

**LOS OSOS COMMUNITY  
SERVICES DISTRICT**

FINANCIAL STATEMENTS  
June 30, 2013

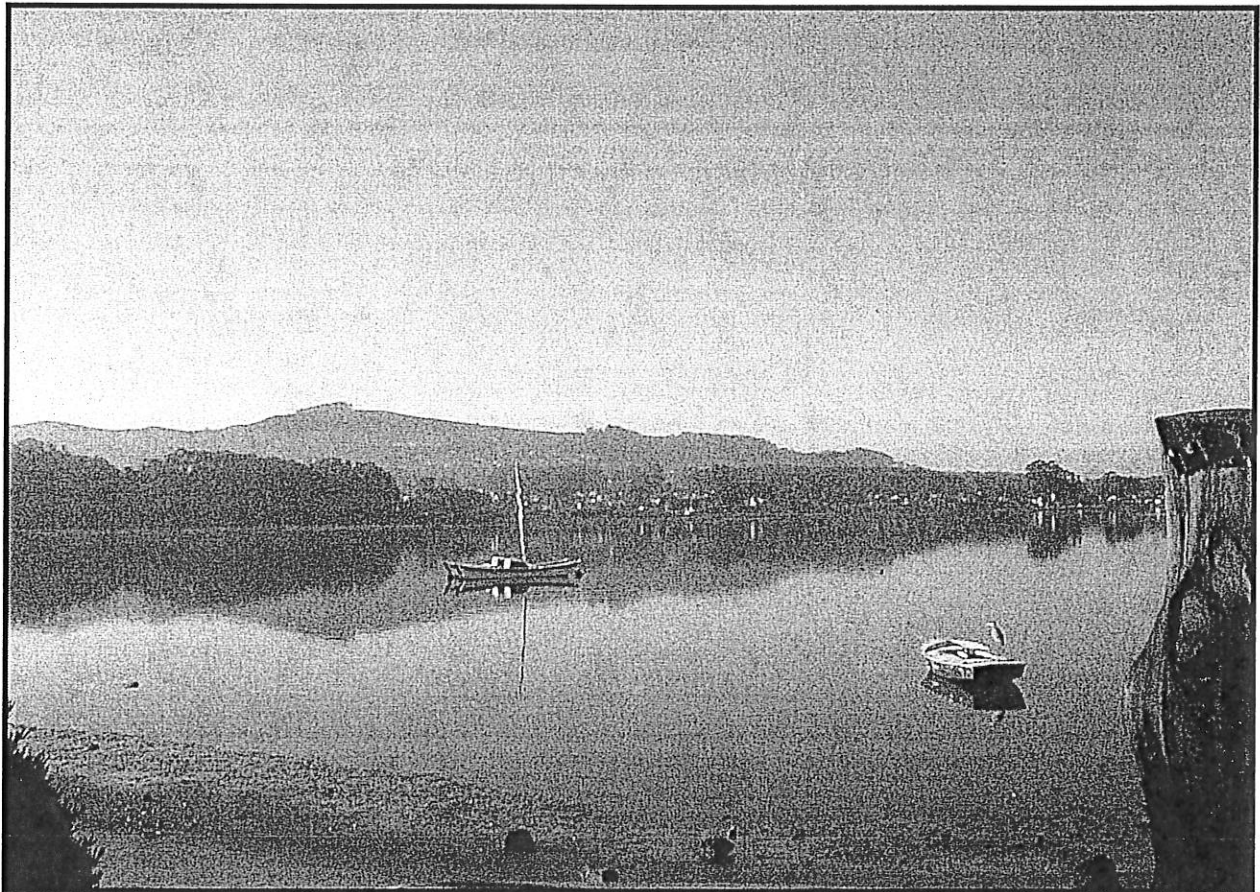


# LOS OSOS COMMUNITY SERVICES DISTRICT

## FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
JUNE 30, 2013

WITH INDEPENDENT AUDITOR'S REPORT  
AND  
SUPPLEMENTARY INFORMATION







**LOS OSOS COMMUNITY SERVICES DISTRICT  
FOR THE YEAR ENDED JUNE 30, 2013**

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**INTRODUCTORY SECTION**



March 6, 2014

Honorable Board President and Board Members and Citizens of the Los Osos Community Services District.

**LETTER OF TRANSMITTAL  
FISCAL YEAR 2012-2013 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

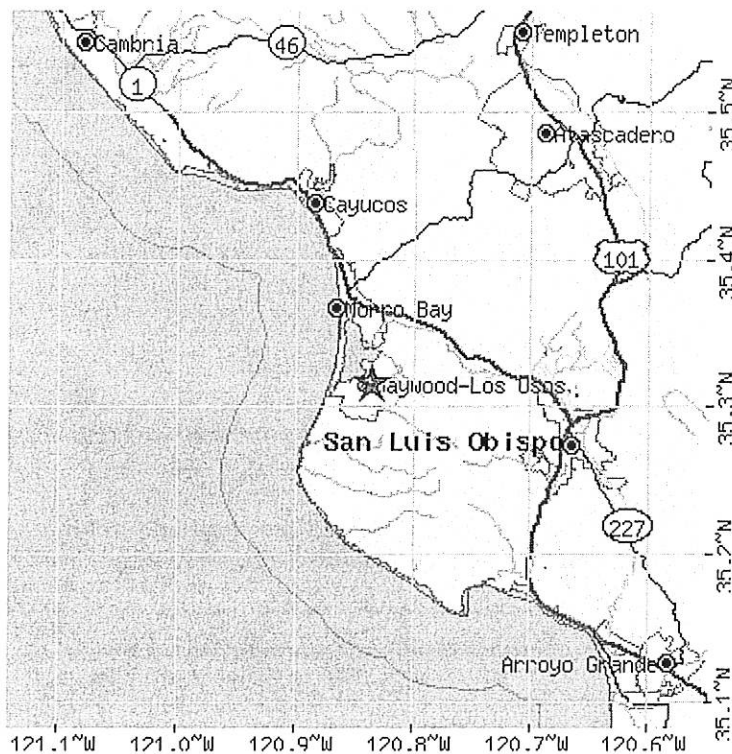
It is a pleasure to present the fiscal year 2012-2013 Comprehensive Annual Financial Report (CAFR) for the Los Osos Community Services District. The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards. Responsibility for the accuracy of the data, the completeness and reliability of the presentation, including disclosures, rest with the District Management.

State law requires that every governmental agency publish within nine months of close of the fiscal year a complete set of audited financial statements. The report is published to fulfill that requirement for the fiscal year ended June 30, 2013.

Management assumes full responsibility for the completeness and reliability of the information contained in this report. The objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from any material misstatements.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements.

## Profile of the Los Osos Community Services District



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, Solid Waste, and Parks and Recreation Services. It is governed by a five-member Board of Directors with an operations staff headed by a general manager.

The District comprises an area of approximately 3,443 acres or 5.38 square miles. The area is more commonly known as the communities of Los Osos and Baywood Park. It is located by a coastline adjoining the Montana de Oro State Park on its southwesterly boundary and the Morro Bay National Estuary and the Morro Bay State Park at its northern boundary. With such an idyllic location, the community has some exposure to tourism. However, absent accommodations and other facilities in the District that cater to the tourism industry, the District receives no significant economic benefit from tourism. The adjoining communities have the structures that fill the void.

Los Osos Statistical Data

Population 14,861

Males: 7,133 (48.0%)

Females: 7,728 (52.0%)

Median resident age: 42.9 years

California median age: 33.3 years

Zip codes: 93402.

Estimated median household income: \$57,222 (it was \$46,558 in 2000)

Baywood-Los Osos:\$57,222

California: \$57,287

Estimated per capita income \$31,295

Baywood-Los Osos CDP income, earnings, and wages data

Estimated median house or condo value: \$397,235 (it was \$198,500 in 2000)

Baywood-Los Osos:\$397,235

California: \$355,600

All housing units: \$547,683; Detached houses: \$596,418; Townhouses or other attached units: \$397,413; In 2-unit structures: \$346,654; In 5-or-more-unit structures: \$259,914; Mobile homes \$179,047; Median gross rent \$1,250.

The following is a summary of the funds the District maintains to deliver the services it is authorized to provide:

### **Funds Maintained by the District and Their Specific Functions**

#### **Fund 100 – Administration**

The Administrative Fund provides centralized inter-fund services to all the other funds of the District such as management, accounting, payroll, insurance management, information and financial systems, equipment, and District legal services.

#### **Fund 200 – Bayridge**

Bayridge is a subdivision in Los Osos that has a dedicated residential community septic system. The fund provides septic management, street lighting, and open space management.

#### **Fund 301 – Fire and Emergency Services**

Fire and Emergency Services are provided through a contract with CAL FIRE for the entire community. Reserve Fire Fighters and administrative operational costs are paid by the District outside the CAL FIRE contract.

#### **Fund 400 – Vista de Oro**

Vista de Oro is a subdivision in Los Osos that has a dedicated residential community septic system. The fund provides septic management, street lighting, and open space management.

#### **Fund 500 – Water**

The Water Utility Department is responsible for the operation and maintenance of five groundwater supply wells providing treatment, monitoring, and distribution services to approximately 2,750 connections, through a network that consists of 27 miles of pipelines and includes 162 fire hydrants and 558 valves, 3 tanks, and one pump station. These services not only assure delivery of pure, wholesome and potable drinking water, but also water for fire flow protection in the communities of Los Osos and Baywood Park.

#### **Fund 600 – Wastewater**

This fund was used to account for the construction of a sewage treatment plant which was stopped. Under special legislation Assembly Bill (AB) 2701, the project was transferred to the County of San Luis Obispo which formally accepted the project on March 15, 2011. This fund currently functions to service the debt associated with the aborted project and to account for expenses related to the District's bankruptcy filing which resulted from the aborted project. Once the bankruptcy case is closed, this fund will be officially named a debt service fund for the Wastewater Assessment District No. 1.

#### **Fund 650 – Solid Waste**

Solid Waste provides trash cleanup and recycling services to the community. Trash and recycling services are provided by Mission Country Disposal and the District receives a Franchise Fee. The District provides additional recycling opportunities to the community through Chipping Days. (Note: The United States Bankruptcy Court included in their final amended Debt Adjustment Plan the transfer of the Solid Waste Franchise to the County. This action became effective in January 2014. The solid waste reserves will remain with the District.)

#### **Fund 800 – Drainage**

This fund provides drainage services for the whole community. It maintains five pump station sites, monitors and mitigates as necessary the impact of storm run offs, clears channels of obstructions, and manages five drainage basins.

#### **Fund 900 – Park and Recreation**

The long-term function of this fund is to provide recreation opportunities for the community of Los Osos/Baywood Park. However, the fund is not actively providing any recreational activities. Before the creation of the District, the County collected assessments for a pool and recreational activities. However, a subsequent vote to continue these assessments failed to pass. These assessments were turned over by the County to the District. The funds are invested and are restricted for the purpose of the original assessments, which is to build a swimming pool. There has been some preliminary discussions as to whether partnering in a regional pool that will be constructed in the adjoining community, some seven miles away, is a feasible or authorized use of these funds.



## SIGNIFICANT EVENT THAT HAS A MAJOR IMPACT ON THE ECONOMIC AND FINANCIAL WELL-BEING OF THE DISTRICT

### Chapter 9 Bankruptcy filing

The District filed for protection under Chapter 9 of the United States Bankruptcy Code on August 25, 2006. The purpose of Chapter 9 is to provide a financially distressed municipality protection from its creditors while it develops and negotiates a plan for adjusting its debts.

In addition, Chapter 9 grants the District an automatic stay to stop all collection actions against it and its property upon filing the petition. At the time of filing, all debts up until the bankruptcy date were frozen pending the District's reorganization plan (see Notes 5 and 11 for additional details). The following describes the events that led to the District's decision to file for Chapter 9 bankruptcy protection.

