

**LOS OSOS COMMUNITY SERVICES DISTRICT  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2014**

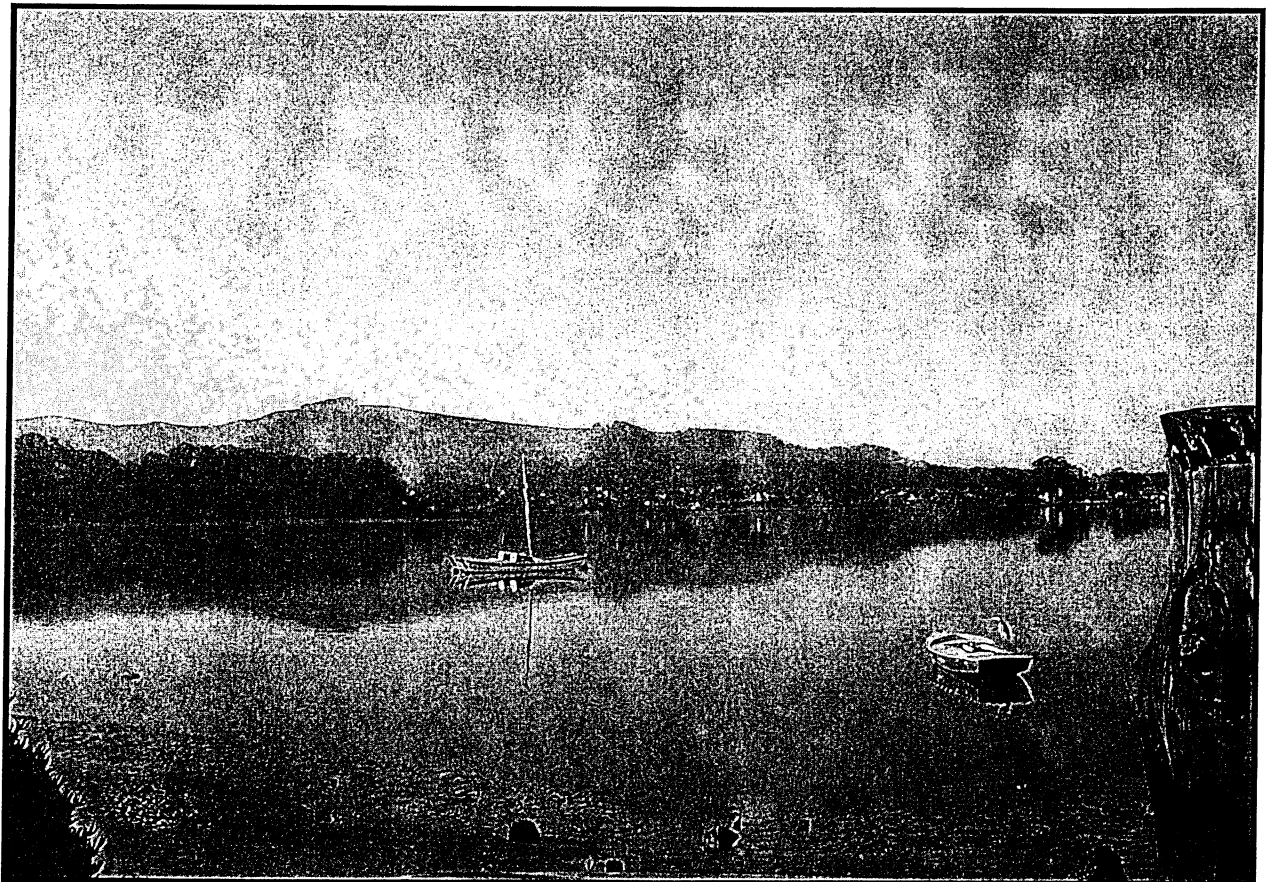


# LOS OSOS COMMUNITY SERVICES DISTRICT

## FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
JUNE 30, 2014

WITH INDEPENDENT AUDITOR'S REPORT  
AND  
SUPPLEMENTARY INFORMATION





**LOS OSOS COMMUNITY SERVICES DISTRICT  
FOR THE YEAR ENDED JUNE 30, 2014**

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## INTRODUCTORY SECTION





**LOS OSOS COMMUNITY SERVICE DISTRICT  
FOR THE YEAR ENDING JUNE 30, 2014**

**THE 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. The District was formed to provide services previously provided by San Luis Obispo County (County) in specific benefit zones of what was formerly County Service Area 9. After formation, the District added solid waste service providing service to all properties in the District. The District operates pursuant to Section 61000 of the California Government Code. The District's powers include Fire Protection, Water, Street Lighting, Drainage, Solid Waste and Parks and Recreation Services. Governed by a five-member elected at large Board of Directors, its operations are staffed and managed 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 Nation 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 extensive 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 such as the cities of Morro Bay and San Luis Obispo, have structures that fill the void.

**STATISTICAL INFORMATION**

Zip Code: 93402 Los Osos, California

	<u>Los Osos</u>	<u>California</u>
Current Population:	13,785	39.88M
Median Age:	49 Years	35 Years
Median Household Income:	\$72,563	\$59,859
Average Household Net Worth:	\$703,736	\$667,573
Average Home Price:	\$478,026	\$401,525
Los Osos Rental Market: 4 BR	\$4,250 <i>(\$3,566 SLO County)</i>	\$5,805

Education Statistics: 11% of residents 18 and over graduated from High School and 41% completed a Bachelor's degree or higher, which is 6% higher than that of SLO County

\*Sourced from Realtor.com

Income data and Education statistics sourced from census, 2015

**FUNDS MAINTAINED BY THE DISTRICT**

**Fund 100 – Administration (General Fund)**

The Administration Fund provides centralized inter-fund services to all the other funds of the District. The Administration Fund provides overall management, human resources functions, payroll services, computer systems hardware and software, financial accounting, legal, consulting services, website management and other services as it pertains to the District as a whole. This fund expenses items that are attributed to these operations, however, this Department receives no direct funding, general revenue or generates revenues.

**Fund 200 – Bayridge**

Bayridge is a subdivision in the District that has a dedicated residential community septic system. There are 147 parcels in this subdivision. The fund provides septic management, storm water drainage, streetlight, and open space management. The key source of funding is assessments for service charges on property owners and General Property Taxes grandfathered into the Prop 13 allocation.

**Fund 301 – Fire and Emergency Services**

The District contracts for Fire and Emergency Services through a Cooperative Fire Protection Agreement with CAL FIRE for the entire community. Cal Fire staff and District Reserve Firefighters provide fire protection and life safety services for all lands and properties within the District boundaries as well as participating in automatic and mutual aid with other agencies. All personnel from CAL Fire and South Bay Fire Reserves are trained as a member of a fire

crew to respond effectively to protect life and property during emergencies that can range from structural firefighting, wildland firefighting, vehicle accidents, first-air medical response (or higher), hazardous materials spills and surf and trench rescue.

#### **Fund 400 – Vista de Oro**

Vista de Oro is a subdivision in Los Osos that has a dedicated residential community septic system. There are 73 parcels in this subdivision. The fund provides septic management, storm water drainage, street and open space management. The key source of funding is assessments for lighting and septic services received through the tax rolls on a per parcel basis.

#### **Fund 500 – Water**

The Water Utility Department is responsible for the management, operation and maintenance of the water system serving approximately half of the community in Los Osos and all of Baywood Park. Water operators are responsible for treatment of five groundwater supply wells, two of which employ full filtration technology for iron/manganese removal. Crews are responsible for water quality monitoring, water quality sampling, distribution system repair/maintenance, customer service, meter reading, water meter change outs, water audits, leak detection, flushing lines, and regulatory reporting compliance. The delivery of water to the District's water customers is conveyed through a network of over 27 miles of water mainlines utilizing three (3) water storage tanks and a booster pump station. Approximately 2,755 water service lines and meters serving residences and commercial businesses are connected to the distribution system. Included in the domestic water service infrastructure are 162 fire hydrants with some 585 main line valves that require periodic maintenance and inspection. This is an enterprise fund.

#### **Fund 600 – Wastewater**

This fund was used to account for the construction of a sewage treatment plant which was halted. Under special legislation Assembly Bill (AB) 2701, the project was transferred to the County of San Luis Obispo (County). The County officially accepted the project on March 15, 2011. This fund functioned to serve the debt associated with the aborted project. Previously the fund was used to account for the expenses related to the District's bankruptcy filing which resulted from the aborted project.

#### **Fund 650 – Solid Waste**

Solid Waste fund provided 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 provided additional recycling opportunities to the community through Chipping Days. The operation was transferred along with the franchise fee effective December 31, 2013 per the final amended Debt Adjustment Plan as ordered by the bankruptcy court on October 15, 2013. At this time the District maintains the Reserve Funds.

