building and improvements	5,000				5,000
Infrastructure	4,165,284	233,109			4,398,393
Plant and equipment	398,538	25,654			424,192
Total accumulated depreciation	<u>4,568,822</u>	<u>258,763</u>			<u>4,827,585</u>
Total capital assets being depreciated, net	<u>\$ 5,263,358</u>	<u>\$ (168,443)</u>	<u>\$ -</u>	<u>\$ 32,463</u>	<u>\$ 5,127,378</u>
Net capital assets	<u>\$ 5,797,500</u>	<u>\$ (32,821)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,764,679</u>

Governmental Activities:

General administration	\$ 8,368
Public safety	71,965
Health and sanitation	3,270

Total governmental activities depreciation expense \$ 83,603

Business-type Activities:

Water services	\$ 258,763
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Total business-type activities depreciation expense \$ 258,763

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of changes in the District's long-term liabilities for the fiscal year ended June 30, 2017:

	Balance at July 1, 2016	Additions	Reductions	Balance at June 30, 2017	Current Portion
Governmental Activities:					
Compensated Absences	\$ 16,316	\$ 9,992	\$ 4,362	\$ 21,946	\$ 5,486
Other Post Employment Benefits Obligation	8,669	5,799	3,205	11,263	
Net Pension Liability	336,039	139,408	67,379	408,068	
Total Governmental Activities	\$ 361,024	\$ 155,199	\$ 74,946	\$ 441,277	\$ 5,486
Business-Type Activities:					
Compensated Absences	\$ 63,566	\$ 23,300	\$ 39,832	\$ 47,034	\$ 11,758
Other Post Employment Benefits Obligation	37,936	12,872	1,518	49,290	
Water Fund:					
Loan Payable	3,823,235		151,489	3,671,746	156,109
Wastewater Treatment Project Fund:					
Loan Payable to Fiduciary Fund	272,334		25,000	247,334	25,000
Net Pension Liability	346,008	239,835	35,185	550,658	
Total Business-Type Activities	\$ 4,543,079	\$ 276,007	\$ 253,024	\$ 4,566,062	\$ 192,867

NOTE 6 – LOANS PAYABLE

California Infrastructure and Economic Development Bank

On December 6, 2004, the District entered into a loan agreement with the California Infrastructure and Economic Development Bank (CIEDB) for a principal amount of \$5 million for the purpose of constructing and upgrading water delivery facilities. The loan is for a term of thirty years ending in August 2034 with an interest rate of 3.05% per annum. Annual payments average \$278,000 per year including interest. Debt service payments are due in August and February each year. Water revenues were pledged to guarantee the loan. All projects covered by the loan were completed and closed out in January 2009. The outstanding principal balance of the loan at June 30, 2017, was \$3,671,746.

California Infrastructure and Economic Development Bank				
For the Fiscal Year Ending June 30	Principal	Interest	Annual Administrative Fee	Total
2018	\$ 156,109	\$ 109,607	\$ 11,015	\$ 276,731
2019	160,871	104,773	10,547	276,191
2020	165,777	99,792	10,064	275,633
2021	170,834	94,659	9,567	275,060
2022	176,044	89,369	9,054	274,467
2023-2027	964,110	361,676	37,020	1,362,806
2028-2032	1,120,385	203,018	21,650	1,345,053
2033-2035	757,616	35,126	4,593	797,335
Total	\$ 3,671,746	\$ 1,098,020	\$ 113,510	\$ 4,883,276

Loan Payable to Fiduciary Fund

The District used \$714,268 bond reserve funds on September 1, 2006, to cover amounts the District had spent from the bond redemption funds. As part of the bankruptcy settlement, the District is to pay back the reserve fund with its bond administration fee plus \$25,000 annually. As of June 30, 2017, the District owed \$247,334. See Note 12 – Contingencies and Commitments for further details.