In August of 2005, the District began construction on a wastewater treatment plant (Project) at a location known as the Tri-W site and also purchased mitigation property known as the Broderson site. The Project construction began with initial funding coming from a low-interest State Revolving Fund loan from the State of California. The Project location and type of system engineered was very contentious within the District's boundaries.

In the fall election of 2005, three members of the Board of Directors who were in favor of the newly started project were recalled and were replaced by three new directors who then subsequently voted to stop the project. In the same election, a measure called Measure B was placed on the ballot to reverse the decision of the former Board of Directors on the location of a project and to vest that power to locate a sewer facility with the voters. Measure B passed and litigation to invalidate it was soon filed in the State Superior Court by a pro-project group. The litigation was successful, but was followed by an appeal by the District. Special legislation, AB 2701, signed by the Governor on September 20, 2006 and effective January 1, 2007, mooted the controversy. AB 2701 prevented the District from constructing a wastewater system and gave the County the option to design, locate and construct a wastewater system.

After the project was stopped, various lawsuits against the District were filed. The State Water Resources Control Board filed a claim for \$8.6 million to recover funds it had already released to the District. The State Regional Water Quality Control Board filed a claim for \$6.6 million which is a levy of fines for the District's alleged failure to remediate pollution of groundwater at the a nearby bay estuary. Major contractors and other contractors who were already working on the project filed for breach of contract for a total claim of more than \$28 million. There were other peripheral lawsuits that followed. Many of these claims were mediated to much smaller amounts or settled under certain conditions.

### Current status of the bankruptcy filing

In 2010 the District filed its Plan for Adjustment of Debts for the District dated October 22, 2010 (Plan). On August 8, 2011, the Bankruptcy Court entered an Order Confirming the LOCS D Debt Adjustment Plan. On April 22, 2012, the favorable decision of the Bankruptcy Court was upheld by the U.S. District Court on the first appeal. On May 9, 2012, the same creditor filed a second appeal before the U.S. Court of Appeals, Ninth Circuit. The Ninth Circuit Court of Appeals required court-order mediation. As a result of mediation, the parties agreed to and executed a Settlement Agreement and Mutual Release on May 14, 2013 (Settlement Agreement). The Plan and Settlement Agreement as confirmed resolved all the claims under the jurisdiction of the Bankruptcy Court which included approximately \$12.2 million in general unsecured creditor claims. In July 19, 2013 the District filed its Second Amended Plan for Adjustment of Debts as further Amended by non-material modifications consistent with the terms of the Settlement Agreement. The Settlement Agreement provides approximately \$4.9 million to satisfy the allowed claims of the general unsecured creditors (Class 8). The sources of these funds are:

- The remaining State Revolving Fund Loan from the State Water Resources Control Board related to the prior Wastewater Treatment Project (approximately \$1.7 million as of September 10, 2010, the filing date of the Debt Adjustment Plan). As of June 30, 2013, this loan has a balance of \$1.448 million; and

- \$2.8 million from San Luis Obispo County resulting from the proposed transfer of the Solid Waste Franchise Agreement to the County. This transfer to the County and the receipt of funds was completed during fiscal 2013-2014; and
- \$27,971 from the Solid Waste Franchise Fee reserves; and
- \$772,029 from the County of San Luis Obispo for pipes installed by Monterey's predecessor in interest in connection with the wastewater project.

On October 15, 2013, the Honorable Robin L. Ribet, Judge, United State Bankruptcy Court, Central District of California Northern Division issued an ordering granting the motion for approval of the Second Amended Plan for Adjustment of Debts (Amended Plan). The Amended Plan as stipulated to by all the parties resolves all the lawsuits and claims arising from the District's former Wastewater project, and puts an end to years of District involvement in numerous legal proceedings. This Order ends seven years of bankruptcy legal proceedings.

Under the Amended Plan, the County of San Luis Obispo will pay in full over time the holders of the bonds issued in connection with the former wastewater project. The bond holders are secured by the assessment on the real property of those District residents living in the Prohibition Zone (Zone K). The assessments are collected on an annual basis by the County and the County makes the payments on the bonds to U.S. Bank. The District has an obligation to pay the California Infrastructure & Development Bank and continues to make its semi-annual interest payment per the terms of the amortization schedule for improvements to the District's water system. The District will pay the Class 8 allowed claims of the general unsecured creditors. This includes the approved claims arising from the former wastewater project at the rate of 41% of their claim.

Under the Amended Plan the District will not pay the claim for the Regional Water Quality Control Board for fines it assessed against the District. These fines were assessed for failure to complete the construction of a community sewer system by August 30, 2004. This was levied against the District from an Administrative Civil Liability Order. This claim was subordinated and conditioned: 1) Plan approval; 2) County proceeds with the wastewater project; 3) District provides a draft water conservation plan. All three conditions were met.

The claim by the State Water Resources Control Board arises from a loan the Board made to the District to build the former wastewater project. With the approval of the Amended Plan and the County financing the current Wastewater Treatment Facility with State Revolving Funds, the Control Board will not receive a distribution.

The resolution of these lawsuits and claims gives the District a fresh start and allows them to focus on providing essential services such as water, fire protection and drainage.

#### Status of the sewer project

On January 1, 2007, AB 2701 became effective. This special legislation (codified as Government Code Sections 25825.5 and 61105) transferred the responsibility for constructing a wastewater collection and treatment system to the County of San Luis Obispo. It provides that after the County completes a due diligence review of the various aspects of the project, the County has to adopt a resolution declaring its intention to proceed or not to proceed with the construction and operation of a project. After several exhaustive proceedings that spanned over a number of years and that included several hearings and appeals process before the California Coastal Commission to obtain a development permit, the County passed a resolution on March 15, 2011, to proceed with the project. After completion, the sewer system will be operated by the County for minimum of five years before considering alternatives contingent upon approval from various funding agencies.

The County's sewer project is actively proceeding. Contractors started digging in late October 2012. Stock of sewer pipes and equipment are visible in construction staging areas. The work began by the

county in 2012 and is expected to continue through 2015. Each construction contractor will perform work concurrently at multiple locations within Los Osos over the two year construction period.

## **IMPACTS OF THE BANKRUPTCY ON THE FINANCIAL STATEMENTS**

### **Impact on the Capital Assets**

The value of the Construction in Progress (CIP) shown at \$22,067,856 in the Statement of Net Position is highly questionable. These costs represent all costs in the Wastewater Fund that included costs of studies, costs of support staff, and all other support costs. It also included \$1.9 million paid to three contractors who installed underground pipes and facilities or did preparatory groundwork. The major contractors have an outstanding mediated claim of \$11.4 million filed in Bankruptcy Court which is not recorded and therefore is not included in the \$22 million CIP in the books.

AB 2701 dictated that all assets acquired by the District intended for the sewer project have to be transferred to the County when requested for use in the County's successor project without any financial remuneration. In addition, any assets so acquired by the District in the aborted project could not be disposed of without the County's approval.

The District's Capital Assets will be adjusted in the financial statements in the upcoming fiscal year and will contain the necessary modifications. These entries will eliminate the Construction in Progress in the amount of \$22,067,856. The County will pay over time the holders of the bonds issued in connection with the former wastewater project.

The District approved the transfer of Land and Land Rights to the County as requested on November 17, 2011, with a total cost of \$8,070,977. This transfer was completed in fiscal 2012-2013.

### **Impact on Liabilities**

Allowed claims of the general unsecured creditors against the District total about \$12.4 million. Other than the amount of \$950,719, which represents invoices received but unpaid as of the bankruptcy filing, the rest of the claims are not reflected in the accompanying financial statements.

The District's Amended Plan approved filed and entered on October 15, 2013 included maximizing the return to their creditors. These creditors will receive 41% of their claim and will be distributed in February 2014. The District took its obligations very seriously and had done everything in their power to make this happen. The District will not pay the claims of the Regional Water Quality Control Board and the State Water resources Control Board. The write-off of this liability will be implemented in the forthcoming fiscal year.

### **District's Future Financial Viability**

The Bankruptcy Court approved the Amended Plan on October 9, 2013. This plan allows the District to pay off its creditors and debtors according the approved plan. The final settlement amount is \$4,994,712. The funds were made up of the \$2.8 million for the transfer of the Solid Waste Franchise Agreement to the County. The additional \$2,194,712 is comprised of SRF Loan Balance \$1,394,711.65, Franchise Transfer Fee, and an additional funding of \$772,029.

This Bankruptcy settlement, continued trend in increases for Net Position as a whole and the improving economy should enable the District's stability in the future. Through hard work and persistence, the District was finally able to get all parties to agree on an Amended Plan which will allow the District to continue moving forward to provide the services our residents deserve without this distraction.

Through the District the Fire Department received a new fire truck this fiscal year enabling them to better serve the needs of the community. This was paid for by the Fire Department Reserves. Although this was a deduction from net position the department special revenue fund continues to have a positive trend.

Other factors that will impact the strength of the district are the two grants received recently from the Public Education Grant from the County for \$30,000. Funds were disbursed for equipment that enhanced the PEG channel in Los Osos. To date the District has spent \$22,279.73 and the remainder will be spent for public access and with the educational community. These funds are being spent from the General Government Funds.

In addition, the District received a Proposition 84 Grant in the amount of \$645,980 to be used for a nitrate removal project at the South Bay upper aquifer well site which is a requirement by the State. The District is fortunate to receive these funds that would have had to come from the Water fund. The Board recently awarded a contract to John Madonna Construction Company to complete the work. These funds are being spent from the Business-Type Funds.

The Board and District management are confident that the financial solidity of the agency can be kept in good condition.