#### **Fund 800 – Drainage**

This fund provides drainage for the community of Los Osos. The District's primary responsibility is the operation and maintenance of four (4) pump station sites and five (5) drainage basins within the community. The District monitors and mitigates as necessary the impact of storm run offs and clearing channels from obstructions. Revenues supporting the operations are collected through property taxes and assessments.

#### **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. At this time 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. 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. Discussion continues regarding the potential use of the funds.

Fiduciary Fund - Los Osos Community Services District Wastewater Assessment District No. 1. This fund is used to account for the assets held by the District in a trustee capacity which are received from the Assessment District's property owners and collected on the County tax roll in order to pay the 2002 Wastewater Improvement Bonds debt service.

#### **Current Status of the bankruptcy filing**

In 2010 the District filed its Plan for Adjustment of Debts dated October 22, 2010 (Plan). On August 8, 2011, the Bankruptcy Court entered an Order Confirming the LOCSD 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-ordered mediation. As a result of the 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. On 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. On October 15, 2013, the Honorable Robin L. Riblet, Judge, United States 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). The Amended Plan as stipulated to by all the parties resolves all the lawsuits and claims arising from the District's former Wastewater Project. On December 23, 2013, the District received funding from the County of San Luis Obispo to assist with prorated payment amounts due to the general unsecured Class 8 creditors. On February 7, 2014, the District made payments to the same Class 8 creditors totaling \$4,994,711.65 or forty-one percent (41%) of their claim. On April 3, 2014, Judge Robin L. Riblet entered an Order Closing Chapter 9 Case.

Under the Amended Plan, the County of San Luis Obispo pays 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 through the County Tax Rolls and the County transmits the payments directly to US Bank. The District has an obligation to pay the California Infrastructure & Development Bank and continues to make its semi-annual debt service and interest payments per the terms of the amortization schedule for the improvements to the District's water system.

Under the Amended Plan the District was not obligated to pay the claim for the Regional Water Quality Control Board for fines assessed against the District. The fines were assessed for failure to complete the construction of a community sewer system by August 30, 2004. The 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 did not receive distribution.

The Class 5 Secured Claim of MBIA Insurance Corp. arose out of the bonds that were issued by District to fund part of the old Wastewater Treatment Facility. MBIA was the insurer of those bonds. The Bond indenture required the District to maintain certain bond proceeds in reserve and segregate them (\$1,158,500) to a Debt Service Reserve Fund. The Amended Plan requires the District make \$25,000 payments per year as reimbursement to the Bond Redemption Reserve from the Administrative Charge allowed by the bond documents. The order stated the fund shall be paid \$25,000 per year from the annual assessment overhead charges collect by the County until the Claim is paid in full without interest. Each annual payment will be made by the County at the time the County collects the assessments and makes payments to US Bank. This allows the District to repay according to the Amended Plan the balance of the claim of \$450,000 as of October 15, 2013. Analysis and reconciliation in cooperation with US Bank Trustee since that date and to present, revealed the balance owed by the District as of June 30, 2015 is \$296,834.

#### **Status of Wastewater Recycling Facility (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 facility 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 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 Wastewater Recycling Facility will be operated by the County for a minimum of five years before considering alternatives contingent upon approval from various funding agencies.

The County's project is actively proceeding. Contractors started digging in late October 2012. The infrastructure for the collection system was installed in the roads throughout the District. The system is anticipated to be operable by spring of 2016.

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

AB 2701 dictated that all assets acquired by the District intended for the Wastewater Recycling project 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 were adjusted in the financial statements for this fiscal year. This adjustment was necessary because the Class 8 General Unsecured Creditors were paid on February 7, 2014. The bankruptcy was officially discharged by entering an Order Closing Chapter 9 Case on April 3, 2014.

The Bankruptcy Court order as part of the findings that the District create a Disputed Reserve Bank Account. This fund is where the District is required to deposit any monies surrendered by various creditors. This court order requires the District keep the money in a separate account and on deposit until February 7, 2016. At that time any and all funds remaining are the property of the District.

The final settlement amount was \$4,994,711.65. The funds were comprised of the remaining SRF Loan balance of \$1,394,711.65, County of San Luis Obispo transfer of Franchise Agreement of \$2.8 million, County of San Luis Obispo funding of \$772,029 and LOCSD monies of \$27,971.

**Impact on Liabilities**

Allowed claims of the Class 8 General Unsecured creditors against the District totals in excess of \$12 million. Below is the final list of creditors and the amounts paid to each creditor as per the Amended Plan. The District did not pay the claims of the Regional Water Quality Control Board and State Water Resources Board. Additionally the District is paying the claim of MBIA as ordered by the court to US Bank.

Name of Creditor	Final Claim Amount	Distribution Rate	Payment
AGP Video	3,870.00	0.41002419	1,587
<b>Airgas West</b>	<b>126.71</b>	<b>0.41002419</b>	<b>52</b>
Al's Septic	4,442.06	0.41002419	1,821
<b>Allstar Fire Equipment</b>	<b>1,598.46</b>	<b>0.41002419</b>	<b>655</b>
American Compressor	2,727.17	0.41002419	1,118
<b>Associated Backflow</b>	<b>55.00</b>	<b>0.41002419</b>	<b>23</b>
Barnard Construction Company	5,540,314.00	0.41002419	2,271,663 **
<b>Basic Chemical Solutions</b>	<b>419.50</b>	<b>0.41002419</b>	<b>172</b>
Bridges Lock & Key	68.73	0.41002419	28
<b>Citibank South Dakota dba Conoco</b>	<b>749.70</b>	<b>0.41002419</b>	<b>307</b>
Cleath & Associates	10,053.73	0.41002419	4,122
<b>Coast Electronics</b>	<b>26.80</b>	<b>0.41002419</b>	<b>11</b>
Copy Spot & More	54.02	0.41002419	22
<b>Dell Financial Services</b>	<b>750.75</b>	<b>0.41002419</b>	<b>308</b>
Depart of Health Drinking Water Program	2,521.22	0.41002419	1,034
<b>Ferguson Enterprises Inc</b>	<b>144.79</b>	<b>0.41002419</b>	<b>59</b>
Forms 2020-Acct Office & Sales	106.08	0.41002419	43
<b>Gentry, Lenora O</b>	<b>3,299.06</b>	<b>0.41002419</b>	<b>1,353</b>
Law Offices of Gary J Grimm	252.00	0.41002419	103
<b>Hawley, Cynthia, Esq.</b>	<b>78,000.00</b>	<b>0.41002419</b>	<b>31,982</b>
Info Technology Dept. Business Services	155.23	0.41002419	64
<b>IRS</b>	<b>140,303.00</b>	<b>0.41002419</b>	<b>57,528</b>
IRS	42.57	0.41002419	17
<b>Langfeldt, Pamela &amp; Hans</b>	<b>3,299.06</b>	<b>0.41002419</b>	<b>1,353</b>
Life Assist, Inc.	791.03	0.41002419	324
<b>McNeil, John &amp; Vivian</b>	<b>6,395.48</b>	<b>0.41002419</b>	<b>2,622</b>
Merrill, Frank	4,950.93	0.41002419	2,030
<b>Miners Ace Hardware</b>	<b>676.71</b>	<b>0.41002419</b>	<b>277</b>
<b>Monterey Mechanical</b>	<b>4,600,000.00</b>	<b>0.41002419</b>	<b>1,886,111 *</b>
<b>Morro Bay Tire &amp; Auto</b>	<b>108.27</b>	<b>0.41002419</b>	<b>44</b>
Mussey, Mr. & Mrs. C.D.	3,299.06	0.41002419	1,353
<b>Noble Saw, Inc</b>	<b>91.67</b>	<b>0.41002419</b>	<b>38</b>
Oasis Equipment Rental	43.20	0.41002419	18
<b>Office Depot</b>	<b>602.07</b>	<b>0.41002419</b>	<b>247</b>
PG&E	22,300.62	0.41002419	9,144
<b>Platinum Plus for Business</b>	<b>2,444.34</b>	<b>0.41002419</b>	<b>1,002</b>
Poor Richards Press	807.59	0.41002419	331
<b>Premium Assignment Corp</b>	<b>49,462.24</b>	<b>0.41002419</b>	<b>20,281</b>
Raminha Construction	37,417.00	0.41002419	15,342
<b>Ripley Pacific Company</b>	<b>80,274.65</b>	<b>0.41002419</b>	<b>32,915</b>
San Luis Obispo County Environmental Health	32.50	0.41002419	13
<b>San Luis Obispo Newspapers</b>	<b>38.88</b>	<b>0.41002419</b>	<b>16</b>
Select Business Systems	1,800.50	0.41002419	738
<b>Shipsey &amp; Seitz</b>	<b>7,749.00</b>	<b>0.41002419</b>	<b>3,177</b>
SLO Public Works Department	39,572.26	0.41002419	16,226