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 – PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions

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

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Pre-Retirement Option Settlement. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Contribution rates are based on the Actuarial Valuation Report as of June 30, 2015. The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous	
	Classic Member Hired Prior to January 1, 2013*	New Member Hired On or after January 1, 2013
Hire Date		
Benefit formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.46% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.50%
Required employer contribution rates	9.558% +\$29,413	6.93%
	Safety	
	Classic Member Hired Prior to January 1, 2013*	New Member Hired On or after January 1, 2013
Hire Date		
Benefit formula	2% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	50-57
Monthly benefits, as a % of eligible compensation	2.0-2.7%	2.0% to 2.7%
Required employee contribution rates	9%	12.25%
Required employer contribution rates	\$9,658	12.821% +\$12

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 7 – PENSION PLANS (Continued)

A. General Information about the Pension Plans (Continued)

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 \$10,572 for the Safety Plan and \$79,283 for the Miscellaneous Plan for the fiscal year ended June 30, 2017.

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

At June 30, 2017, 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	\$ 611,842
Safety	346,884
	<u>\$ 958,726</u>

The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 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, 2016, the District's proportionate share of the net pension liability for each Plan as of June 30, 2015 and June 30, 2016 was as follows:

	Miscellaneous	Safety
Proportion-June 30, 2015	0.01706%	0.00572%
Proportion-June 30, 2016	0.01761%	0.00670%
Change-Increase (Decrease)	<u>0.00055%</u>	<u>0.00098%</u>

For the fiscal year ended June 30, 2017, the District recognized pension expense of \$167,631. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,539	\$ -
Changes in assumptions		29,794
Net difference between projected and actual earnings on retirement plan investments	154,235	
Adjustment due to differences in proportion	28,069	38,198
Changes in proportion and differences between District contributions and proportionate share of contributions	6,769	7,022
District contributions subsequent to the measurement date	89,855	
	<u>\$ 280,467</u>	<u>\$ 75,014</u>

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

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 – PENSION PLANS (Continued)

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

\$89,855 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, 2018.

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

Fiscal year ending June 30,	Amount
2018	\$ (415)
2019	2,205
2020	73,841
2021	39,967
	<u>\$ 115,598</u>

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous and Safety</u>
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return (1)	7.50%
Mortality	Derived using CalPERS' Membership Data for all Funds (1)

- (1) Net of pension plan investment and administrative expenses including inflation
- (2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 7 – PENSION PLANS (Continued)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.65 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 the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 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 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	100.0%		

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

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

NOTE 7 – PENSION PLANS (Continued)

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

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

The following represents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.65 percent) or 1- percentage point higher (8.65 percent) than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.65%	6.65%
Net Pension Liability	\$ 960,548	\$ 571,326
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 611,842	\$ 346,884
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 323,654	\$ 162,641

Pension Plan Fiduciary Net Position

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

C. Payable to the Pension Plan

At June 30, 2017, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2017.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District provides a defined benefit healthcare plan (the “Retiree Health Plan”). The Retiree Health Plan provides lifetime healthcare insurance for eligible retirees through the CalPERS Health Benefit Program, which covers both active and retired members. Spouses are also covered throughout his or her life. The District only pays up to the required minimum employer premium contribution calculated using the unequal contribution method. Under this method, the District’s contribution for the retiree is calculated by the number of years the District has participated in CalPERS, multiplied by at least five percent (5%), and multiplied by the current employer contribution toward active employees, which is adjusted based on the medical care portion of the Consumer Price Index.

Funding Policy

The District’s Board of Directors will not be funding the plan in the current fiscal year. The Board will review the funding requirements and policy annually.

Annual OPEB Cost and Net OPEB Obligation

The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over the remaining period of 30 years. The following table shows the components of the District’s annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the its net OPEB obligation to the Retiree Health Plan:

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Annual required Contribution	\$ 18,707
Interest on net OPEB obligation	1,632
Adjustment to annual required contribution	<u>(1,668)</u>
Annual OPEB cost (expense)	18,671
Contributions made	<u>4,723</u>
Increase in net OPEB obligation	13,948
Net OPEB obligation - beginning of fiscal year	<u>46,605</u>
Net OPEB obligation - end of fiscal year	<u>\$ 60,553</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the last fiscal year is as follows:

Fiscal Year Ending June 30	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 18,693	\$ 4,338	23%	\$ 33,110
2016	\$ 18,683	\$ 5,188	28%	\$ 46,605
2017	\$ 18,671	\$ 4,723	25%	\$ 60,553

Funding Status and Funding Progress

As of July 1, 2014, the actuarial accrued liability (AAL) for benefits was \$174,250, all of which is unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer as subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term prospective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or at the first subsequent year in which the member would qualify for benefits.