## LOS OSOS COMMUNITY SERVICES DISTRICT

### BOARD OF DIRECTORS –2012-2013

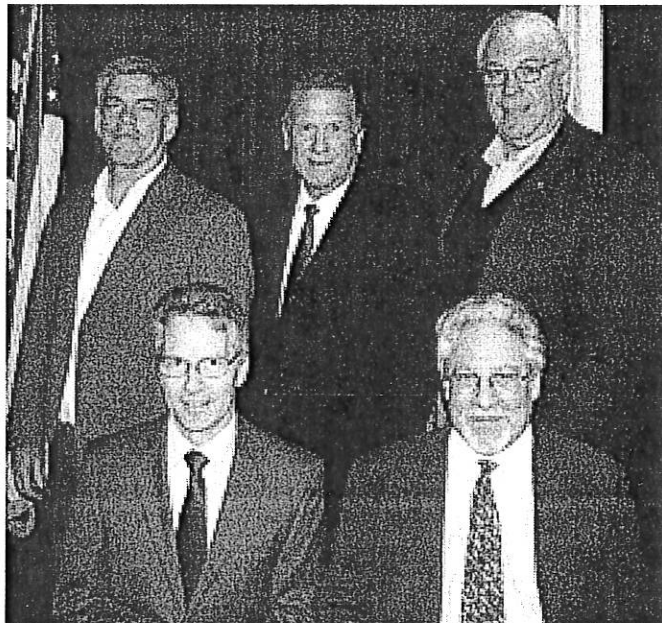
**Leonard A. Moothart, President**

Craig V. Baltimore, Vice President

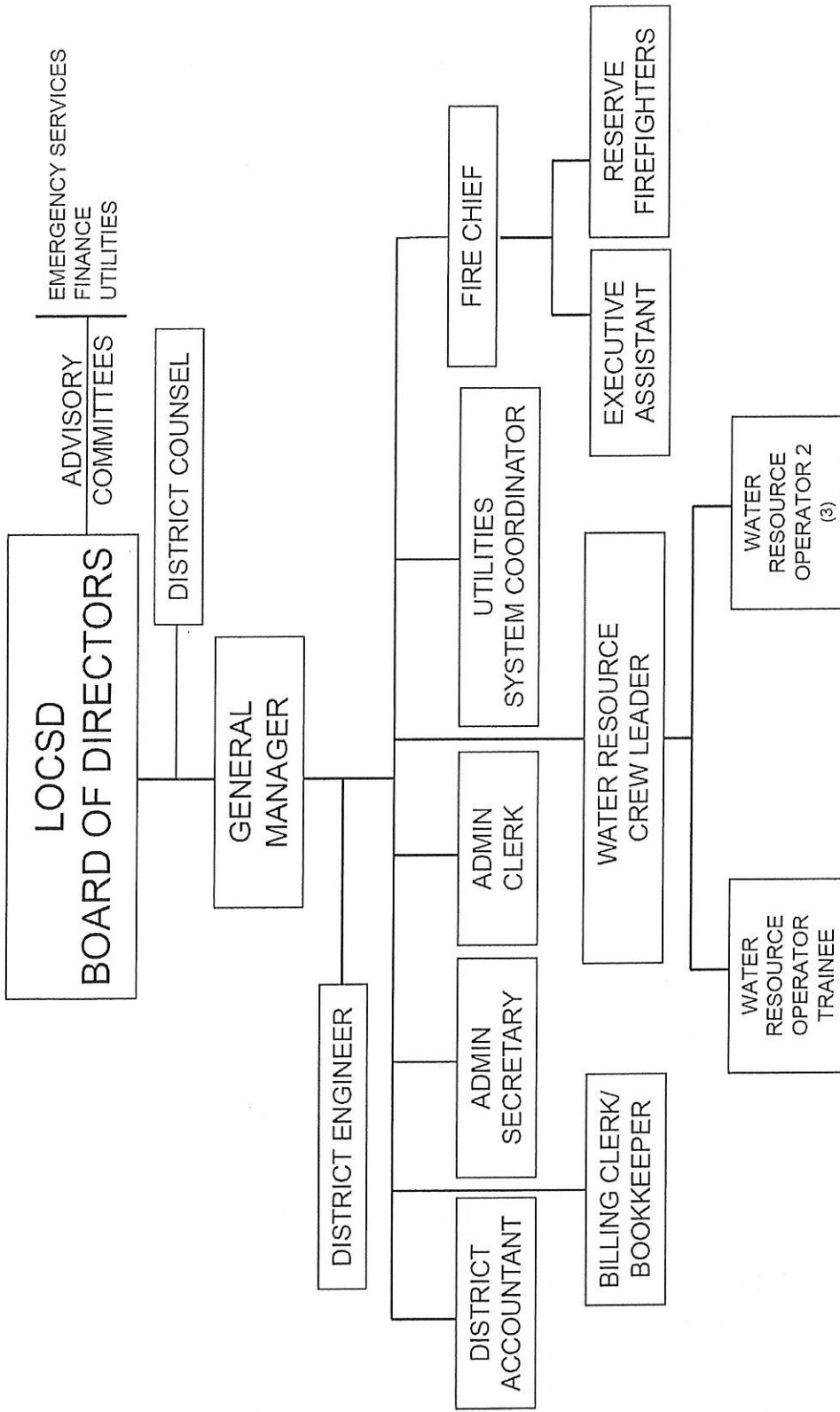
Marshall E. Ochylski, Director

David S. Vogel, Director

R. Michael Wright, Director



LOS OSOS COMMUNITY SERVICES DISTRICT  
ORGANIZATIONAL CHART



LOS OSOS COMMUNITY SERVICES DISTRICT  
2012 ORGANIZATIONAL CHART  
REVISED 9/10/2012

**FINANCIAL SECTION**







MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT**

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

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 Los Osos Community Services District (District), as and for the fiscal year ended June 30, 2013, 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 of 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. 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 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 fund information of Los Osos Community Services District, as of June 30, 2013, and the respective changes in financial position, and cash flows when applicable thereof, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in note 1 to the basic financial statements effective July 1, 2012, the Los Osos Community Services District adopted Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concessions Arrangements*, Statement No. 61, *The Financial Reporting Entity: Omnibus*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the budgetary comparison information on pages 43 through 44 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 inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

The combining nonmajor fund 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 to 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 fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2014, 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 22, 2014

**LOS OSOS COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**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 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, Solid Waste, and Parks and Recreation Services. The Solid Waste function will be turned over to the County within the upcoming fiscal year. 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 more than five years ago. Discussions on activating this function occasionally occur informally but with the District still in legal proceedings (refer to introductory section), pursuance of this goal will need to be addressed in the future. It 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, 2013.

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 and may include in some cases amounts that are based upon reliable estimates and judgments.

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 public safety, parks and recreation, public works, general government, street lighting, and health and sanitation. The business-type activities of the District include water, wastewater, and solid waste.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### 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.

### 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.

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* types 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. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements found in the other supplementary information section of this report. The Waste Water Fund and the Solid Waste Funds will be eliminated upon the completion of implementing the final Debt Adjustment Plan scheduled to be completed within the next fiscal year. The activity in these funds will be transferred to the County.

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 nonmajor governmental funds 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, wastewater, and solid waste 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### 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.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

In accordance with changes in governmental accounting standards, the District applied Governmental Accounting Standards Board (GASB) Statement No. 34 to these financial statements.

Changes in net positions may serve over time as a useful indicator of the District's financial position.

**Table A**  
**Statement of Net Position**  
**June 30, 2013**

	June 30, 2013			June 30, 2012			Total Change	
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government	Amount Change	Percent Change
<b>Assets:</b>								
Current assets	\$ 2,106,461	\$ 5,254,539	\$ 7,366,000	\$ 1,838,789	\$ 2,094,789	\$ 3,933,578	\$ 3,432,422	87.3%
Capital assets	996,671	27,666,267	28,662,938	487,445	27,656,668	28,144,113	518,825	1.8%
Other non-current assets	-	532,314	532,314	354,873	3,574,168	3,929,041	(3,396,727)	-86.5%
<b>Total assets</b>	<b>3,103,132</b>	<b>33,453,120</b>	<b>36,561,252</b>	<b>2,681,107</b>	<b>33,325,625</b>	<b>36,006,732</b>	<b>554,520</b>	<b>1.5%</b>
<b>Liabilities:</b>								
Current liabilities	594,471	1,157,144	1,751,615	327,120	1,696,954	2,024,074	(272,459)	-13.5%
Long-term liabilities	132,414	25,593,549	25,725,963	22,154	25,572,721	25,594,875	131,088	0.5%
<b>Total liabilities</b>	<b>726,885</b>	<b>26,750,693</b>	<b>27,477,578</b>	<b>349,274</b>	<b>27,269,675</b>	<b>27,618,949</b>	<b>(141,371)</b>	<b>-0.5%</b>
<b>Net position:</b>								
<b>Net investment in</b>								
capital assets	996,671	2,641,110	3,637,781	487,445	1,564,862	2,052,307	1,585,474	77.3%
Restricted	1,607,668	2,711,646	4,319,314	353,977	2,928,075	3,282,052	1,037,262	31.6%
Unrestricted	(228,092)	1,354,671	1,126,579	1,490,411	1,563,013	3,053,424	(1,926,845)	-63.1%
<b>Total net position</b>	<b>\$ 2,376,247</b>	<b>\$ 6,707,427</b>	<b>\$ 9,083,674</b>	<b>\$ 2,331,833</b>	<b>\$ 6,055,950</b>	<b>\$ 8,387,783</b>	<b>\$ 695,891</b>	<b>8.3%</b>



MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Table B  
Statement of Activities  
For the Year Ended June 30, 2013

	June 30, 2013			June 30, 2012			Total Change	
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government	Amount Change	Percent Change
<b>Revenues:</b>								
<b>Program revenues:</b>								
Charges for services	\$ 777,189	\$ 1,909,101	\$ 2,686,290	\$ 835,845	\$ 1,774,156	\$ 2,610,001	\$ 76,289	2.9%
Operating grants and contributions	62,814	-	62,814	1,000	2,600	3,600	59,214	1644.8%
Capital grants and contributions	-	-	-	-	22,617	22,617	(22,617)	100.0%
<b>General revenues:</b>								
Property taxes	1,542,643	176,269	1,718,912	1,569,996	179,726	1,749,722	(30,810)	-1.8%
Other taxes	582,889	1,156,960	1,739,849	570,401	1,157,995	1,728,396	11,453	0.7%
Interest and investment income	5,820	9,174	14,994	7,920	13,158	21,078	(6,084)	-28.9%
Other revenues	10,304	28,734	39,038	88	28,279	28,367	10,671	37.6%
<b>Total revenues</b>	<b>2,981,659</b>	<b>3,280,238</b>	<b>6,261,897</b>	<b>2,985,250</b>	<b>3,178,531</b>	<b>6,163,781</b>	<b>98,116</b>	<b>1.6%</b>
<b>Expenses:</b>								
General government as restated	627,781	-	627,781	669,007	-	669,007	(41,226)	-6.2%
Public safety	2,073,324	-	2,073,324	2,007,609	-	2,007,609	65,715	3.3%
Health and sanitation	149,572	-	149,572	55,594	-	55,594	93,978	169.0%
Street lighting	6,816	-	6,816	7,615	-	7,615	(799)	-10.5%
Interest on long-term debt	-	-	-	-	-	-	-	0.0%
Water	-	1,670,704	1,670,704	-	1,625,579	1,625,579	45,125	2.8%
Wastewater treatment	-	855,353	855,353	-	940,397	940,397	(85,044)	-9.0%
Solid waste	-	82,956	82,956	-	92,611	92,611	(9,655)	-10.4%
<b>Total expenses</b>	<b>2,857,493</b>	<b>2,609,013</b>	<b>5,466,506</b>	<b>2,739,825</b>	<b>2,658,587</b>	<b>5,398,412</b>	<b>68,094</b>	<b>1.3%</b>
Net transfers	19,748	(19,748)	-	645,109	(645,109)	-	-	0.0%
Change in net position	143,914	651,477	795,391	890,534	(125,165)	765,369	30,022	3.9%
Net position, beginning as restated	2,232,333	6,055,950	8,288,283	1,441,299	14,252,092	15,693,391	(7,405,108)	-47.2%
Extraordinary item - distribution of sewer assets to County of San Luis Obispo	-	-	-	-	(8,070,977)	(8,070,977)	8,070,977	-100.0%
<b>Net position, ending</b>	<b>\$2,376,247</b>	<b>\$6,707,427</b>	<b>\$9,083,674</b>	<b>\$ 2,331,833</b>	<b>\$ 6,055,950</b>	<b>\$8,387,783</b>	<b>\$ 695,891</b>	<b>8.3%</b>

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

*Statement of Net Position*

At the end of fiscal year June 30, 2013, 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 of the District exceeded its liabilities at June 30, 2013, by \$9,083,674.

The General Government expenses increased by 4.3% or \$117,668 and the Business-Type expenditures were reduced by 1.9% or \$49,574.

The General Government had small decrease in revenue of \$3,591 and the Business-Type increased by \$101,707. The majority of this increase is due to charges for services in the water fund which had a rate increase in the current fiscal year.

This increase is made up of \$143,914 or 6.5% increase for General Government and \$651,477 or 10.8% increase for the Business-Type funds. Changes to the overall net position is attributed to the purchase of a new Fire Truck, personnel cost savings due to a reduction in staff required from the bankruptcy and overall cost savings being implemented throughout the District. In addition for efficiency purpose the District installed a new computer server and also a new water billing system (Cusi) that should improve services to other agencies as well to the citizens of Los Osos.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The District's net position reflects its investments in capital assets, less any related debt that is still outstanding used to acquire that debt. 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 needed to repay. This debt must be provided from other sources since the Capital Assets themselves cannot be used to liquidate the liabilities. In this group there is \$3,637,781 in Capital Assets an increase of \$1,585,474 from the previous year due to some outstanding debt that was paid off and net of any additional capital assets purchased.

The restricted net position increased by \$1,037,262 mostly attributed to the General Government increase amount of 1,253,691. The restrictions in Business-Type funds decreased by \$216,429. The restricted net position represents resources that are subject to external restrictions on how they may be used.

The District as a whole has had a positive trend in unrestricted net position.

The key component of Net Position that indicates the health of the District is the Unrestricted Net Position in the amount of \$1,126,579. This posted a decrease of \$1,926,845 over the prior year. This trend is the result of the increase in capital assets, the payment of outstanding debt, and an increase in restricted balances. It should also be noted that there was a positive increase in unrestricted net position of \$452,479 in the past fiscal year.