<b>Software Optimization Specialists</b>	<b>5,280.00</b>	<b>0.41002419</b>	<b>2,165</b>
South Bay Community Center	1,946.25	0.41002419	798
<b>Staley, Richard &amp; Paulette</b>	<b>3,464.01</b>	<b>0.41002419</b>	<b>1,420</b>
State Water Resources Control Board	872.00	0.41002419	358
<b>Tutt Tree &amp; Crane Services</b>	<b>300.00</b>	<b>0.41002419</b>	<b>123</b>
Local 76 Phillips 66 Conoco 76	957.82	0.41002419	393
<b>Van Blarcom Leibold McClendon &amp; Mann</b>	<b>23,515.39</b>	<b>0.41002419</b>	<b>9,642</b>
Wallace Group	14,863.57	0.41002419	6,094
<b>Whitaker Contractors, Inc</b>	<b>1,287,500.00</b>	<b>0.41002419</b>	<b>527,906</b>
Willdan	91,257.41	0.41002419	37,418
<b>Wilvert, Cal &amp; Rosemary</b>	<b>3,299.06</b>	<b>0.41002419</b>	<b>1,353</b>
WRA & Associates	96,011.80	0.41002419	39,367
	<b>Total</b>		
	12,181,504.95		4,994,711.65
	<b>Calcs based on formula</b>		
	12,181,504.95		
	<b>Dollars Available</b>		
			4,994,711.65
	<b>Difference</b>		
	0.00		0.00
<b>Notes:</b>			
	<b>*Bank of the West (shared claim)</b>		1,639,783.00
	<b>*Monterey Mechanical Co (shared claim)</b>		246,328
	<b>**Claim assigned to Monterey Mechanical Co</b>		2,271,663

#### District's Future Financial Viability

The Bankruptcy Court approved the Amended Plan on October 9, 2013 and issued the order on October 15, 2013. This plan allowed the District to pay off its creditors and debtors according to the approved plan and the calculations as shown above. With the Bankruptcy settlement, the District stability continues to improve. Through hard work and persistence, the District succeeded in getting all parties to agree on the Amended Plan.

The District in cooperation with the other ISJ participants released the Draft Basin Management Plan in August 2013. This release is an important first step in resolving the remaining legal battle still faced by the District. This Draft Plan was the final requirement of the Regional Water Quality Control Board in an effort to conclude the bankruptcy. The District received two grants. One from Public Education from the County for \$30,000 and one from Proposition 84 for \$645,980.

The Public Education Grant from the County was for equipment that enhanced the PEG channel in Los Osos. This Grant was spent over a two year period for the improvements. The Proposition 84 grant in the amount of \$645,980 is 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. The Board of Directors awarded the contract to Joh Madonna Construction Company and the District anticipates completion during FY 2014-2015.

The District Board and management are confident the financial stability of the agency can be kept in good condition and the overall credit rating of the agency improved to allow for the construction of future projects.



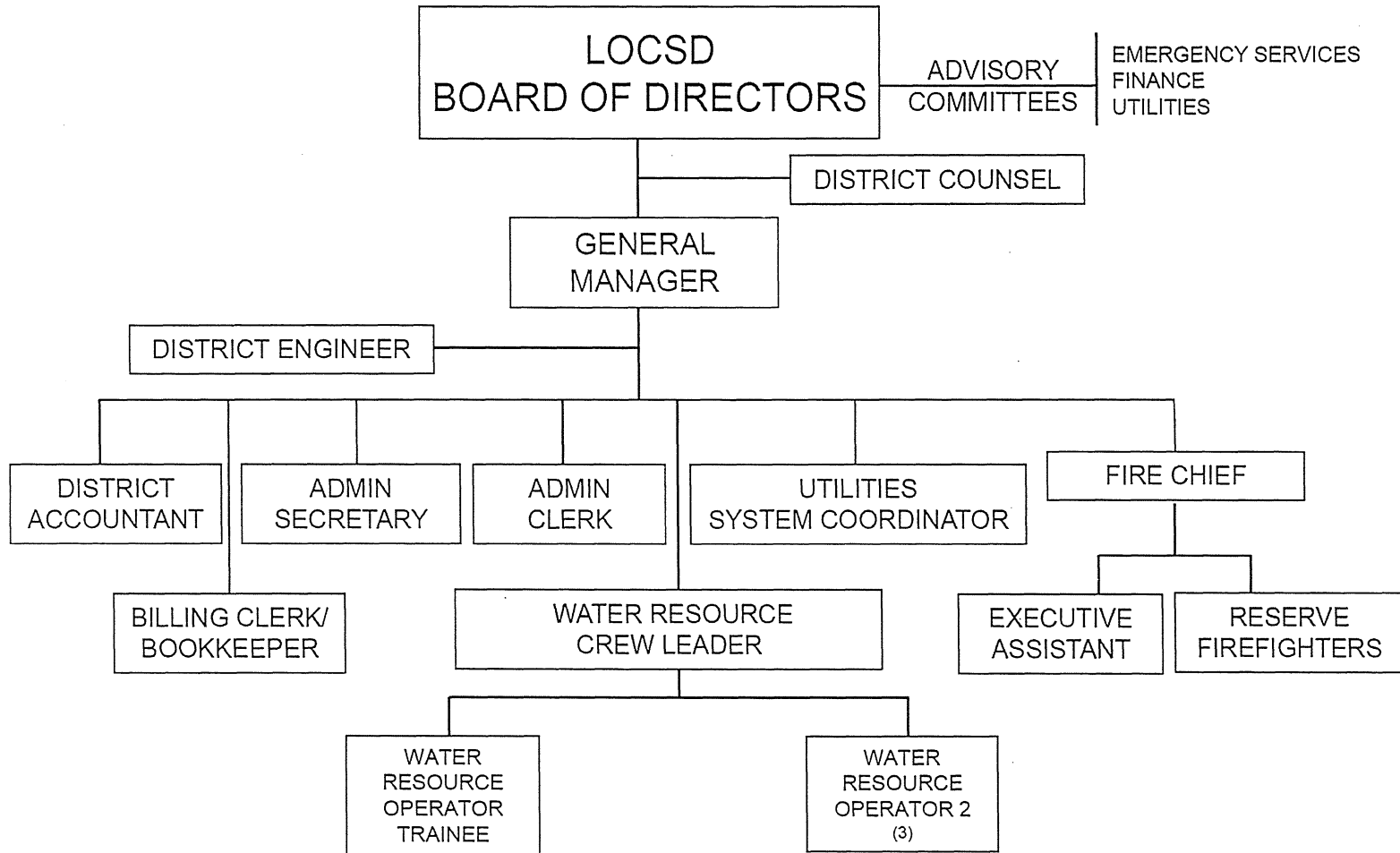
LOS OSOS COMMUNITY SERVICES DISTRICT



DIRECTORS

R. Michael Wright, President  
Marshall E. Ochylski, Vice President  
Charles L. Cesena, Director  
Jon-Erik G. Storm, Director  
Louis G. Tornatzky, Director

LOS OSOS COMMUNITY SERVICES DISTRICT  
ORGANIZATIONAL CHART



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

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**FINANCIAL SECTION**





MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS**

RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA  
ALEXANDER C HOM, CPA  
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**INDEPENDENT AUDITORS' REPORT**

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

We were engaged to audit 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 of and for the fiscal year ended June 30, 2014, 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.

Because of the matter described in the following paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions.

***Basis for Disclaimer of Opinion***

The District lacked complete accounting records of compensated absences and had weak internal controls due to the excessive amount of journal entries that were made to correct account balances. Accordingly, it was not practicable for us to extend our audit beyond the amounts recorded.

***Disclaimer of Opinion***

Because of the significance of the matters discussed in the preceding paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions. Accordingly, we do not express opinions on these basic financial statements.

### ***Emphasis of Matter***

As discussed in note 1 to the basic financial statements effective July 1, 2013, the Los Osos Community Services District adopted Governmental Accounting Standards Board (GASB) Statement No. No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, the budgetary comparison information on pages 41 and 42, and the schedule of funding progress for postemployment benefits on page 35 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. 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.

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 August 26, 2015, 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 & Hartshorn LLP*

Santa Maria, California  
August 26, 2015

**LOS OSOS COMMUNITY SERVICES  
DISTRICT MANAGEMENT'S DISCUSSION  
AND ANALYSIS JUNE 30, 2014**

**BACKGROUND**

The Los Osos Community Services District (the District), a political subdivision of the State of California, was formed on January 1, 1999, pursuant to Ballot Measure K-98 to provide services previously provided by the County of San Luis Obispo (County) in specific benefit zones of what was formerly County Service Area 9. After formation, the District added solid waste services providing service to all properties in the District. The District operates pursuant to Section 61000 of the California Government Code. Currently authorized to provide Fire Protection, Water, Street Lighting, Wastewater, Solid Waste, Drainage, and Parks and Recreation Services, in December 2013, Solid Waste operations were transferred upon finalization of the bankruptcy. The District operates two community septic collection systems pursuant to the wastewater function. The Parks and Recreation function is currently inactive and the only activity is holding in trust and investing funds representing assessments levied for a community pool more than seven years ago. Discussions on activating this function are on-going and pursuance of this goal will be addressed in the future. The District is governed by a five-member Board of Directors with an operations staff headed by a general manager.