Mortality – Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

Turnover – The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition, the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of GASB Statement No. 45.

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (Continued)

Methods and Assumptions (Continued)

Healthcare cost trend rate – Healthcare cost trend rates were selected based on a combination of national and state trend surveys as well as professional judgement. The ultimate trend rate was 4%.

Health insurance premiums – 2015 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid. An employee is assumed to continue with the same medical plan upon retirement. If an employee waived medical coverage, then such waiver is assumed to continue into retirement.

Medicare Coordination – Medicare was assumed as the primary payer for current and future retirees at age 62.

Payroll increase – Changes in the payroll for current employees are expected to increase at a rate of approximately 3% annually.

Discount rate – The calculation uses an annual discount rate of 3.5%. This is based on the assumed long-term return on plan assets or employer assets.

Actuarial cost method – The entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized a level percentage of projected payroll on an open basis over 30 years.

Plan for Funding

On an ongoing basis, the District will be reviewing its assumptions, comparing them against actual experience and recalculating the needed funding with the goal of paying for postemployment benefits out of interest earned on designated funds.

Required Supplementary Information: Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of payroll (a[a-b]/c)
7/1/2014	\$ 174,250	\$ -	\$ 174,250	0%	\$ 303,003	57.5%

NOTE 9 – OPERATING LEASES

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

NOTE 10 – FUND DEFICITS

As of June 30, 2017, the following funds had a fund deficit:

Major Governmental Fund:	
General Fund	\$ 134
Non-major Governmental Fund:	
Vista de Oro Fund	14,141
Proprietary Fund:	
Wastewater Treatment Project Fund	114,371
Total	<u>\$ 128,646</u>

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 – FIDUCIARY BONDED DEBT – NON-DISTRICT DEBT

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

Wastewater Improvement Bonds

Wastewater Improvement Bonds			
For the Fiscal Year Ending June 30	Principal	Interest	Total
2018	\$ 505,000	\$ 639,125	\$ 1,144,125
2019	530,000	613,250	1,143,250
2020	555,000	586,125	1,141,125
2021	585,000	557,625	1,142,625
2022	615,000	527,625	1,142,625
2023-2027	3,555,000	2,133,875	5,688,875
2028-2032	4,540,000	1,127,250	5,667,250
2033-2034	2,150,000	108,750	2,258,750
Total	\$ 13,035,000	\$ 6,293,625	\$ 19,328,625

NOTE 12 – RISK MANAGEMENT

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

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

NOTE 13 – CONTINGENCIES AND COMMITMENTS

Commitment to Pay into the 2002 Bond Reserve

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

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

Note: In FY 2014/2015 the District in cooperation with US Bank conducted a full audit of this fund from its inception through June 30, 2015. After making the payments for FY 2013/2014, FY 2014/2015, and processing all payments currently held by the LOCSD for prior years, the Reserve balance as of June 30, 2017 is \$911,564. As of June 30, 2017, \$247,334 is still needed to restore the reserve to its required level. For FY 2015/2016 the LOCSD Board authorized a \$12 per parcel administrative charge be included on the San Luis Obispo Tax Rolls as allowed by the bond documents. Consistent with the bankruptcy order these funds are to be used to pay the MBIA claim by making the payments annually to US Bank to restore the fund in the Improvement Bond Reserve.