Assets of the District are typically restricted to specific uses and purposes, however, unrestricted net position fall outside this limitation. Therefore, continually increasing the amount unrestricted net position is of great value to the District and its stability.

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 eliminate the possibility of the District becoming a possible non going concern entity

It should be noted however that the Net Position reflects Construction in Progress of \$22,067,856 recorded in the Wastewater Fund for all construction costs for the cancelled project incurred up to the date of filing for bankruptcy protection. In all indications, this value as reflected may be materially impaired. Although this is true, this amount will be eliminated from the financial statements after the proper adjustments are made in the upcoming fiscal year due to finalization of the bankruptcy. These adjustments will be made in the District's impending financial statements and will be eliminated.

### *Statement of Activities*

Overall, the results of operations as shown in the Statement of Activities is very positive with an increase in Net Position of \$795,391. Total revenues edged over the prior year by 1.7% or \$98,116. Property taxes decreased by 1.8% which is higher than the decrease of 1.1% from the prior year. This continuing decrease is contrary to the trend in the rest of the County. There is speculation that concerns on the cost of the new sewer project may be a factor for homeowners to give up their homes which are then sold for less value. Returns on investment continue to be a very low average, no higher than half a percent.

Overall expenses in Governmental Activities increased by a modest \$117,668. Total expenses in Business-Type Activities decreased by \$49,574, of which \$107,000 is due to the decrease in Water Fund depreciation as assets reach the end of their useful lives. The decrease in Solid Waste expenses of \$9,655 is due to an outreach program to the community to lessen the full burden of a 4.51% rate increase that started in December 2011. This was undertaken under certain conditions. One of these conditions, a move to consider another rate increase, may very well end the outreach effort in the current year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Capital Assets and Long-Term Debt:

#### Capital Assets

Table C  
Capital Assets

	June 30, 2013			June 30, 2012			Total Change	
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government	Amount Change	Percent Change
Land and Land Rights	\$ 57,375	\$ 498,429	\$ 555,804	\$ 57,375	\$ 498,429	\$ 555,804	\$ -	0.0%
Construction in Progress	546,720	22,083,506	22,630,226	-	22,086,422	22,086,422	543,804	2.5%
Buildings, Structures, and Improvements	515,116	5,000	520,116	515,116	5,000	520,116	-	0.0%
Infrastructure	237,756	8,571,773	8,809,529	232,299	8,397,190	8,629,489	180,040	2.1%
Equipment and Systems	1,144,226	434,172	1,578,398	1,116,328	408,230	1,524,558	53,840	3.5%
Total Cost	2,501,193	31,592,880	34,094,073	1,921,118	31,395,271	33,316,389	777,684	2.3%
Less Accumulated Depreciation	(1,504,522)	(3,926,613)	(5,431,135)	(1,433,673)	(3,738,603)	(5,172,276)	(258,859)	5.0%
Total	\$ 996,671	\$ 27,666,267	\$ 28,662,938	\$ 487,445	\$ 27,656,668	\$ 28,144,113	\$ 518,825	1.8%

In fiscal year 2012/13, assets were reconciled to physical inventory. In the process, assets were booked into new accounts that reflect the true category of the assets. The biggest reclassification was to Infrastructure for the assets of the Water Fund.

#### Long-Term Debt

Table D  
Outstanding Long-Term Debt

	June 30, 2013			June 30, 2012			Total Change	
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government	Amount Change	Percent Change
Improvement bonds - 2002 issue	\$ -	\$ 14,820,000	\$ 14,820,000	\$ -	\$ 15,220,000	\$ 15,220,000	\$ (400,000)	-2.6%
Note payable - CIEDB loan	-	-	-	-	4,385,662	4,385,662	(134,355)	-3.1%
Note payable - CA Resources Control Board	-	4,251,327	4,251,327	-	-	-	-	0.0%
	-	6,486,144	6,486,144	-	6,486,144	6,486,144	-	0.0%
Total	\$ -	\$ 25,557,471	\$ 25,557,471	\$ -	\$ 26,091,806	\$ 26,091,806	\$ (534,355)	-2.0%

Long-term debt totals \$25,557,471. The decrease of \$534,355 represents principal payments as shown in amortization tables. The note payable due to the California Resources Control Board of \$6,486,144 is a claim that has been filed in bankruptcy court and which the State agreed to settle based on certain conditions. These conditions are discussed in the Introductory Section 'Impact on Liabilities.' The conditions have all been fulfilled other than the final approval of the District's Debt Adjustment Plan. Two courts have affirmed the District's Debt Adjustment Plan but it has been appealed a second time. This is still pending with an anticipated hearing date in late 2013. See the Introductory Section for more discussion on the bankruptcy case.

The two other debts are secured by specific resources that are deemed stable. See Note 6 for other details.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Significant Events or Disclosures

The Bankruptcy Court approved the District's Debt Adjustment Plan on August 8, 2011. This was appealed by a key creditor on August 22, 2011. The United States District Court confirmed the decision of the Bankruptcy Court on April 2, 2012. On May 9, 2012, the same creditor filed a second appeal. This is currently pending before the United States Court of Appeals for the Ninth Circuit and was approved by the court on October 9, 2013. The financial statements for the upcoming fiscal year will reflect positive changes that will occur after implementation of the Debt Adjustment Plan.

Under the Debt Adjustment Plan, the County of San Luis Obispo will contribute \$2.8 million and in return the District has to transfer to the County the Solid Waste function along with its related annual Franchise Fee revenue of approximately \$180,000.

The sewer project under the independent management of the County is now in progress with a lot of construction activity currently going on throughout the community. In November 2011, the District approved the transfer to the County of land parcels and easements as requested and as identified for use for the County's successor sewer project as per AB 2701. The transfer involved no remuneration. The project is expected to be completed in three years.

The audit recommendation regarding cash, which is to backfill the deficit in the General Fund of \$1.3 million has been implemented in this fiscal year with various funds transferring to the General Fund. These transfers are reflected in these statements (see Note 3).

The audit recommendation to reconcile assets to physical inventory has also been implemented which resulted in moving assets to their proper categories (see Note 4). The District will implement a procedure to do a physical inventory annually in this coming fiscal year to assure all records are in the correct categories, delete obsolete equipment and that all inventory is accounted for.

LOS OSOS COMMUNITY SERVICES DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2013

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 1,687,819	\$ 1,823,175	\$ 3,510,994
Accounts receivable, net	58,176	385,163	443,339
Interest receivable	402		402
Prepaid expenses	3,663	6,609	10,272
Inventory		31,919	31,919
Restricted assets-			
Cash with fiscal agent		1,490,189	1,490,189
Cash and investments	356,401	1,522,484	1,878,885
Deferred charges		532,314	532,314
Capital assets:			
Non Depreciable:			
Land	57,375	498,429	555,804
Construction in progress	546,720	22,083,506	22,630,226
Depreciable:			
Buildings, structures, and improvements	515,116	5,000	520,116
Infrastructure	237,756	8,571,773	8,809,529
Plant and equipment	1,144,226	434,172	1,578,398
Accumulated depreciation	(1,504,522)	(3,926,613)	(5,431,135)
Total assets	<u>3,103,132</u>	<u>33,458,120</u>	<u>36,561,252</u>
<b>LIABILITIES</b>			
Accounts payable	578,698	702,639	1,281,337
Accrued liabilities	14,604	16,259	30,863
Accrued interest payable		301,027	301,027
Deposits	1,169	137,219	138,388
Noncurrent liabilities:			
Due within one year	16,970	565,737	582,707
Due in more than one year	115,444	25,027,812	25,143,256
Total liabilities	<u>726,885</u>	<u>26,750,693</u>	<u>27,477,578</u>
<b>NET POSITION</b>			
Net investment in capital assets	996,671	2,641,110	3,637,781
Restricted for:			
Debt service		1,303,733	1,303,733
Debt service restructuring		1,407,913	1,407,913
Fire and emergency services	163,823		163,823
Equipment replacement	298,705		298,705
Capital outlay	918,105		918,105
Bayridge functions	1,192		1,192
Vista de Oro functions	2,236		2,236
Drainage services	223,607		223,607
Unrestricted	(228,092)	1,354,671	1,126,579
Total net position	<u>\$ 2,376,247</u>	<u>\$ 6,707,427</u>	<u>\$ 9,083,674</u>

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

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LOS OSOS COMMUNITY SERVICES DISTRICT  
 STATEMENT OF ACTIVITIES  
 For the Fiscal Year Ended June 30, 2013

	Expenses	Charges for Services	Program Revenues Operating Contributions and Grants
Governmental activities:			
General government	\$ 627,781	\$ 638,841	\$ 30,000
Public safety	2,073,324	88,326	32,814
Health and sanitation	149,572	43,206	
Street lighting	6,816	6,816	
	2,857,493	777,189	62,814
Total governmental activities			
Business-type activities:			
Water	1,670,704	1,752,000	
Refuse	82,956	157,101	
Wastewater treatment project	855,353		
	2,609,013	1,909,101	
Total business-type activities			
Total	\$ 5,466,506	\$ 2,686,290	\$ 62,814

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

Prior period adjustment

Net position - end of fiscal year, restated

Net position - end of fiscal year

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

Capital Contributions and Grants	Net (Expenses) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
\$ -	\$ 41,060	\$ -	\$ 41,060
	(1,952,184)		(1,952,184)
	(106,366)		(106,366)
	(2,017,490)		(2,017,490)
		81,296	81,296
		74,145	74,145
		(855,353)	(855,353)
		(699,912)	(699,912)
\$ -	(2,017,490)	(699,912)	(2,717,402)
	1,542,643	176,269	1,718,912
	582,889		582,889
		1,156,960	1,156,960
	5,820	9,174	14,994
	10,304	28,734	39,038
	19,748	(19,748)	
	2,161,404	1,351,389	3,512,793
	143,914	651,477	795,391
	2,331,833	6,055,950	8,387,783
	(99,500)		(99,500)
	2,232,333		8,288,283
	\$ 2,376,247	\$ 6,055,950	\$ 9,083,674

LOS OSOS COMMUNITY SERVICES DISTRICT  
 GOVERNMENTAL FUNDS  
 BALANCE SHEET  
 June 30, 2013

	General Fund	Fire Fund	Other Governmental Funds	Totals
<b>ASSETS</b>				
Cash and investments	\$ 165,940	\$ 1,293,418	\$ 228,461	\$ 1,687,819
Restricted cash and investments	1,169	51,394	303,838	356,401
Accounts receivable	7,876	46,799	3,501	58,176
Interest receivable		206	196	402
Due from other funds	1,517			1,517
Prepaid expenses	2,256	1,407		3,663
<b>Total assets</b>	<b>\$ 178,758</b>	<b>\$ 1,393,224</b>	<b>\$ 535,996</b>	<b>\$ 2,107,978</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 262,982	\$ 312,504	\$ 3,212	\$ 578,698
Accrued liabilities	11,692	2,912		14,604
Trust deposit payable	1,169			1,169
Accrued compensated absences	6,540			6,540
Due to other funds			1,517	1,517
<b>Total liabilities</b>	<b>282,383</b>	<b>315,416</b>	<b>4,729</b>	<b>602,528</b>
Fund Balances:				
Nonspendable:				
Prepaid items	2,256	1,407		3,663
Restricted:				
Fire and emergency services		163,823		163,823
Equipment replacement		298,705		298,705
Capital outlay		613,873	304,232	918,105
Bayridge functions			1,192	1,192
Vista de Oro functions			2,236	2,236
Drainage services			223,607	223,607
Unassigned	(105,881)			(105,881)
<b>Total fund balances</b>	<b>(103,625)</b>	<b>1,077,808</b>	<b>531,267</b>	<b>1,505,450</b>
<b>Total liabilities and fund balances</b>	<b>\$ 178,758</b>	<b>\$ 1,393,224</b>	<b>\$ 535,996</b>	<b>\$ 2,107,978</b>