As management of the Los Osos Community Services District, we offer readers of the LOCSGD's financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2014.

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

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

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

**Government-Wide Financial Statements**

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

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

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

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

type activities). The governmental activities of the District include fire protection, parks and recreation, drainage, general government and street lighting. The business-type activities of the District include water, wastewater, and solid waste.

### **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. For future years, the wastewater fund will be treated as a fiduciary category for the accounting of the on-going wastewater assessments.

### **Governmental Funds**

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

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

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

The District maintains six individual governmental funds organized according to their type: general and special revenue. The District does not currently have debt service and capital projects 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 non-major governmental funds (Bayridge, Vista de Oro, Drainage, Parks and Recreation) is provided in the form of combining statements found in the other supplementary information section of this report.

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

### **Proprietary Funds**

There are two types of funds classified as proprietary, namely, enterprise and internal service funds. The District only maintains the enterprise type of proprietary funds. The District uses three enterprise funds to

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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

### **Notes to the Basic Financial Statements**

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

### **Required Supplementary Information**

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

### **Other Supplementary Information**

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

**GOVERNMENT-WIDE FINANCIAL  
STATEMENTS**

**TABLE A  
Statement of Net Position  
June 30, 2014**

	June 30, 2014			June 30, 2013			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	\$ 2,732,808	\$ 2,694,622	\$ 5,427,430	\$ 2,106,461	\$ 5,254,539	\$ 7,361,000	\$ (1,933,570)	-26.3%
Capital assets	870,851	5,773,555	6,644,406	996,671	27,666,267	28,662,938	(22,018,532)	-76.8%
Other non-current assets	-	-	-	-	532,314	532,314	(532,314)	-100.0%
<b>Total Assets</b>	<b>3,603,659</b>	<b>8,468,177</b>	<b>12,071,836</b>	<b>3,103,132</b>	<b>33,453,120</b>	<b>36,556,252</b>	<b>(24,484,416)</b>	<b>-67.0%</b>
<b>Liabilities:</b>								
Current Liabilities	\$ 40,187	\$ 478,525	\$ 518,712	\$ 594,471	\$ 1,157,144	\$ 1,751,615	\$ (1,232,903)	-70.4%
Long-Term Liabilities	37,817	4,433,348	4,471,165	132,414	25,593,549	25,725,963	(21,254,798)	-82.6%
<b>Total Liabilities</b>	<b>78,004</b>	<b>4,911,873</b>	<b>4,989,877</b>	<b>726,885</b>	<b>26,750,693</b>	<b>27,477,578</b>	<b>\$ (22,487,701)</b>	<b>-81.8%</b>
<b>Net Position:</b>								
Net investment in								
capital assets	\$ 870,851	\$ 1,660,660	\$ 2,531,511	\$ 996,671	\$ 2,641,110	\$ 3,637,781	\$ (1,106,270)	-30.4%
Restricted	1,974,313	-	\$ 1,974,313	1,607,668	2,711,646	4,319,314	(2,345,001)	-54.3%
Unrestricted	680,491	1,895,644	\$ 2,576,135	(228,092)	1,354,671	1,126,579	1,449,556	128.7%
<b>Total Net Position</b>	<b>\$ 3,525,655</b>	<b>\$ 3,556,304</b>	<b>\$ 7,081,959</b>	<b>2,376,247</b>	<b>6,707,427</b>	<b>9,083,674</b>	<b>(2,001,715)</b>	<b>-22.0%</b>



MANAGEMENT'S DISCUSSION AND ANALYSIS CONTINUED

**TABLE B**  
**Statement of Activities**  
**June 30, 2014**

	June 30, 2014			June 30, 2013			Total Change
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government	Amount Change
<b>Revenues:</b>							
<b>Program revenues:</b>							
Charges for services	\$ 150,613	\$ 2,203,494	\$ 2,354,107	\$ 777,189	\$ 1,909,101	\$ 2,686,290	\$ (332,183)
Operating Grants and Contributions	7,549	42,023	49,572	62,814	-	62,814	(13,242)
<b>General Revenues:</b>							
Property Taxes	1,651,294	188,431	1,839,725	1,542,643	176,269	1,718,912	120,813
Other Taxes	586,287	14,700	600,987	582,889	1,156,960	1,739,849	(1,138,862)
Interest and Investment Income	2,024	9,584	11,608	5,820	9,174	14,994	(3,386)
Other Revenues	72,602	32,012	104,614	10,304	28,734	39,038	65,576
Sale of Franchise	-	2,800,000	2,800,000	-	-	-	2,800,000
<b>Total Revenues</b>	<b>2,470,369</b>	<b>5,290,244</b>	<b>7,760,613</b>	<b>2,981,659</b>	<b>3,280,238</b>	<b>6,261,897</b>	<b>1,498,716</b>
<b>Expenses:</b>							
General Government as restated	\$ 581,522	\$ -	\$ 581,522	\$ 627,781	\$ -	\$ 627,781	\$ (46,259)
Public Safety	1,997,973	-	1,997,973	2,073,324	-	2,073,324	(75,351)
Health and Sanitation	87,864	-	87,864	149,572	-	149,572	(61,708)
Street Lighting	7,217	-	7,217	6,816	-	6,816	401
Water	-	1,409,252	1,409,252	-	1,670,704	1,670,704	(261,452)
Wastewater Treatment	-	66,988	66,988	-	855,353	855,353	(788,365)
Solid Waste	-	1,680	1,680	-	82,956	82,956	(81,276)
<b>Total Expenses</b>	<b>2,674,576</b>	<b>1,477,920</b>	<b>4,152,496</b>	<b>2,857,493</b>	<b>2,609,013</b>	<b>5,466,506</b>	<b>\$ (1,314,010)</b>
Extraordinary item - Gain (loss) from debt restructuring adjustment	688,167	(19,145,379)	(18,457,212)	-	-	-	\$ (18,457,212)
Net Transfers	\$ 545,699	\$ (545,699)	\$ -	\$ 19,748	\$ (19,748)	\$ -	\$ -
<b>Change in Net Position</b>	<b>1,029,659</b>	<b>(15,878,754)</b>	<b>\$ (14,849,095)</b>	<b>143,914</b>	<b>651,477</b>	<b>795,391</b>	<b>(15,644,486)</b>
Net position, beginning	2,376,247	6,707,427	\$ 9,083,674	2,232,333	6,055,950	8,288,283	795,391
Prior Period Adjustments	119,749	12,727,631	12,847,380	-	-	-	12,847,380
<b>Net Position, ending</b>	<b>\$ 3,525,655</b>	<b>\$ 3,556,304</b>	<b>\$ 7,081,959</b>	<b>2,376,247</b>	<b>6,707,427</b>	<b>9,083,674</b>	<b>(2,001,715)</b>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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

#### **Statement of Net Position**

At the end of fiscal year June 30, 2014, 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, 2014 by \$7,081,959.

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. This debt must be provided from other sources since the Capital Assets themselves cannot be used to liquidate the liabilities.

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 \$2,576,135.

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

#### **Statement of Activities**

Overall, the results of operations as shown in the Statement of Activities has a decrease in Net Position of \$2,001,715. Total revenues increased over the prior year by 24.0% or \$1,498,716. Property taxes increased by \$120,813. This continuing increase is in agreement with the trend in the rest of the County.

Overall expenses in Governmental Activities decreased by a modest \$182,917. This is a result of staff monitoring expenditures and insuring accuracy of reports to various agencies. Total expenses in Business-Type Activities decreased by \$1,131,093. In this case also, staff monitored expenditures very carefully to insure accurate report and tracking of costs. This is also a result of the implementation of the MIP financial software.

The Sale of the Solid Waste Franchise in the amount of \$2,800,000 was recorded in the current fiscal year. This coincided with Class 8 Creditor payments as outlined in the Second Amended Plan as order by the Bankruptcy Court.

Investment Income was down a modest amount of \$3,386. The Board of Director's is considering for future discussion making modifications to the current investments policy of the District.