Other Commitments

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

REQUIRED SUPPLEMENTARY INFORMATION

LOS OSOS COMMUNITY SERVICES DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Use of money and property	\$ -	\$ -	\$ 732	\$ 732
Other	200	15	39	24
Total revenues	200	15	771	756
Expenditures:				
Personnel	336,462	157,968	154,503	3,465
Contract services	55,100	53,400	55,491	(2,091)
Financial services	1,001	3,000	3,470	(470)
Insurance, licenses, and regulatory fees	25,000	30,563	30,074	489
Legal and professional	92,200	248,218	245,873	2,345
Office expenses	17,410	18,100	17,442	658
Other expenses	13,500	382	382	
Rent and utilities	37,800	42,982	38,812	4,170
Repairs and maintenance	101	110	110	
Travel and training	9,300	4,400	6,461	(2,061)
Total expenditures	587,874	559,123	552,618	6,505
Excess of revenues over (under) expenditures	(587,674)	(559,108)	(551,847)	7,261
Other Financing Sources (Uses)				
Transfers in	587,874	581,220	562,139	(19,081)
Transfers out			(15,800)	(15,800)
Total other financing sources (uses)	587,874	581,220	546,339	(34,881)
Net change in fund balance	200	22,112	(5,508)	(27,620)
Fund balance - July 1	5,374	5,374	5,374	
Fund balance - June 30	\$ 5,574	\$ 27,486	\$ (134)	\$ (27,620)

LOS OSOS COMMUNITY SERVICES DISTRICT
 FIRE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Property taxes	\$ 1,905,834	\$ 1,905,834	\$ 1,903,022	\$ (2,812)
Special taxes and assessments	553,881	553,881	529,402	(24,479)
Intergovernmental	18,783	15,128	9,882	(5,246)
Public services fees	68,512	67,134	69,336	2,202
Use of money and property		2,000	3,584	1,584
Other		35,898	1,107	(34,791)
Total revenues	2,547,010	2,579,875	2,516,333	(63,542)
Expenditures:				
Personnel	155,245	151,519	164,940	(13,421)
Clothing and uniforms	6,300	6,750	6,379	371
Contract services	2,008,094	2,001,594	1,874,609	126,985
Equipment and tools	23,498	19,047	20,043	(996)
Financial services	100	400	48	352
Insurance, licenses, and regulatory fees	20,300	21,377	21,645	(268)
Legal and professional	2,720	2,434	332	2,102
Office expenses	26,395	21,219	31,494	(10,275)
Other expenses	6,550	919	969	(50)
Rent and utilities	11,582	11,852	12,229	(377)
Repairs and maintenance	18,350	6,305	14,003	(7,698)
Travel and training	6,875	2,857	2,468	389
Capital outlay	300,000	227,346	27,474	199,872
Total expenditures	2,586,009	2,473,619	2,176,633	296,986
Excess of revenues over (under) expenditures	(38,999)	106,256	339,700	233,444
Other Financing Sources (Uses)				
Transfers in		15,800	15,800	
Transfers out	(122,056)	(122,056)	(118,049)	4,007
Total other financing sources (uses)	(122,056)	(106,256)	(102,249)	4,007
Net change in fund balance	(161,055)		237,451	237,451
Fund balance - July 1	1,901,425	1,901,425	1,901,425	
Fund balance - June 30	\$ 1,740,370	\$ 1,901,425	\$ 2,138,876	\$ 237,451

LOS OSOS COMMUNITY SERVICES DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFITS
OTHER THAN PENSIONS
For the Fiscal Year Ended June 30, 2017

The following table provides required supplementary information regarding the District's postemployment healthcare benefits.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of payroll ([a-b]/c)
6/30/2012	\$ 31,100	\$ -	\$ 31,100	0%	\$ 597,721	5.2%
6/30/2013	\$ 31,100	\$ -	\$ 31,100	0%	\$ 563,216	5.5%
6/30/2014	\$ 38,332	\$ -	\$ 38,332	0%	\$ 604,619	6.3%
7/1/2014	\$ 174,250	\$ -	\$ 174,250	0%	\$ 303,003	57.5%

LOS OSOS COMMUNITY SERVICES DISTRICT
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 Last 10 Years*
 As of June 30, 2017