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, 2013

Total fund balances - governmental funds \$ 1,505,450

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	\$	2,501,193
Accumulated depreciation		<u>(1,504,522)</u>

Net 996,671

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	\$	24,766
PERS side fund		96,456
Other post employment benefits obligation		<u>4,652</u>

Total (125,874)

Total net position - governmental activities \$ 2,376,247

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, 2013

	General Fund	Fire Fund	Other Governmental Funds	Totals
<b>Revenues:</b>				
Property taxes	\$ 17,147	\$ 1,518,765	\$ 6,731	\$ 1,542,643
Special taxes and assessments		487,467	95,422	582,889
Intergovernmental	30,000	32,814		62,814
Service charges and fees			45,315	45,315
Public services fees		65,088		65,088
Administrative charges	643,428			643,428
Use of money and property	120	4,164	1,536	5,820
Other	255	33,358	49	33,662
<b>Total revenues</b>	<b>690,950</b>	<b>2,141,656</b>	<b>149,053</b>	<b>2,981,659</b>
<b>Expenditures:</b>				
Salaries and wages	248,726	104,542	26,476	379,744
Payroll taxes and benefits	79,665	20,204	11,223	111,092
Contract services	38,007	1,601,750	7,512	1,647,269
Insurance	21,231	16,534		37,765
License and fees	25,717	24,765	9,566	60,048
Maintenance and repairs	25,683	13,482	35,008	74,173
Meals and entertainment	1,249	306		1,555
Office support, publication, and dues	13,576	9,190	33	22,799
Tools and supplies	1,081	66,227	4,136	71,444
Rent	18,703			18,703
Professional services	104,737	3,378	973	109,088
Telephone and communications	4,389	12,919	1,543	18,851
Employee travel and training	4,625	3,396	13	8,034
Utilities	3,334	8,333	10,800	22,467
Director fees	15,272			15,272
Other expenses	7,240	4,150	765	12,155
Capital outlay	41,840	546,721	17,574	606,135
Administrative cost allocation		107,544	35,016	142,560
<b>Total expenditures</b>	<b>655,075</b>	<b>2,543,441</b>	<b>160,638</b>	<b>3,359,154</b>
<b>Excess of revenues over (under) expenditures</b>	<b>35,875</b>	<b>(401,785)</b>	<b>(11,585)</b>	<b>(377,495)</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	44,748			44,748
Transfers out	(25,000)			(25,000)
<b>Total other financing sources (uses)</b>	<b>19,748</b>			<b>19,748</b>
<b>Net change in fund balances</b>	<b>55,623</b>	<b>(401,785)</b>	<b>(11,585)</b>	<b>(357,747)</b>
Fund balances - July 1	(159,248)	1,479,593	542,852	1,863,197
Fund balances - June 30	<u>\$ (103,625)</u>	<u>\$ 1,077,808</u>	<u>\$ 531,267</u>	<u>\$ 1,505,450</u>

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



**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended June 30, 2013

Total net change in fund balances - governmental funds	\$ (357,747)
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 \$606,135 exceeds depreciation expense \$(88,544) in the period.	517,591
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 \$5,957.	(5,957)
In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:	(8,365)
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 was more than the amounts used by \$4,652.	(4,652)
In governmental funds, the repayments of the PERS side fund debt is reported as a retirement expense. In the government-wide statements, repayments are reported as a decrease in the long-term liabilities.	<u>3,044</u>
Changes in net position - governmental activities	<u>\$ 143,914</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, 2013

	Water Fund	Refuse Fund	Wastewater Treatment Project Fund	Totals
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 1,457,172	\$ 211,638	\$ 154,365	\$ 1,823,175
Accounts receivable, net	345,441		6,558	351,999
Accrued revenue receivables	4,582	5,419	23,163	33,164
Prepaid expense	6,329	280		6,609
Inventory at cost	31,919			31,919
Total current assets	<u>1,845,443</u>	<u>217,337</u>	<u>184,086</u>	<u>2,246,866</u>
Noncurrent assets:				
Cash with fiscal agent			1,490,189	1,490,189
Restricted cash and investments			1,522,484	1,522,484
Advances receivable	410,000			410,000
Deferred issuance costs, net	30,540		501,774	532,314
Capital assets, net of accumulated depreciation	5,439,819		22,226,448	27,666,267
Total noncurrent assets	<u>5,880,359</u>		<u>25,740,895</u>	<u>31,621,254</u>
Total assets	<u>7,725,802</u>	<u>217,337</u>	<u>25,924,981</u>	<u>33,868,120</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	56,913		645,726	702,639
Accrued liabilities	16,259			16,259
Accrued interest payable	54,027		247,000	301,027
Deposits payable	20,493	2,155	114,571	137,219
Compensated absences - current portion	12,305			12,305
Notes payable - current portion	138,432		415,000	553,432
Total current liabilities	<u>298,429</u>	<u>2,155</u>	<u>1,422,297</u>	<u>1,722,881</u>
Noncurrent liabilities:				
Compensated absences	16,901			16,901
OPEB payable	6,872			6,872
Advances payable			410,000	410,000
Notes payable	4,112,895		20,891,144	25,004,039
Total noncurrent liabilities	<u>4,136,668</u>		<u>21,301,144</u>	<u>25,437,812</u>
Total liabilities	<u>4,435,097</u>	<u>2,155</u>	<u>22,723,441</u>	<u>27,160,693</u>
<b>NET POSITION</b>				
Net investment in capital assets	1,219,032		1,422,078	2,641,110
Restricted for debt service			1,303,733	1,303,733
Restricted for debt restructuring			1,407,913	1,407,913
Unrestricted (deficit)	2,071,673	215,182	(932,184)	1,354,671
Total net position	<u>\$ 3,290,705</u>	<u>\$ 215,182</u>	<u>\$ 3,201,540</u>	<u>\$ 6,707,427</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, 2013

	Water Fund	Refuse Fund	Wastewater Treatment Project Fund	Totals
<b>Operating Revenues:</b>				
Utility	\$ 1,752,000	\$ -	\$ -	\$ 1,752,000
Franchise		157,101		157,101
Total operating revenues	<u>1,752,000</u>	<u>157,101</u>		<u>1,909,101</u>
<b>Operating Expenses:</b>				
Salaries and wages	276,525	15,622		292,147
Payroll taxes and benefits	113,327	6,169		119,496
Bank charges			33,903	33,903
Contract services	60,679			60,679
Insurance	17,501			17,501
License and fees	16,758	50	95	16,903
Maintenance and repairs	65,100			65,100
Office support, publication, and dues	21,092			21,092
Rent	5,280	3,080		8,360
Professional services	37,042	1,126	51,474	89,642
Telephone and communications	8,248			8,248
Employee travel and training	250	41		291
Utilities	94,727			94,727
Other expenses	629	20,976	260	21,865
Special department expenses and supplies	77,531			77,531
Inter-agency contractual costs	68,001			68,001
Depreciation	198,457			198,457
Administrative cost allocation	464,976	35,892		500,868
Total operating expenses	<u>1,526,123</u>	<u>82,956</u>	<u>85,732</u>	<u>1,694,811</u>
Operating income (loss)	<u>225,877</u>	<u>74,145</u>	<u>(85,732)</u>	<u>214,290</u>
<b>Non-Operating Revenues (Expenses):</b>				
Property taxes and assessments	176,269		1,156,960	1,333,229
Investment income	3,851	571	4,752	9,174
Other non-operating revenue	8,547	15	16,372	24,934
Gain on sale of capital assets	3,800			3,800
Bond discount amortization	(1,417)		(25,954)	(27,371)
Interest expense	(143,164)		(743,667)	(886,831)
Total non-operating revenues (expenses)	<u>47,886</u>	<u>586</u>	<u>408,463</u>	<u>456,935</u>
Income (loss) before transfers	<u>273,763</u>	<u>74,731</u>	<u>322,731</u>	<u>671,225</u>
<b>Transfers:</b>				
Transfers in (out)		(44,748)	25,000	(19,748)
Total transfers		<u>(44,748)</u>	<u>25,000</u>	<u>(19,748)</u>
Change in net position	273,763	29,983	347,731	651,477
Net position - July 1	<u>3,016,942</u>	<u>185,199</u>	<u>2,853,809</u>	<u>6,055,950</u>
Net position - June 30	<u>\$ 3,290,705</u>	<u>\$ 215,182</u>	<u>\$ 3,201,540</u>	<u>\$ 6,707,427</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, 2013

	Water Fund	Refuse Fund	Wastewater Treatment Project Fund	Totals
<b>Cash Flows From Operating Activities:</b>				
Receipts from customers	\$ 1,704,253	\$ 153,396	\$ -	\$ 1,857,649
Payments to suppliers	(456,383)	(25,553)	(86,739)	(568,675)
Payments to employees	(378,194)	(21,791)		(399,985)
Payments for administrative costs	(464,976)	(35,892)		(500,868)
Net cash provided (used) by operating activities	<u>404,700</u>	<u>70,160</u>	<u>(86,739)</u>	<u>388,121</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Acquisition of capital assets	(208,056)			(208,056)
Proceeds from sale of capital assets	3,800			3,800
Principal paid on capital debt	(134,335)		(400,000)	(534,335)
Interest paid on capital debt	(144,871)		(749,000)	(893,871)
Net cash provided (used) by capital and related financing activities	<u>(483,462)</u>		<u>(1,149,000)</u>	<u>(1,632,462)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Transfers from (to) other funds		(44,748)	25,000	(19,748)
Property taxes and assessments	177,285		1,165,432	1,342,717
Other revenue	8,547	15	9,814	18,376
Net cash provided (used) by noncapital financing activities	<u>185,832</u>	<u>(44,733)</u>	<u>1,200,246</u>	<u>1,341,345</u>
<b>Cash Flows From Investing Activities:</b>				
Interest income	3,912	597	4,752	9,261
Net cash provided (used) by investing activities	<u>3,912</u>	<u>597</u>	<u>4,752</u>	<u>9,261</u>
Net increase (decrease) in cash and cash equivalents	110,982	26,024	(30,741)	106,265
Cash and cash equivalents - July 1	<u>1,346,190</u>	<u>185,614</u>	<u>3,197,779</u>	<u>4,729,583</u>
Cash and cash equivalents - June 30	<u>\$ 1,457,172</u>	<u>\$ 211,638</u>	<u>\$ 3,167,038</u>	<u>\$ 4,835,848</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 (Continued)**  
 For the Fiscal Year Ended June 30, 2013

	Water Fund	Refuse Fund	Wastewater Treatment Project Fund	Totals
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 225,877	\$ 74,145	\$ (85,732)	\$ 214,290
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation expense	198,457			198,457
Change in assets and liabilities:				
Receivables, net	(64,343)	446		(63,897)
Prepaid expense	10,766	(280)		10,486
Inventories	6,392			6,392
Accounts payable	(703)		2,464	1,761
Accrued liabilities	2,531			2,531
Deposits	16,596	(4,151)	(3,471)	8,974
Compensated absences	5,589			5,589
OPEB payable	3,538			3,538
Net cash provided (used) by operating activities	<u>\$ 404,700</u>	<u>\$ 70,160</u>	<u>\$ (86,739)</u>	<u>\$ 388,121</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, Solid Waste, 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. Chapter 9 Bankruptcy

The District is currently under bankruptcy protection. The background, status, and impacts of the filing are discussed in the Introductory Section.

C. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 60

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to Service Concession Arrangements. This Statement improves consistency in reporting and enhances the comparability of the accounting and financial reporting of Service Concession Arrangements among state and local governments. Implementation of the GASB Statement No. 60, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 61

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 61 "The Financial Reporting Entity: Omnibus." This statement is effective for periods beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for component units. The Statement modifies certain requirements for inclusion of component units in the financial reporting entity and clarifies the reporting of equity interests in legally separate organizations. Implementation of the GASB Statement No. 61, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 62

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in *Pre-November 30, 1989* FASB and AICPA Pronouncements." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This Statement specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. Implementation of the GASB Statement No. 62, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 63

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to establish guidance for reporting deferred outflows or resources, deferred inflows of resources, and net position in a statement of financial position. This Statement sets forth framework that specifies where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities should be displayed. This Statement also specifies how net position, no longer referred to as net assets, should be displayed. Implementation of the Statement and the impact of the District's financial statements are explained in Note 1 - O – Equity Classifications.