**TABLE C  
Capital Assets  
June 30, 2014**

	June 30, 2014			June 30, 2013			Total Change
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government	Amount Change
Land and Land Rights	57,375	498,429	555,804	57,375	498,429	\$ 555,804	\$ -
Construction in Progress	-	390,567	390,567	546,720	22,083,506	22,630,226	(22,239,659)
Buildings, Structures, and Improvements	515,116	5,000	520,116	515,116	5,000	520,116	-
Infrastructure	237,756	8,578,174	8,815,930	237,756	8,571,773	8,809,529	6,401
Equipment and Systems	1,466,215	434,172	1,900,387	1,144,226	434,172	1,578,398	321,989
<b>Total Cost</b>	<b>2,276,462</b>	<b>9,906,342</b>	<b>12,182,804</b>	<b>2,501,193</b>	<b>31,592,880</b>	<b>34,094,073</b>	<b>(21,911,269)</b>
Less Accumulated Depreciation	(1,405,611)	(4,132,787)	(5,538,398)	(1,504,522)	(3,926,613)	(5,431,135)	107,263
<b>Net Position, ending</b>	<b>\$ 870,851</b>	<b>\$ 5,773,555</b>	<b>\$ 6,644,406</b>	<b>996,671</b>	<b>27,666,267</b>	<b>28,662,938</b>	<b>(22,018,532)</b>

In fiscal year 2013/14, assets were reconciled to physical inventory. The biggest reclassification was to Construction in Progress for the assets of the Wastewater Fund. The decrease of \$22,018,532 was due to the finalization of the bankruptcy and the write-off of the assets associated with that project.

**TABLE D  
Long-Term Debt  
June 30, 2014**

	June 30, 2014			June 30, 2013			Total Change
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government	Amount Change
Compensated Absences	\$ 31,306	\$ 29,206	\$ 60,512	\$ 31,306	\$ 29,206	\$ 60,512	\$ -
PERS Side Fund	-	-	-	96,456	-	\$ 96,456	(96,456)
Other Post Employment Benefits Obligation	6,511	12,244	18,755	4,652	6,872	\$ 11,524	7,231
Improvement bonds - 2002 Issue	-	-	-	-	14,820,000	\$ 14,820,000	(14,820,000)
Note Payable - CIEDB loan	-	4,112,895	4,112,895	-	4,251,327	4,251,327	(138,432)
Note Payable - CA Resources Control Board	-	-	-	-	6,486,144	6,486,144	(6,486,144)
Loan Payable to Fiduciary Fund	-	279,003	279,003	-	-	-	279,003
<b>Total</b>	<b>\$ 37,817</b>	<b>\$ 4,433,348</b>	<b>\$ 4,471,165</b>	<b>\$ 132,414</b>	<b>\$ 25,593,549</b>	<b>\$ 25,725,963</b>	<b>\$ (21,254,798)</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS CONTINUED)

Long-term debt totals \$4,471,165. The decrease of \$21,254,798 represents principal payments as shown in amortization tables, as well the transfer of the 2002 Wastewater Bonds to a fiduciary fund. The note payable due to the California Resources Control Board of \$6,486,144 is a claim that was filed and settled in Bankruptcy Court and which the State agreed to settle. The last remaining condition was fulfilled when the District's Second Amended Plan was approved by the Bankruptcy Court.

The other debts are discussed fully in Note 6.

### 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 14, 2013 the Second Amended Plan and Settlement Agreement was approved by the Bankruptcy Court. The financial statements for the fiscal year reflect the changes that occurred with the implementation of the Second Amended Plan. Under the Second Amended Plan, the County of San Luis Obispo contributed \$2.8 million and in return the District transferred to the County the Solid Waste function along with its related annual Franchise Fee revenue of approximately \$180,000. The Bankruptcy Order was entered October 15, 2013. The Solid Waste transferred occurred effective December 31, 2013. The Class 8 unsecured creditors were paid on February 7, 2014. The Bankruptcy was discharged by order dated April 3, 2014. The remaining monies of SRF Loan balance of \$1,394,711.65, County funding of \$772,029 and District monies of \$27,971 together with the Solid Waste transfer, funded the total payout of \$4,994,711.65 or forty-one percent of the claim approved by the court.

The Class 5 Secured Claim of MBIA Insurance Corp. arose out of the bonds that were issued by the District to fund part of the old Wastewater Treatment Facility. MBIA was the insurer of those bonds. The Bond indenture required the District to maintain certain bond proceeds in reserve and segregate them (\$1,158,500) to a Debt Service Reserve Fund. The Amended Plan requires the District make \$25,000 payment per year as reimbursement to the Bond Redemption Reserve from the Administrative Charge allowed by the bond documents. The order stated the fund shall be paid \$25,000 per year from the annual assessment overhead charges collected by the County until the Claim is paid in full without interest. Each annual payment will be made by the County at the time the County collects the assessments and makes payments to US Bank. This allows the District to repay according to the Second Amended Plan the balance of the claim of \$450,000 as of October 15, 2013. Analysis and reconciliation in cooperation with US Bank Trustee since that date and through June 30, 2015 reflects a remaining balance due of \$296,834.

The sewer project under the independent management of the County is progressing with a lot of construction activity recently completed 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 Assembly Bill 2701. The transfer involved no remuneration. The project is expected to be completed by spring 2016.

The Bankruptcy Court order as part of the findings that the District create a Disputed Reserve Bank Account. This fund is where the District is required to deposit any monies surrendered by various creditors or funds recouped because of District action. The court order required the District keep the money in a separate account and on deposit until February 7, 2016. At that time any and all funds remaining are the property of the District.

The District received a Proposition 84 grant in the amount of \$645,980 for a nitrate removal project at the Couth Bay Upper Aquifer well site. The contract was awarded to John Madonna Construction Company with an anticipated completion during FY 2014/2015. The District completed the purchases for the Public Education Grant for equipment to enhance the peg channel during this fiscal year. The grant was for \$30,000.

LOS OSOS COMMUNITY SERVICES DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2014

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 2,341,713	\$ 2,315,596	\$ 4,657,309
Accounts receivable, net		347,107	347,107
Interest receivable	540		540
Inventory		31,919	31,919
Restricted assets-			
Cash and investments	356,378		356,378
Prepaid CalPERS side fund	34,177		34,177
Capital assets:			
Non Depreciable:			
Land	57,375	498,429	555,804
Construction in progress		390,567	390,567
Depreciable:			
Buildings, structures, and improvements	515,116	5,000	520,116
Infrastructure	237,756	8,578,174	8,815,930
Plant and equipment	1,466,215	434,172	1,900,387
Accumulated depreciation	(1,405,611)	(4,132,787)	(5,538,398)
Total assets	<u>3,603,659</u>	<u>8,468,177</u>	<u>12,071,836</u>
<b>LIABILITIES</b>			
Accounts payable	37,047	391,415	428,462
Accrued liabilities	3,140	31,332	34,472
Accrued interest payable		52,268	52,268
Deposits		3,510	3,510
Noncurrent liabilities:			
Due within one year	6,540	194,659	201,199
Due in more than one year	31,277	4,238,689	4,269,966
Total liabilities	<u>78,004</u>	<u>4,911,873</u>	<u>4,989,877</u>
<b>NET POSITION</b>			
Net investment in capital assets	870,851	1,660,660	2,531,511
Restricted for:			
Fire and emergency services	304,752		304,752
Equipment replacement	444,045		444,045
Capital outlay	918,838		918,838
Bayridge functions	28,586		28,586
Vista de Oro functions	17,387		17,387
Drainage services	260,705		260,705
Unrestricted	680,491	1,895,644	2,576,135
Total net position	<u>\$ 3,525,655</u>	<u>\$ 3,556,304</u>	<u>\$ 7,081,959</u>

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

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended June 30, 2014

	Expenses	Charges for Services	Program Revenues Operating Contributions and Grants
Governmental activities:			
General government	\$ 581,522	\$ 110	\$
Public safety	1,997,973	77,641	7,549
Health and sanitation	87,864	65,645	
Street lighting	7,217	7,217	
	2,674,576	150,613	7,549
Business-type activities:			
Water	1,409,252	2,158,062	42,023
Refuse	1,680	45,432	
Wastewater treatment project	66,988		
	1,477,920	2,203,494	42,023
Total	\$ 4,152,496	\$ 2,354,107	\$ 49,572

General Revenues:

Taxes:

Property

Special

Other

Investment income

Other general revenues

Sale of franchise

Extraordinary Item:

Gain (loss) from debt restructuring adjustment

Transfers

Total general revenues, extraordinary item, and transfers

Change in net position

Net position - beginning of fiscal year

Prior period adjustments

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
\$ -	\$ (581,412)	\$ -	\$ (581,412)
	(1,912,783)		(1,912,783)
	(22,219)		(22,219)
	(2,516,414)		(2,516,414)
		790,833	790,833
		43,752	43,752
		(66,988)	(66,988)
		767,597	767,597
\$ -	(2,516,414)	767,597	(1,748,817)
	1,651,294	188,431	1,839,725
	586,287		586,287
		14,700	14,700
	2,024	9,584	11,608
	72,602	32,012	104,614
		2,800,000	2,800,000
	688,167	(19,145,379)	(18,457,212)
	545,699	(545,699)	
	3,546,073	(16,646,351)	(13,100,278)
	1,029,659	(15,878,754)	(14,849,095)
	2,376,247	6,707,427	9,083,674
	119,749	12,727,631	12,847,380
	2,495,996	19,435,058	21,931,054
\$	\$ 3,525,655	\$ 3,556,304	\$ 7,081,959