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.01108%	0.01108%	0.01108%
Proportionate share of the net pension liability	\$ 958,726	\$ 682,047	\$ 621,010
Covered- employee payroll	\$ 655,035	\$ 619,826	\$ 413,539
Proportionate share of the net pension liability as percentage of covered-employee payroll	146.36%	110.04%	150.17%
Plan's total pension liability	\$ 33,358,627,624	\$ 31,771,217,402	\$ 30,829,966,631
Plan's fiduciary net position	\$ 24,705,532,291	\$ 24,907,305,871	\$ 24,607,502,515
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	79.82%

Notes to Schedule:

Changes in assumptions

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

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

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 SCHEDULE OF CONTRIBUTIONS
 Last 10 Years*
 As of June 30, 2017

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

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

Notes to Schedule

Valuation Date:	6/30/2015
Methods and assumptions used to determine contribution rates:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

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

SUPPLEMENTARY INFORMATION

LOS OSOS COMMUNITY SERVICES DISTRICT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2017

	Bayridge	Vista de Oro	Drainage	Parks and Recreation	Total
ASSETS					
Cash and investments	\$ 32,567	\$ -	\$ 357,109	\$ -	\$ 389,676
Restricted cash and investments				295,252	295,252
Accounts receivable	639		1,977		2,616
Total assets	\$ 33,206	\$ -	\$ 359,086	\$ 295,252	\$ 687,544
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 563	\$ 231	\$ 1,103	\$ -	\$ 1,897
Due to other funds		13,910			13,910
Total liabilities	563	14,141	1,103		15,807
Fund Balances:					
Restricted	32,643		357,983	295,252	685,878
Unassigned		(14,141)			(14,141)
Total fund balances (deficit)	32,643	(14,141)	357,983	295,252	671,737
Total liabilities and fund balances	\$ 33,206	\$ -	\$ 359,086	\$ 295,252	\$ 687,544

LOS OSOS COMMUNITY SERVICES DISTRICT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2017

	<u>Bayridge</u>	<u>Vista de Oro</u>	<u>Drainage</u>	<u>Parks and Recreation</u>	<u>Total</u>
Revenues:					
Property taxes	\$ 8,442	\$ -	\$ 22,077	\$ -	\$ 30,519
Special taxes and assessments			95,554		95,554
Service charges and fees	54,940	15,659			70,599
Use of money and property			350	1,288	1,638
Other	8		109		117
	<u>63,390</u>	<u>15,659</u>	<u>118,090</u>	<u>1,288</u>	<u>198,427</u>
Expenditures:					
Equipment and tools			2,690		2,690
Insurance, licenses, and regulatory fees	2,046	1,503	9,436		12,985
Legal and professional	3,842	4,213	5,828	613	14,496
Office expenses			692		692
Rent and utilities	17,584	4,208	4,185	18	25,995
Repairs and maintenance	18	2,569	3,316		5,903
Travel and training			1,362		1,362
Vehicle maintenance and repairs			1,760		1,760
	<u>23,490</u>	<u>12,493</u>	<u>29,269</u>	<u>631</u>	<u>65,883</u>
Excess of revenues over (under) expenditures	<u>39,900</u>	<u>3,166</u>	<u>88,821</u>	<u>657</u>	<u>132,544</u>
Other Financing Sources (Uses)					
Transfers in					
Transfers out	(8,432)	(5,621)	(44,971)	(11,243)	(70,267)
	<u>(8,432)</u>	<u>(5,621)</u>	<u>(44,971)</u>	<u>(11,243)</u>	<u>(70,267)</u>
Net change in fund balances	31,468	(2,455)	43,850	(10,586)	62,277
Fund balances - July 1	<u>1,175</u>	<u>(11,686)</u>	<u>314,133</u>	<u>305,838</u>	<u>609,460</u>
Fund balances (deficit) - June 30	<u>\$ 32,643</u>	<u>\$ (14,141)</u>	<u>\$ 357,983</u>	<u>\$ 295,252</u>	<u>\$ 671,737</u>