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. 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. The District does not have fiduciary funds. 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; once the bankruptcy case is closed, this fund will function as a Debt Service Fund and may at that point be reclassified to the Governmental category.)
- 650 – Solid Waste or Refuse Fund

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation (Continued)

**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.

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

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 debt service on the aborted sewer project.

E. 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 assets (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)

E. 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 year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for principal and interest on general 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.

The District follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, which do not conflict with GASB Pronouncements.

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.

F. 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.

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

F. Property Taxes (Continued)

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.

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.

G. 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.

H. Accounts and Interest Receivable

In the government-wide statements, receivables consist of all revenues earned at 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, franchise taxes, grants, and other fees, if any. Business-type activities report utilities and franchise fees 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 year-end and not yet received. Utility accounts receivable and interest earnings comprise the majority of proprietary fund receivables.

I. 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 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.

LOS OSOS COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Restricted Assets

Certain debt proceeds of the Wastewater Treatment Project Fund, as well as certain resources set aside for the repayment of the associated debt, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants and they are maintained in separate bank accounts. Funds that are under the control of external parties are also restricted.

K. 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.

L. 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. Upon termination, all accumulated vacation hours up to 320 hours can be paid. 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 year-end.

M. 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, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs, including deferred refunding amounts, if any and underwriters' discounts, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding are included in interest expense.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Interfund Transactions

Following is a description of the four basic types of interfund transactions that can be made during the 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. Residual equity transfers - transactions recording equity contributions and distributions between funds. This is presented as a separate caption just before the Fund Balance caption.
4. Operating transfers - all other interfund transactions which allocate resources from one fund to another fund. These transactions are recorded as operating transfers in and out.

O. 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.

*Fund Statements*

The fund balances of the governmental funds are classified within the five categories under GASB Statement No. 54 as follows:

- *Nonspendable fund balance* – amounts cannot be spent because they are either (a) not spendable in form or (b) are legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by laws through constitutional provisions or enabling legislation.
- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the highest level of decision-making authority (Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned fund balance* – amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making or by a body or an official designated for that purpose. Residual funds in special revenue funds are classified under this category.
- *Unassigned fund balance* – this represents residual fund balance in the General Fund that is not otherwise classified in the other categories. For other funds, this represents the excess of actual expenditures over the amounts restricted, committed, or assigned for the specific purposes.

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

O. Equity Classifications (Continued)

The District's Board of Directors adopted a resolution affirming compliance with GASB Statement No. 54 and also affirming that only the Board of Directors can create, change, or cancel Committed and Assigned fund balances.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, followed by the unrestricted committed, assigned, and unassigned resources as they are needed.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, Restricted Fund Balance will be considered to have been spent first.

When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by Assigned amounts, and then Unassigned amounts.

P. General Budget Policies

The District requires that all funds adopt an annual budget. The annual budget is prepared by the General Manager and submitted to the District Board of Directors for adoption. A budget has been prepared for both the governmental funds and proprietary funds utilizing the modified accrual basis of accounting. All unencumbered appropriations in the budget lapse at the end of the fiscal year.

Q. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**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, 2013

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



**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

Cash and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

	Cash and Investments	Cash and Investments Held by Bond Trustee	Restricted Cash	Total
Governmental activities	\$ 1,687,819	\$ -	\$ 356,401	\$ 2,044,220
Business-type activities	1,823,175	1,490,189	1,522,484	4,835,848
Total cash and investments	<u>\$ 3,510,994</u>	<u>\$ 1,490,189</u>	<u>\$ 1,878,885</u>	<u>\$ 6,880,068</u>

Cash and investments are carried at fair value as of June 30, 2013, and consist of the following:

Deposits with financial institutions	\$ 75,372
Imprest funds	11,900
Bank time deposits	51,394
State investment pool	977,087
Money market	5,764,315
Total cash and investments	<u>\$ 6,880,068</u>

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.

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, 2013:

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	\$ 51,394	\$ 51,394	\$ -	\$ -	\$ -
LAIF	977,087	977,087			
Money market	4,274,126	4,274,126			
Held by bond trustees:					
Money market	1,490,189	1,490,189			
	<u>\$ 6,792,796</u>	<u>\$ 6,792,796</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.

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

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, 2013 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	\$ 51,394	N/A	\$ -	\$ -	\$ -	\$ 51,394
LAIF	977,087	N/A				977,087
Money market	4,274,126	N/A		4,274,126		
Held by bond trustees:						
Money market	1,490,189			1,490,189		
	<u>\$ 6,792,796</u>		<u>\$ -</u>	<u>\$ 5,764,315</u>	<u>\$ -</u>	<u>\$ 1,028,481</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.

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.

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.

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

Restricted Cash

Cash and investments that are restricted as of June 30, 2013 consist of the following:

Restricted Cash and Funds Held by Bond Trustee

Governmental activities

Funds held in trust for community group	\$ 1,169
Development fees restricted for facilities	51,394
Assessments collected for a specific purpose	<u>303,838</u>
Total Governmental Restricted Cash	<u>356,401</u>

Enterprise activities

Restricted by Court pending bankruptcy proceedings	1,407,913
Prepaid assessments restricted for debt service	<u>114,571</u>
Total Restricted Cash excluding funds held by bond trustee	1,522,484
Funds held by bond trustee	<u>1,490,189</u>
Total Enterprise Restricted Cash	<u>3,012,673</u>
Total Restricted Cash, including funds held by bond trustee	<u><u>\$ 3,369,074</u></u>

**NOTE 3 – INTERFUND TRANSACTIONS**

Transfers between funds during the fiscal year ended June 30, 2013, were as follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Description of Transfer</u>	<u>Amount</u>
<u>Major Governmental Funds</u>			
General Fund	Wastewater Treatment Project Fund	Restoration of reserves	\$ 25,000
Refuse Fund	General Fund	Administrative support	<u>44,748</u>
		Total Interfund Transfers	<u><u>\$ 69,748</u></u>



**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 4 – CAPITAL ASSETS**

**Governmental activities:**

	Balance at July 1, 2012	Additions	Retirements	Transfers and Adjustments	Balance at June 30, 2013
<b>Capital assets not being depreciated</b>					
Land	\$ 57,375	\$ -	\$ -	\$ -	\$ 57,375
Construction in progress		546,720			546,720
Total capital assets not being depreciated	<u>\$ 57,375</u>	<u>\$ 546,720</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 604,095</u>
<b>Capital assets being depreciated</b>					
Buildings, structures, and improvements	\$ 515,116	\$ -	\$ -	\$ -	\$ 515,116
Infrastructure	232,299	17,574	12,117		237,756
Plant and equipment	1,116,328	41,841	13,943		1,144,226
Total capital assets being depreciated	<u>1,863,743</u>	<u>59,415</u>	<u>26,060</u>		<u>1,897,098</u>
<b>Less accumulated depreciation</b>					
Buildings, structures, and improvements	342,423	18,335			360,758
Infrastructure	212,922	8,617	12,117		209,422
Plant and equipment	878,328	61,592	5,578		934,342
Total accumulated depreciation	<u>1,433,673</u>	<u>88,544</u>	<u>17,695</u>		<u>1,504,522</u>
Total capital assets being depreciated, net	<u>\$ 430,070</u>	<u>\$ (29,129)</u>	<u>\$ 8,365</u>	<u>\$ -</u>	<u>\$ 392,576</u>
Net capital assets	<u>\$ 487,445</u>	<u>\$ 517,591</u>	<u>\$ 8,365</u>	<u>\$ -</u>	<u>\$ 996,671</u>

Depreciation expense was charged to functions based on their usage of the related assets as follows:

<b>Governmental Activities:</b>		
General administration		\$ 3,203
Public safety		76,724
Health and sanitation		8,617
Total governmental activities depreciation expense		<u>\$ 88,544</u>

**Business-type activities:**

	Balance at July 1, 2012	Additions	Retirements	Transfers and Adjustments	Balance at June 30, 2013
<b>Capital assets not being depreciated</b>					
Land	\$ 498,429	\$ -	\$ -	\$ -	\$ 498,429
Construction in progress	22,086,422	162,082		(164,998)	22,083,506
Total capital assets not being depreciated	<u>\$ 22,584,851</u>	<u>\$ 162,082</u>	<u>\$ -</u>	<u>\$ (164,998)</u>	<u>\$ 22,581,935</u>
<b>Capital assets being depreciated</b>					
Building and improvements	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Infrastructure	8,397,190	9,585		164,998	8,571,773
Plant and equipment	408,230	36,389	10,447		434,172
Total capital assets being depreciated	<u>8,810,420</u>	<u>45,974</u>	<u>10,447</u>	<u>164,998</u>	<u>9,010,945</u>
<b>Less accumulated depreciation</b>					
Building and improvements	5,000				5,000
Infrastructure	3,337,709	192,810			3,530,519
Plant and equipment	395,894	5,647	(10,447)		391,094
Total accumulated depreciation	<u>3,738,603</u>	<u>198,457</u>	<u>(10,447)</u>		<u>3,926,613</u>
Total capital assets being depreciated, net	<u>\$ 5,071,817</u>	<u>\$ (152,483)</u>	<u>\$ -</u>	<u>\$ 164,998</u>	<u>\$ 5,084,332</u>
Net capital assets	<u>\$ 27,656,668</u>	<u>\$ 9,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,666,267</u>

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 4 – CAPITAL ASSETS (Continued)**

**Construction in progress:**

	Balance at June 30, 2013
Governmental activities	\$ 546,720
Business-type activities	<u>22,083,506</u>
Total construction in progress	<u>\$ 22,630,226</u>

Business-type activities

The construction in progress above includes \$22,067,856 which represents the total construction costs recorded and expended on a wastewater treatment project that was stopped in November 2005 by a new Board of Directors elected at that time. The stoppage was mainly due to the contentious location and type of the project. Contractors' claims with a total mediated amount of \$11,427,814 are not included in the cost shown above. These unrecorded claims were filed with the Bankruptcy Court. The bankruptcy case is currently pending in United States District Court awaiting the resolution of the second appeal of the favorable decision of the Bankruptcy Court on the District's debt adjustment plan.

The costs recorded and shown above were funded by a combination of a State Revolving Fund loan and the issuance of limited obligation improvement bonds. Due to the stoppage of the project and with the responsibility for a new successor project having been transferred to the County under special legislation AB 2701, the amount shown above may no longer represent its true value and may be materially impaired. Under AB 2701, the District is obligated to transfer to the County any assets acquired by the District for the original project when the County requests a transfer for use in their successor sewer project. At this point, infrastructure that may be included in the construction in progress amount shown above have not been determined nor valued. The County has not as yet requested the District the use or transfer of any infrastructure that may be included in this account, if any, that it may need for its successor project. It has however requested Land and Land easements that were conveyed by the District in November 2011.

(Also refer to Note 12.)

**NOTE 5 – ACCOUNTS PAYABLE**

Total claims against the District in Bankruptcy Court total about \$12 million, excluding two claims by the State with a total of \$15 million which the State agreed to settle based on certain conditions. These conditions are discussed in the Introductory Section, Impact on Liabilities. Of the \$12 million, only \$950,719 has been recorded in the books. This represents claims that were submitted to the District by the time of filing the bankruptcy case. In addition to these, about 95%, or \$11,427,814, represents mediated claims by three major contractors who worked on the aborted sewer project. These are not recorded in the books and are not reflected in these statements. The current status of the bankruptcy case is discussed in the Introductory Section.