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
 June 30, 2014

	General Fund	Fire Fund	Other Governmental Funds	Totals
<b>ASSETS</b>				
Cash and investments	\$ 700,663	\$ 1,329,376	\$ 311,674	\$ 2,341,713
Restricted cash and investments		51,622	304,756	356,378
Interest receivable		540		540
Due from other funds	1,517			1,517
<b>Total assets</b>	<b>\$ 702,180</b>	<b>\$ 1,381,538</b>	<b>\$ 616,430</b>	<b>\$ 2,700,148</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 16,778	\$ 16,999	\$ 3,270	\$ 37,047
Accrued liabilities	1,271	1,869		3,140
Accrued compensated absences	6,540			6,540
Due to other funds			1,517	1,517
<b>Total liabilities</b>	<b>24,589</b>	<b>18,868</b>	<b>4,787</b>	<b>48,244</b>
Fund Balances:				
Restricted:				
Fire and emergency services		304,752		304,752
Equipment replacement		444,045		444,045
Capital outlay		613,873	304,965	918,838
Bayridge functions			28,586	28,586
Vista de Oro functions			17,387	17,387
Drainage services			260,705	260,705
Assigned:				
Information technology	28,741			28,741
Septic tank maintenance	15,801			15,801
Unassigned	633,049			633,049
<b>Total fund balances</b>	<b>677,591</b>	<b>1,362,670</b>	<b>611,643</b>	<b>2,651,904</b>
<b>Total liabilities and fund balances</b>	<b>\$ 702,180</b>	<b>\$ 1,381,538</b>	<b>\$ 616,430</b>	<b>\$ 2,700,148</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, 2014

Total fund balances - governmental funds	\$	2,651,904	
CalPERS side-fund asset: In governmental funds only current assets are reported.			34,177
<p>In the statement of net position, all assets are reporting including the CalPERS side-fund asset which is the net of the safety plan asset of \$127,053 and the miscellaneous plan liability of \$92,876.</p>			
<p>In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.</p>			
Capital assets at historical cost	\$	2,276,462	
Accumulated depreciation		<u>(1,405,611)</u>	
Net			870,851
<p>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:</p>			
Compensated absences payable	\$	24,766	
Other post employment benefits obligation		<u>6,511</u>	
Total			<u>(31,277)</u>
Total net position - governmental activities	\$		<u><u>3,525,655</u></u>

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, 2014

	General Fund	Fire Fund	Other Governmental Funds	Totals
<b>Revenues:</b>				
Property taxes	\$ -	\$ 1,625,572	\$ 25,722	\$ 1,651,294
Special taxes and assessments		488,606	97,681	586,287
Intergovernmental	(656)	7,549		6,893
Service charges and fees	110		72,862	72,972
Public services fees		66,031		66,031
Use of money and property		1,231	793	2,024
Other	32	12,610	226	12,868
<b>Total revenues</b>	<b>(514)</b>	<b>2,201,599</b>	<b>197,284</b>	<b>2,398,369</b>
<b>Expenditures:</b>				
Personnel	320,191	87,465	41,809	449,465
Clothing and uniforms		3,371		3,371
Contract services	70,891	1,630,890	430	1,702,211
Equipment and tools		35,867	458	36,325
Financial services	8,248	5,040		13,288
Insurance, licenses and regulatory fees	45,574	23,400	8,082	77,056
Legal and professional	67,632	4,812	5,083	77,527
Office expenses	17,496	6,467	198	24,161
Other expenses	1,681	8,122	250	10,053
Rent and utilities	27,640	15,588	22,998	66,226
Repairs and maintenance	14,143	28,050	2,045	44,238
Travel and training	3,093	6,854	13	9,960
Vehicle maintenance and repairs		162	3,802	3,964
Capital outlay		32,487		32,487
<b>Total expenditures</b>	<b>576,589</b>	<b>1,888,575</b>	<b>85,168</b>	<b>2,550,332</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(577,103)</b>	<b>313,024</b>	<b>112,116</b>	<b>(151,963)</b>
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets		72,000		72,000
Transfers in	705,597		20,498	726,095
Transfers out	(25,000)	(103,158)	(52,238)	(180,396)
<b>Total other financing sources (uses)</b>	<b>680,597</b>	<b>(31,158)</b>	<b>(31,740)</b>	<b>617,699</b>
<b>Extraordinary Item:</b>				
Gain (loss) from debt restructuring adjustment	685,171	2,996		688,167
<b>Net change in fund balances</b>	<b>788,665</b>	<b>284,862</b>	<b>80,376</b>	<b>1,153,903</b>
Fund balances - July 1	(103,625)	1,077,808	531,267	1,505,450
Prior period adjustments	(7,449)			(7,449)
Fund balances - July 1, restated	(111,074)	1,077,808	531,267	1,498,001
<b>Fund balances - June 30</b>	<b>\$ 677,591</b>	<b>\$ 1,362,670</b>	<b>\$ 611,643</b>	<b>\$ 2,651,904</b>

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, 2014

Total net change in fund balances - governmental funds	\$ 1,153,903
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 \$32,487 is less than depreciation expense \$(116,485) in the period.	(83,998)
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:	(41,822)
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 used was more than the amounts earned by \$1,859.	(1,859)
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 for the miscellaneous plan and amortization of the asset of the Safety plan. This fiscal year, the amortization of the Safety Plan's asset exceeded the decrease in the Miscellaneous Plan's liability by \$3,435.	<u>3,435</u>
Changes in net position - governmental activities	<u>\$ 1,029,659</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, 2014

	Water Fund	Refuse Fund	Wastewater Treatment Project Fund	Totals
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 2,024,163	\$ 197,049	\$ 94,384	\$ 2,315,596
Accounts receivable, net	347,107			347,107
Inventory at cost	31,919			31,919
Total current assets	<u>2,403,189</u>	<u>197,049</u>	<u>94,384</u>	<u>2,694,622</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation	5,614,965		158,590	5,773,555
Total noncurrent assets	<u>5,614,965</u>		<u>158,590</u>	<u>5,773,555</u>
Total assets	<u>8,018,154</u>	<u>197,049</u>	<u>252,974</u>	<u>8,468,177</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	379,284	2,829	9,302	391,415
Accrued liabilities	31,332			31,332
Accrued interest payable	52,268			52,268
Deposits payable	3,150	360		3,510
Compensated absences - current portion	12,305			12,305
Loan payables - current portion	142,654		39,700	182,354
Total current liabilities	<u>620,993</u>	<u>3,189</u>	<u>49,002</u>	<u>673,184</u>
Noncurrent liabilities:				
Compensated absences	16,901			16,901
OPEB payable	12,244			12,244
Loans payable	3,970,241		239,303	4,209,544
Total noncurrent liabilities	<u>3,999,386</u>		<u>239,303</u>	<u>4,238,689</u>
Total liabilities	<u>4,620,379</u>	<u>3,189</u>	<u>288,305</u>	<u>4,911,873</u>
<b>NET POSITION</b>				
Net investment in capital assets	1,502,070		158,590	1,660,660
Unrestricted (deficit)	1,895,705	193,860	(193,921)	1,895,644
Total net position	<u>\$ 3,397,775</u>	<u>\$ 193,860</u>	<u>\$ (35,331)</u>	<u>\$ 3,556,304</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, 2014

	Water Fund	Refuse Fund	Wastewater Treatment Project Fund	Totals
<b>Operating Revenues:</b>				
Utility	\$ 2,158,062	\$ -	\$ -	\$ 2,158,062
Franchise		45,432		45,432
Total operating revenues	<u>2,158,062</u>	<u>45,432</u>		<u>2,203,494</u>
<b>Operating Expenses:</b>				
Personnel	510,048			510,048
Clothing and uniforms	2,366			2,366
Contract services	53,853			53,853
Equipment and tools	27,125			27,125
Financial services	2,144		6,637	8,781
Insurance, licenses and regulatory fees	36,985		30	37,015
Legal and professional	131,999		60,301	192,300
Office expenses	42,251		20	42,271
Other expenses	12,765			12,765
Rent and utilities	115,744	1,680		117,424
Repairs and maintenance	54,008			54,008
Travel and training	903			903
Vehicle maintenance and repairs	16,136			16,136
Non-capitalized equipment	57,992			57,992
Depreciation	206,384			206,384
Total operating expenses	<u>1,270,703</u>	<u>1,680</u>	<u>66,988</u>	<u>1,339,371</u>
Operating income (loss)	<u>887,359</u>	<u>43,752</u>	<u>(66,988)</u>	<u>864,123</u>
<b>Non-Operating Revenues (Expenses):</b>				
Property taxes and assessments	188,431		14,700	203,131
Investment income	815	283	8,486	9,584
Other non-operating revenue	3,400	1,963	26,839	32,202
Intergovernmental revenues	42,023			42,023
Proceeds from sale of franchise		2,800,000		2,800,000
Loss on disposal of capital assets	(190)			(190)
Interest expense	(138,549)			(138,549)
Total non-operating revenues (expenses)	<u>95,930</u>	<u>2,802,246</u>	<u>50,025</u>	<u>2,948,201</u>
Income (loss) before transfers and extraordinary items	983,289	2,845,998	(16,963)	3,812,324
Transfers in (out)	(892,758)	(2,867,320)	3,214,379	(545,699)
Extraordinary item				
Gain (loss) from debt restructuring adjustment	47,079		(19,192,458)	(19,145,379)
Change in net position	<u>137,610</u>	<u>(21,322)</u>	<u>(15,995,042)</u>	<u>(15,878,754)</u>
Net position - July 1	3,290,705	215,182	3,201,540	6,707,427
Prior period adjustments	(30,540)		12,758,171	12,727,631
Net position - July 1, restated	<u>3,260,165</u>	<u>215,182</u>	<u>15,959,711</u>	<u>19,435,058</u>
Net position - June 30	<u>\$ 3,397,775</u>	<u>\$ 193,860</u>	<u>\$ (35,331)</u>	<u>\$ 3,556,304</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, 2014

	Water Fund	Refuse Fund	Wastewater Treatment Project Fund	Totals
<b>Cash Flows From Operating Activities:</b>				
Receipts from customers	\$ 2,139,053	\$ 50,851	\$ 6,558	\$ 2,196,462
Payments to suppliers	(520,482)	(366)	(91,473)	(612,321)
Payments to employees	(489,603)			(489,603)
Net cash provided (used) by operating activities	<u>1,128,968</u>	<u>50,485</u>	<u>(84,915)</u>	<u>1,094,538</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Acquisition of capital assets	(39,730)			(39,730)
Principal paid on capital debt	(138,432)			(138,432)
Interest paid on capital debt	(140,308)			(140,308)
Net cash provided (used) by capital and related financing activities	<u>(318,470)</u>			<u>(318,470)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Transfers from (to) other funds	(482,758)	(2,867,320)	2,804,379	(545,699)
Property taxes and assessments	193,013		14,700	207,713
Intergovernmental revenues	42,023			42,023
Proceeds from sale of franchise		2,800,000		2,800,000
Debt payment			(14,700)	(14,700)
Other revenue	3,400	1,963	26,839	32,202
Settlement payment			(4,222,683)	(4,222,683)
Net cash provided (used) by noncapital financing activities	<u>(244,322)</u>	<u>(65,357)</u>	<u>(1,391,465)</u>	<u>(1,701,144)</u>
<b>Cash Flows From Investing Activities:</b>				
Interest income	815	283	8,486	9,584
Net cash provided (used) by investing activities	<u>815</u>	<u>283</u>	<u>8,486</u>	<u>9,584</u>
Net increase (decrease) in cash and cash equivalents	<u>566,991</u>	<u>(14,589)</u>	<u>(1,467,894)</u>	<u>(915,492)</u>
Cash and cash equivalents - July 1	1,457,172	211,638	3,167,038	4,835,848
Prior period adjustments			(1,604,760)	(1,604,760)
Cash and cash equivalents - July 1, restated	<u>1,457,172</u>	<u>211,638</u>	<u>1,562,278</u>	<u>3,231,088</u>
Cash and cash equivalents - June 30	<u>\$ 2,024,163</u>	<u>\$ 197,049</u>	<u>\$ 94,384</u>	<u>\$ 2,315,596</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, 2014**

	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)	\$ 887,359	\$ 43,752	\$ (66,988)	\$ 864,123
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation expense	206,384			206,384
Change in assets and liabilities:				
Receivables, net	(1,666)	5,419	6,558	10,311
Prepaid expense	6,329	280		6,609
Accounts payable	27,460	2,829	(24,485)	5,804
Accrued liabilities	15,073			15,073
Deposits	(17,343)	(1,795)		(19,138)
OPEB payable	5,372			5,372
Net cash provided (used) by operating activities	<u>\$ 1,128,968</u>	<u>\$ 50,485</u>	<u>\$ (84,915)</u>	<u>\$ 1,094,538</u>

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

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**FIDUCIARY FUND**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
 June 30, 2014

	Agency Fund
	<u>          </u>
<b>ASSETS</b>	
Cash and investments	\$ 124,044
Cash with fiscal agent	1,512,372
Accrued property taxes receivable	25,424
Loan receivable from District	<u>279,003</u>
Total assets	<u>\$ 1,940,843</u>
<b>LIABILITIES</b>	
Due to bondholders	<u>\$ 1,940,843</u>
Total liabilities	<u>\$ 1,940,843</u>

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



LOS OSOS COMMUNITY SERVICES DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014

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 background, status, and impacts of the bankruptcy filing are discussed in the Note 12.

C. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 65

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of the GASB Statement and the impact on the District's financial statements are explained in Note 13.

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. 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation (Continued)

**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

**Fiduciary Funds**

Fiduciary Funds are as follows:

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

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

**Major Funds**

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

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

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

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

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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

LOS OSOS COMMUNITY SERVICES DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

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

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The fiduciary fund receivables primarily consist of tax assessments.

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.

J. Restricted Assets

Funds that are under the control of external parties are 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the fiscal 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, are deferred and amortized over the life of the bonds using the straight-line method. Amortization of bond premiums or discounts and deferred amounts on refunding are included in interest expense.

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

N. Interfund Transactions

Following is a description of the three 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. Transfers - all interfund transactions which allocate resources from one fund to another fund. These transactions are recorded as 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Equity Classifications (Continued)

*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.

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.

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**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, 2014

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>Percentage Of Portfolio</u>	<u>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

The composition of cash and investments as of June 30, 2014, by fund type is as follows:

	<u>Available for Operations</u>	<u>Restricted</u>	<u>Total</u>
General Fund	\$ 700,663	\$ -	\$ 700,663
Special Revenue Funds	1,641,050	356,378	1,997,428
Proprietary Funds	2,315,596		2,315,596
Fiduciary Funds		1,636,416	1,636,416
	<u>\$ 4,657,309</u>	<u>\$ 1,992,794</u>	<u>\$ 6,650,103</u>

Classification

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

Cash and investments	\$ 4,657,309
Cash and investments - restricted	356,378
Total cash and investments, statement of net position	<u>5,013,687</u>
Cash and investments, statement of fiduciary net position	124,044
Cash and investments with fiscal agents, statement of fiduciary net position	1,512,372
Total cash and investments	<u>\$ 6,650,103</u>



LOS OSOS COMMUNITY SERVICES DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2014

NOTE 2 – CASH AND INVESTMENTS (Continued)

Classification (Continued)

On June 30, 2014, the District had the following cash and investments on hand:

Deposits with financial institutions	\$ 1,877,026
Imprest funds	10,406
Bank time deposits	51,622
State investment pool	979,499
Money market	3,731,550
Total cash and investments	<u>\$ 6,650,103</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, 2014:

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	\$ 51,622	\$ 51,622	\$ -	\$ -	\$ -
LAIF	979,499	979,499			
Money market	2,219,178	2,219,178			
Held by bond trustees:					
Money market	1,512,372	1,512,372			
	<u>\$ 4,762,671</u>	<u>\$ 4,762,671</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations. Presented below is the minimum rating required by (where applicable) the California Government Code, the investment policy, or debt agreements, and the actual rating as of the fiscal year ended June 30, 2014 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	\$ 51,622	N/A	\$ -	\$ -	\$ -	\$ 51,622
LAIF	979,499	N/A				979,499
Money market	2,219,178	N/A		2,219,178		
Held by bond trustees:						
Money market	1,512,372			1,512,372		
	<u>\$ 4,762,671</u>		<u>\$ -</u>	<u>\$ 3,731,550</u>	<u>\$ -</u>	<u>\$ 1,031,121</u>

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

Concentration of Credit Risk

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

The biggest investment of the District is in money market funds, comprising seventy-eight percent (78%) 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 (21%) 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 THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 3 – INTERFUND TRANSACTIONS**

Transfers between funds during the fiscal year ended June 30, 2014, were as follows:

**Interfund Transfers**

<u>Major Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 705,597	\$ 25,000
Fire		103,158
<u>Nonmajor Governmental Funds:</u>		
Bayridge		6,798
Vista de Oro	20,498	
Drainage		45,440
<u>Proprietary Funds:</u>		
Water		892,758
Refuse		2,867,320
Wastewater Treatment Project	3,214,379	
	<u>\$ 3,940,474</u>	<u>\$ 3,940,474</u>

**Due To/Due From**

<u>Major Governmental Fund:</u>	<u>Due To</u>	<u>Due From</u>
General	\$ 1,517	\$ -
<u>Nonmajor Governmental Fund:</u>		
Vista de Oro		1,517
	<u>\$ 1,517</u>	<u>\$ 1,517</u>