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 6 – LONG-TERM LIABILITIES**

The following is a summary of changes in the District's long-term liabilities for the fiscal year ended June 30, 2013:

	Balance at July 1, 2012	Additions	Reductions	Prior Period Adjustment	Balance at June 30, 2013	Current Portion
<b>Governmental Activities:</b>						
Compensated Absences	\$ 26,806	\$ 22,678	\$ 18,178	\$ -	\$ 31,306	\$ 6,540
PERS Side Fund		7,089	10,133	99,500	96,456	\$ 10,430
Other Post Employment Benefits Obligation	3,345	1,307			4,652	
<b>Total Governmental Activities</b>	<b>\$ 30,151</b>	<b>\$ 31,074</b>	<b>\$ 28,311</b>	<b>\$ 99,500</b>	<b>\$ 132,414</b>	<b>\$ 16,970</b>
<b>Business-Type Activities:</b>						
Compensated Absences	\$ 23,617	\$ 26,073	\$ 20,484	\$ -	\$ 29,206	\$ 12,305
Other Post Employment Benefits Obligation	3,334	3,538			6,872	
<b>Water Fund:</b>						
Notes Payable	4,385,662		134,335		4,251,327	138,432
<b>Wastewater Treatment Project Fund:</b>						
Notes Payable	6,486,144				6,486,144	
Improvement Bonds (US Bank Trustee)	15,220,000		400,000		14,820,000	415,000
<b>Total Business-Type Activities</b>	<b>\$ 26,118,757</b>	<b>\$ 29,611</b>	<b>\$ 554,819</b>	<b>\$ -</b>	<b>\$ 25,593,549</b>	<b>\$ 565,737</b>

A description of the long-term liabilities related to governmental activities at June 30, 2013, follows:

**A. Governmental Activities**

At the time the District joined the Public Employees Retirement System (PERS) Risk Pool, a side fund was required to be created to account for the difference between the funded status of the pool and the funded status of the District's plan, in addition to the existing plans unfunded liability. The side fund will be credited, on an annual basis, with the actuarial investment return assumption which was 7.75% prior to July 1, 2012 and 7.5% after that date. A side fund liability will cause the District require PERS employer contribution rate to be increased by the amortization of the side fund. The side fund liability for the District's plan as of June 30, 2013 was \$96,456. Other Pension Obligation Benefits are discussed in Note 8.

**B. Business-Type Activities**

California State Resources Control Board

On August 8, 2005, the District entered into an agreement with the California State Resources Control Board to finance the construction of the wastewater treatment project. The initial award of the contract amounted to \$134,761,390; however, principal amounts received to the point when the project was stopped totaled only \$6,486,144. This is the amount that is reflected in the financial statements as of June 30, 2013, and in the schedule above. Installment payments, together with all interest accruing thereon, were to be repaid in annual installments at a rate of 2.3%. Interest on this loan is not accrued in the books because this loan and any interest thereon is part of the bankruptcy proceedings. Total simple interest to June 30, 2013, would be \$915,674. With the approval of the United States Bankruptcy Court on October 9, 2013, the District will not have to pay the interest amount listed above nor pay the principal amount of \$6,486,144.

The State has settled its claim for the immediate repayment of this loan and other associated obligations related to it after a number of legal processes. Of the three conditions imposed as part of the settlement, only one condition remains unfulfilled. This condition is that the Debt Adjustment Plan of the District submitted in its bankruptcy filing be settled. The Bankruptcy Court and then the U.S. District Court, acting upon an appeal of the favorable decision of the Bankruptcy Court, affirmed the District's Debt Adjustment Plan. However, a second appeal was filed and is now working its way through the legal processes. A hearing is tentatively set for March 2013. The bankruptcy case and its impact on these statements are also discussed in the Introductory Section. Adjustments to the approaching fiscal year's financial statements will write off the principal amount. The court settlement date was October 9, 2013, the following fiscal year.

On April 1, 2008, the Bankruptcy Court approved an agreement between the District and the County to restrict the use of any remaining loan proceeds limiting its use only for those authorized in a confirmed plan of adjustment in the District's Chapter 9 bankruptcy proceedings or otherwise agreed to by the County and the District. At the time of the agreement, the balance was \$2,141,973. As of June 30, 2013, the remaining balance is \$1,407,913. The County has authorized the use of these funds for legal expenses and other professional services relating to the bankruptcy proceedings and up to \$10,000 a month for legal representation in behalf of the Official Committee of Unsecured Creditors.

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 6 – LONG-TERM LIABILITIES (Continued)**

**B. Business-Type Activities (Continued)**

Wastewater Improvement Bonds

On November 7, 2002, the District issued \$17,990,000 of limited obligation improvement bonds to (i) finance the construction of a wastewater collection, treatment, and disposal facility referred to as the "Wastewater Treatment Project" benefiting properties located within the District's boundaries and is referred to as the District's Wastewater Assessment District No. 1 (the "Assessment District"), (ii) to fund a reserve fund for the bonds, (iii) to fund capitalized interest on the bonds until September 2, 2003, and (iv) to pay costs of issuing the bonds. The bonds were issued at a discount of \$4,091 and issuance costs were \$782,707. Principal is payable on September 2 each year through September 2033, beginning in 2004. Interest on the bonds is payable on September 2 and March 2 of each year through September 2033, beginning March 2, 2003. Interest rates on the bond vary between 1.8 and 4.0 percent. The bonds are secured by assessments against the properties within the Assessment District and are further secured by the monies in the Redemption Fund and the Reserve Fund created pursuant to the assessment proceedings. The outstanding principal balance of the bonds at June 30, 2013, was \$14,820,000.

Deferred issuance cost on this loan has a balance of \$501,774 as of June 30, 2013. This is amortized over the life of the bonds at a rate of \$25,954 per annum.

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, 2013, was \$4,251,327.

Deferred issuance cost on this loan has a balance of \$30,540 as of June 30, 2013, which is amortized over the life of the bonds at a rate of \$1,447 per year.

Business-Type Long-Term Liabilities Amortization Schedules Follow:

California State Resources Control Board			
For the Year Ending June 30	Principal	Interest * Rate = 2.3%	Total
2014	\$ 6,486,144	\$ -	\$ 6,486,144
Total	\$ 6,486,144	\$ -	\$ 6,486,144

\* Interest related to the California State Resources Control Board loan is not accrued because this is part of bankruptcy proceeding. A settlement has been reached as discussed above. Total simple interest to June 30, 2013, would be \$915,674.

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 6 – LONG-TERM LIABILITIES (Continued)**

**B. Business-Type Activities (Continued)**

Wastewater Improvement Bonds

For the Year Ending June 30	Principal	Interest	Total
2014	\$ 415,000	\$ 730,625	\$ 1,145,625
2015	435,000	709,375	1,144,375
2016	455,000	687,125	1,142,125
2017	480,000	663,750	1,143,750
2018	505,000	639,125	1,144,125
2019-2023	2,930,000	2,780,750	5,710,750
2024-2028	3,730,000	1,951,750	5,681,750
2029-2033	4,770,000	894,500	5,664,500
2034	1,100,000	27,500	1,127,500
<b>Total</b>	<b>\$ 14,820,000</b>	<b>\$ 9,084,500</b>	<b>\$ 23,904,500</b>

California Infrastructure and Economic Development Bank

For the Year Ending June 30	Principal	Interest	Annual Administrative Fee	Total
2014	\$ 138,432	\$ 127,554	\$ 12,754	\$ 278,740
2015	142,654	123,268	12,339	278,261
2016	147,005	118,851	11,911	277,767
2017	151,486	114,298	11,470	277,254
2018	156,109	109,607	11,015	276,731
2019-2023	854,939	472,511	47,758	1,375,208
2024-2028	993,516	331,823	34,128	1,359,467
2029-2033	1,154,556	168,325	18,289	1,341,170
2034-2035	512,630	15,753	2,320	530,703
<b>Total</b>	<b>\$ 4,251,327</b>	<b>\$ 1,581,990</b>	<b>\$ 161,984</b>	<b>\$ 5,995,301</b>

**NOTE 7 – OPERATING LEASES**

The District has commitments to lease certain office equipment and facilities. The District leases its administrative facilities for \$2,000 a month. The lease was extended by two years to April 30, 2014, under the same terms. The District leases a copier at \$375 a month. This lease is renewable annually at the District's option in September each year.

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 8 – EMPLOYEE RETIREMENT BENEFITS**

**Defined Benefit Pension Plan**

Plan Description

The District's pension plan is a defined benefits plan and is administered by the California Public Employees Retirement System (CALPERS). CALPERS acts as a common investment and administrative agent for the participating public entities within the State of California. Member agencies total over 3,000, representing about 1.6 million public sector employees. These defined benefit plans provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and their beneficiaries. Copies of CalPERS annual financial report may be obtained from their executive office: 400 Q Street, Sacramento, CA 95814.

The District's plan is part of the Miscellaneous 2% at 55 Risk Pool, a cost-sharing multiple-employer defined benefits plan. Risk pools were created in 2006 pursuant to legislation and required mandatory participation of small employers to help reduce large fluctuations in their contribution rates. As an employer with less than 100 active members, the District was required to participate in the risk pool. Under this pooling method, assets and liabilities of the participant employers are aggregated. As such, individual employer's retirement data is not available.

Funding Policy

Participating employees are required to contribute seven percent (7%) of their annual covered salary. However, under the Memorandum of Understanding between the District and its employees, the District agreed to pick up 5.84% leaving 1.16% for the employees to contribute. The District is required to contribute an actuarially determined rate calculated as a percentage of covered payrolls. The employer contribution rate for the fiscal year ended June 30, 2013, was 12.673%.

Annual Pension Cost

For the fiscal year ended June 30, 2013, the District paid to CALPERS a total of \$63,558 for its regular contribution of 12.673% for miscellaneous employees. It should be noted that required contributions rates are projected by CALPERS using actuarial valuations done two fiscal years before the effective date. Hence, for the fiscal year 2012-13, the contribution rate of 12.673% percent was projected using actuarial valuation done at June 30, 2010.

The assumptions used to determine required contributions in 2012-13 remained the same as in the prior year. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases from 3.55% to 14.45% depending on age, service, and type of employment, (c) 3.0% inflation rate, and (d) 3.25% payroll growth. The actuarial value of CALPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). The CALPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. CALPERS has combined the prior service unfunded liability and current service unfunded liability into a single initial unfunded liability.

Three-Year Trend Information for CALPERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 78,166	100%	\$ -
2012	\$ 62,981	100%	\$ -
2013	\$ 63,558	100%	\$ -



**NOTE 9 OTHER POST EMPLOYMENT BENEFITS (OPEB)**

Other post employment benefits (OPEB) reflects the share of the District of the medical premium as required in the agreement with CALPERS to provide health benefits to active and retired employees. Currently, the required employer's share is \$115 per month. It should be noted that if an employee ceases to participate in the CALPERS medical program, this benefit also terminates.

GASB Statement No. 45, a statement issued by the Governmental Accounting Standards Board, fully implementable in fiscal year 2009-10 required that the employer's liability for these benefits be estimated, recorded, or disclosed.

For the District, this liability was estimated using the Alternative Measurement Method which essentially avoids the hiring of an actuary to do the computation. District's staff performed the computation to estimate this liability. As with any actuarial computations, there were a number of assumptions used. One of the key assumptions is that only 40% of retiring employees who are eligible for Medicare benefits will be able to afford the CALPERS supplemental medical program and will then have no other post employment benefits. This assumption is based on employee demographics. This liability as of June 30, 2013, is estimated to be \$31,100. Of this amount, only \$ \$11,524 has been recorded in the books. This liability would be \$89,864 if 40% participation is not assumed.

Another assumption made is that employees will work up to the time they become eligible for Medicare benefits. Again, this assumption is based on employee demographics. There are currently two employees who retired before this age. Their OPEB is funded on a pay as you go basis and funded through the annual budget.

Funding

Ideally this OPEB liability is funded annually and invested separately from other District funds or even transferred to a trust manager that will be responsible for investing and paying out these funds. The estimated liability however is not that material and therefore can be managed easily by the District.

**NOTE 10 – 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 442 public agencies participating in the Property/Liability program and 355 agencies in its Workers' Compensation program. SDRMA's audit report for the fiscal year 2010-11 shows it had Net Assets of almost \$51 million.

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

**NOTE 11 – CONTINGENCIES AND COMMITMENTS**

Bankruptcy Case Litigation

The history of the bankruptcy case is discussed in the Introductory Section. The current status of the case is reprised here.

Current Status of the Bankruptcy Filing

On August 8, 2011, the Bankruptcy Court entered an Order Confirming the LOCSD Debt Adjustment Plan (the Plan). The Plan as confirmed resolved all the claims under the jurisdiction of the Bankruptcy Court which included approximately \$11.4 million in unsecured creditor claims. The confirmed Plan provided approximately \$4.5 million to satisfy the claims of the unsecured creditors. The sources of these funds are:

- The remaining State Revolving Fund Loan related to the prior Wastewater Treatment Project (approximately \$1.7 million as of September 10, 2010, the filing date of the Debt Adjustment Plan). As of June 30, 2013, it had a balance of \$1,407,913; and
- \$2.8 million from San Luis Obispo County; in exchange, the Solid Waste Franchise Agreement is transferred to the County.

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 11 – CONTINGENCIES AND COMMITMENTS (Continued)**

Current Status of the Bankruptcy Filing (Continued)

However, the Bankruptcy Court's order approving the Plan was appealed by the District's major creditor on August 22, 2011. This appeal was decided by the United States District Court on the District's favor on April 2, 2012 upholding the decision of the Bankruptcy Court to approve the Plan. Shortly afterward, on May 8, 2012, this decision was again appealed by the major creditor to the United States Court of Appeals for the Ninth Circuit. That appeal had a hearing on October 15, 2013, see Note 12 – Subsequent Events for further detail.

Commitment to Pay into the 2002 Bond Reserve

On September 2, 2006, the District prematurely used \$714,268 of bond reserves in order to complete the debt service payment due on that date. These reserves are required to be replenished within one year unless an extended payback schedule was negotiated. The District has committed to pay at least \$25,000 per year. This amount plus any investment income earned by all funds held by bond trustee will be used to bring the reserve account to its required level of \$1,158,523. As of June 30, 2013, \$431,859 is still needed to restore the reserve to its required level.

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.

Loss of Revenue Source and Possible Closure of a Fund

The District may lose its Franchise Fee revenue which averages at least \$155,000 annually to the County. This is due to an agreement with the County that in return for the County contributing \$2.8 million to the District's Debt Adjustment Plan, the District gives up its Solid Waste function to them. A clarification of the relationship with regard to this transaction has to still be established. A permanent loss of this revenue source may lead to the closure of the Solid Waste Fund. The District continues to pursue the possibility of a debtor-creditor relationship with the County rather than a transfer of function with its associated revenues.

**NOTE 12 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through January 22, 2014, which is the date that the basic financial statements were available to be issued. On October 15, 2013, the Honorable Robin L. Ribet, Judge, United State Bankruptcy Court, Central District of California Northern Division issued an order granting the motion for approval of the Second Amended Plan for Adjustment of Debts (Amended Plan) for the ending 7 years of Bankruptcy litigation. The Amended Plan as stipulated to by all the parties resolves all the lawsuits and claims arising from the District's former Wastewater project, and puts an end to years of District involvement in numerous legal proceedings.

Under the Amended Plan, the County of San Luis Obispo will pay in full over time the holders of the bonds issued in connection with the former wastewater project. The bond holders are secured by the assessment on the real property of those District residents living in the Prohibition Zone (Zone K). The assessments are collected on an annual basis by the County and the County makes the payments on the bonds to U.S. Bank. The District has an obligation to pay the California Infrastructure & Development Bank and continues to make its semi-annual interest payment per the terms of the amortization schedule for improvements to the District's water system.

The District will pay the Class 8 allowed claims of the general unsecured creditors. This includes the approved claims arising from the former wastewater project at the rate of 41% of their claim.

Under the Amended Plan the District will not pay the claim for the Regional Water Quality Control Board for fines it assessed against the District for failure to complete the construction of a community sewer system by August 30, 2004. This was levied against the District from an Administrative Civil Liability Order. This claim was subordinated and conditioned: 1) Plan approval; 2) County proceeds with the wastewater project; c) District provides a draft water conservation plan. All three conditions were met.

The claim by the State Water Resources Control Board arises from a loan the Board made to the District to build the former wastewater project. With the approval of the Amended Plan and the County financing the current Wastewater Treatment Facility with State Revolving Funds, the Control Board will not receive a distribution.



**LOS OSOS COMMUNITY SERVICES DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 13 – PRIOR PERIOD ADJUSTMENTS**

A prior period adjustment of \$(99,500) was made which affects the government-wide statement of activities. In prior years, the District did not record the PERS side fund liability.

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**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, 2013

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 17,300	\$ 17,300	\$ 17,147	\$ (153)
Intergovernmental		30,000	30,000	
Administrative charges	643,418	643,418	643,428	10
Use of money and property			120	120
Other			255	255
<b>Total revenues</b>	<b>660,718</b>	<b>690,718</b>	<b>690,950</b>	<b>232</b>
<b>Expenditures:</b>				
Salaries and wages	254,920	247,363	248,726	(1,363)
Payroll taxes and benefits	90,945	85,908	79,665	6,243
Contract services	37,000	37,000	38,007	(1,007)
Insurance	30,000	30,000	21,231	8,769
License and fees	18,494	31,088	25,717	5,371
Maintenance and repairs	17,155	22,794	25,683	(2,889)
Meals and entertainment	1,200	1,200	1,249	(49)
Office support, publication, and dues	14,200	14,200	13,576	624
Tools and supplies	500	500	1,081	(581)
Rent	21,000	21,000	18,703	2,297
Professional services	130,800	130,800	104,737	26,063
Telephone and communications	4,300	4,300	4,389	(89)
Employee travel and training	9,900	9,900	4,625	5,275
Utilities	3,250	3,250	3,334	(84)
Director fees	18,500	18,500	15,272	3,228
Other expenses	11,000	500	7,240	(6,740)
Capital outlay		56,185	41,840	14,345
<b>Total expenditures</b>	<b>663,164</b>	<b>714,488</b>	<b>655,075</b>	<b>59,413</b>
Excess of revenues over (under) expenditures	(2,446)	(23,770)	35,875	59,645
<b>Other Financing Sources (Uses)</b>				
Transfers in	44,746	44,746	44,748	2
Transfers out	(25,000)	(25,000)	(25,000)	
<b>Total other financing sources (uses)</b>	<b>19,746</b>	<b>19,746</b>	<b>19,748</b>	<b>2</b>
<b>Net change in fund balance</b>	<b>17,300</b>	<b>(4,024)</b>	<b>55,623</b>	<b>59,647</b>
Fund balance - July 1	(159,248)	(159,248)	(159,248)	
Fund balance - June 30	\$ (141,948)	\$ (163,272)	\$ (103,625)	\$ 59,647

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 1,519,141	\$ 1,519,141	\$ 1,518,765	\$ (376)
Special taxes and assessments	487,500	487,500	487,467	(33)
Intergovernmental	4,792	11,657	32,814	21,157
Public services fees	63,000	63,000	65,088	2,088
Use of money and property			4,164	4,164
Other	32,500	56,592	33,358	(23,234)
<b>Total revenues</b>	<b>2,106,933</b>	<b>2,137,890</b>	<b>2,141,656</b>	<b>3,766</b>
<b>Expenditures:</b>				
Salaries and wages	111,650	109,842	104,542	5,300
Payroll taxes and benefits	27,974	27,974	20,204	7,770
Contract services	1,618,212	1,601,757	1,601,750	7
Insurance	20,000	16,500	16,534	(34)
License and fees	25,200	25,200	24,765	435
Maintenance and repairs	12,200	12,200	13,482	(1,282)
Meals and entertainment	800	800	306	494
Office support, publication, and dues	14,350	14,350	9,190	5,160
Tools and supplies	46,740	64,425	66,227	(1,802)
Professional services	1,000	1,000	3,378	(2,378)
Telephone and communications	14,500	14,500	12,919	1,581
Employee travel and training	6,000	6,000	3,396	2,604
Utilities	11,100	11,100	8,333	2,767
Other expenses	5,350	5,350	4,150	1,200
Capital outlay		574,000	546,721	27,279
Administrative cost allocation	107,495	107,495	107,544	(49)
<b>Total expenditures</b>	<b>2,022,571</b>	<b>2,592,493</b>	<b>2,543,441</b>	<b>49,052</b>
Excess of revenues over (under) expenditures	84,362	(454,603)	(401,785)	52,818
Fund balance - July 1	1,479,593	1,479,593	1,479,593	
Fund balance - June 30	\$ 1,563,955	\$ 1,024,990	\$ 1,077,808	\$ 52,818

**SUPPLEMENTARY INFORMATION**





**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
 June 30, 2013

	<u>Bayridge</u>	<u>Vista de Oro</u>	<u>Drainage</u>	<u>Parks and Recreation</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and investments	\$ 786	\$ 4,071	\$ 223,394	\$ 210	\$ 228,461
Restricted cash and investments				303,838	303,838
Accounts receivable	979	218	2,304		3,501
Interest receivable			12	184	196
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 1,765</u>	<u>\$ 4,289</u>	<u>\$ 225,710</u>	<u>\$ 304,232</u>	<u>\$ 535,996</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 573	\$ 536	\$ 2,103	\$ -	\$ 3,212
Due to other funds		1,517			1,517
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>573</u>	<u>2,053</u>	<u>2,103</u>	<u>          </u>	<u>4,729</u>
Fund Balances:					
Restricted	<u>1,192</u>	<u>2,236</u>	<u>223,607</u>	<u>304,232</u>	<u>531,267</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>1,192</u>	<u>2,236</u>	<u>223,607</u>	<u>304,232</u>	<u>531,267</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 1,765</u>	<u>\$ 4,289</u>	<u>\$ 225,710</u>	<u>\$ 304,232</u>	<u>\$ 535,996</u>

**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, 2013

	<u>Bayridge</u>	<u>Vista de Oro</u>	<u>Drainage</u>	<u>Parks and Recreation</u>	<u>Total</u>
<b>Revenues:</b>					
Property taxes	\$ 6,731	\$ -	\$ -	\$ -	6,731
Special taxes and assessments			95,422		95,422
Service charges and fees	29,547	15,768			45,315
Use of money and property	(4)		627	913	1,536
Other			49		49
<b>Total revenues</b>	<u>36,274</u>	<u>15,768</u>	<u>96,098</u>	<u>913</u>	<u>149,053</u>
<b>Expenditures:</b>					
Salaries and wages	7,705	7,656	11,115		26,476
Payroll taxes and benefits	3,249	3,237	4,737		11,223
Contract services	840	840	5,832		7,512
License and fees	1,017	778	7,771		9,566
Maintenance and repairs	16,352	17,182	1,474		35,008
Office support, publication, and dues		33			33
Supplies	647	1,102	2,387		4,136
Professional services	451	522			973
Telephone and communications	169	169	1,205		1,543
Employee travel and training			13		13
Utilities	7,498	1,962	1,340		10,800
Other expenses	62		703		765
Capital outlay			17,574		17,574
Administrative cost allocation	8,604	3,744	22,668		35,016
<b>Total expenditures</b>	<u>46,594</u>	<u>37,225</u>	<u>76,819</u>	<u>913</u>	<u>160,638</u>
Excess of revenues over (under) expenditures	(10,320)	(21,457)	19,279	913	(11,585)
Fund balances - July 1	<u>11,512</u>	<u>23,693</u>	<u>204,328</u>	<u>303,319</u>	<u>542,852</u>
Fund balances - June 30	<u>\$ 1,192</u>	<u>\$ 2,236</u>	<u>\$ 223,607</u>	<u>\$ 304,232</u>	<u>\$ 531,267</u>