**NOTE 4 – CAPITAL ASSETS**

**Governmental activities:**

	<u>Balance at July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance at June 30, 2014</u>
Capital assets not being depreciated					
Land	\$ 57,375	\$ -	\$ -	\$ -	\$ 57,375
Construction in progress	546,720			(546,720)	
Total capital assets not being depreciated	<u>\$ 604,095</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (546,720)</u>	<u>\$ 57,375</u>
Capital assets being depreciated					
Buildings, structures, and improvements	\$ 515,116	\$ -	\$ -	\$ -	\$ 515,116
Infrastructure	237,756				237,756
Plant and equipment	1,144,226	32,487	257,218	546,720	1,466,215
Total capital assets being depreciated	<u>1,897,098</u>	<u>32,487</u>	<u>257,218</u>	<u>546,720</u>	<u>2,219,087</u>
Less accumulated depreciation					
Buildings, structures, and improvements	360,758	18,335			379,093
Infrastructure	209,422	9,789			219,211
Plant and equipment	934,342	88,361	215,396		807,307
Total accumulated depreciation	<u>1,504,522</u>	<u>116,485</u>	<u>215,396</u>		<u>1,405,611</u>
Total capital assets being depreciated, net	<u>\$ 392,576</u>	<u>\$ (83,998)</u>	<u>\$ 41,822</u>	<u>\$ 546,720</u>	<u>\$ 813,476</u>
Net capital assets	<u>\$ 996,671</u>	<u>\$ (83,998)</u>	<u>\$ 41,822</u>	<u>\$ 546,720</u>	<u>\$ 870,851</u>

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

**Business-type activities:**

	Balance at July 1, 2013	Additions	Retirements	Transfers	Balance at June 30, 2014
Capital assets not being depreciated					
Land	\$ 498,429	\$ -	\$ -	\$ -	\$ 498,429
Construction in progress	22,083,506	374,917	22,067,856		390,567
Total capital assets not being depreciated	<u>\$ 22,581,935</u>	<u>\$ 374,917</u>	<u>\$ 22,067,856</u>	<u>\$ -</u>	<u>\$ 888,996</u>
Capital assets being depreciated					
Building and improvements	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Infrastructure	8,571,773	6,801	400		8,578,174
Plant and equipment	434,172				434,172
Total capital assets being depreciated	<u>9,010,945</u>	<u>6,801</u>	<u>400</u>		<u>9,017,346</u>
Less accumulated depreciation					
Building and improvements	5,000				5,000
Infrastructure	3,530,519	196,299	210		3,726,608
Plant and equipment	391,094	10,085			401,179
Total accumulated depreciation	<u>3,926,613</u>	<u>206,384</u>	<u>210</u>		<u>4,132,787</u>
Total capital assets being depreciated, net	<u>\$ 5,084,332</u>	<u>\$ (199,583)</u>	<u>\$ 190</u>	<u>\$ -</u>	<u>\$ 4,884,559</u>
Net capital assets	<u>\$ 27,666,267</u>	<u>\$ 175,334</u>	<u>\$ 22,068,466</u>	<u>\$ -</u>	<u>\$ 5,773,555</u>

**Governmental Activities:**

General administration	\$ 8,368
Public safety	98,328
Health and sanitation	9,789
Total governmental activities depreciation expense	<u>\$ 116,485</u>

**Business-type Activities:**

Water services	\$ 206,384
Total business-type activities depreciation expense	<u>\$ 206,384</u>

**Construction in progress:**

	Balance at June 30, 2014
Governmental activities	\$ -
Business-type activities	390,567
Total construction in progress	<u>\$ 390,567</u>

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 5 – LONG-TERM LIABILITIES**

The following is a summary of changes in the District's long-term liabilities for the fiscal year ended June 30, 2014:

	Balance at July 1, 2013	Additions	Reductions	Prior Period Adjustment	Balance at June 30, 2014	Current Portion	Long Term Portion
<b>Governmental Activities:</b>							
Compensated Absences	\$ 31,306	\$ -	\$ -	\$ -	\$ 31,306	\$ 6,540	\$ 24,766
PERS Side Fund	96,456			(96,456)			
Other Post Employment Benefits Obligation	4,652	1,859			6,511		6,511
<b>Total Governmental Activities</b>	<b>\$ 132,414</b>	<b>\$ 1,859</b>	<b>\$ -</b>	<b>\$ (96,456)</b>	<b>\$ 37,817</b>	<b>\$ 6,540</b>	<b>\$ 31,277</b>
<b>Business-Type Activities:</b>							
Compensated Absences	\$ 29,206	\$ -	\$ -	\$ -	\$ 29,206	\$ 12,305	\$ 16,901
Other Post Employment Benefits Obligation	6,872	5,372			12,244		12,244
<b>Water Fund:</b>							
Notes Payable	4,251,327		138,432		4,112,895	142,654	3,970,241
<b>Wastewater Treatment Project Fund:</b>							
Notes Payable	6,486,144		6,486,144				
Loan Payable to Fiduciary Fund			14,700	293,703	279,003	39,700	239,303
Improvement Bonds (US Bank Trustee)	14,820,000			(14,820,000)			
<b>Total Business-Type Activities</b>	<b>\$ 25,593,549</b>	<b>\$ 5,372</b>	<b>\$ 6,639,276</b>	<b>\$ (14,526,297)</b>	<b>\$ 4,433,348</b>	<b>\$ 194,659</b>	<b>\$ 4,238,689</b>

A description of the long-term liabilities related to governmental activities at June 30, 2014, 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 asset or liability will cause the District required PERS employer contribution rate to be decreased or increased by the amortization of the side fund. The side fund asset for the District's plan as of June 30, 2014, was \$34,177. Other Pension Obligation Benefits are discussed in Note 9.

**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. 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 have been \$915,674. With the approval of the United States Bankruptcy Court on October 9, 2013, the District does not have to pay the interest amount listed above nor pay the principal amount of \$6,486,144. See Note 12 – Contingencies and Commitments for further details.

California Infrastructure and Economic Development Bank

On December 6, 2004, the District entered into a loan agreement with the California Infrastructure and Economic Development Bank (CIEDB) for a principal amount of \$5 million for the purpose of constructing and upgrading water delivery facilities. The loan is for a term of thirty years ending in August 2034 with an interest rate of 3.05% per annum. Annual payments average \$278,000 per year including interest. Debt service payments are due in August and February each year. Water revenues were pledged to guarantee the loan. All projects covered by the loan were completed and closed out in January 2009. The outstanding principal balance of the loan at June 30, 2014, was \$4,112,895.

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 5 – LONG-TERM LIABILITIES (Continued)**

California Infrastructure and Economic Development Bank

For the Year Ending June 30	Principal	Interest	Annual Administrative Fee	Total
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	160,871	104,773	10,547	276,191
2020-2024	881,014	446,039	45,193	1,372,246
2025-2029	1,023,819	301,058	31,148	1,356,025
2030-2034	1,189,770	132,574	14,825	1,337,169
2035	260,167	3,968	782	264,917
Total	<u>\$ 4,112,895</u>	<u>\$ 1,454,436</u>	<u>\$ 149,230</u>	<u>\$ 5,716,561</u>

Loan Payable to Fiduciary Fund

The District used \$714,268 bond reserve funds on September 1, 2006, to cover amounts the District had spent from the bond redemption funds. As part of the bankruptcy settlement, the District is to pay back the reserve fund with its bond administration fee plus \$25,000 annually. As of June 30, 2014, the District owed \$279,003. See Note 13 – Contingencies and Commitments for further details.

**NOTE 6 – 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, 2016, 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.

**NOTE 7 – FIDUCIARY BONDED DEBT – NON DISTRICT DEBT**

Wastewater Improvement Bonds

On November 7, 2002, the District, acting as a trustee for the Los Osos Community Services District Wastewater Assessment District No. 1 property owners, 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. Los Osos Community Services District is not liable to advance any funds from the District Treasury to cover any deficiency in the Bond Redemption Fund. The outstanding principal balance of the bonds at June 30, 2014, was \$14,405,000.

LOS OSOS COMMUNITY SERVICES DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2014

NOTE 7 – FIDUCIARY BONDED DEBT (Continued)

Wastewater Improvement Bonds (Continued)

Wastewater Improvement Bonds			
For the Year Ending June 30	Principal	Interest	Total
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	530,000	613,250	1,143,250
2020-2024	3,075,000	2,630,625	5,705,625
2025-2029	3,920,000	1,760,500	5,680,500
2030-2034	5,005,000	650,125	5,655,125
Total	<u>\$ 14,405,000</u>	<u>\$ 8,353,875</u>	<u>\$ 22,758,875</u>

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 4.84% leaving 2.16% 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, 2014, was 13.256%.

Annual Pension Cost

For the fiscal year ended June 30, 2014, the District paid to CALPERS a total of \$83,354 for its regular contribution of 13.256% 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 2013-14, the contribution rate of 13.256% percent was projected using actuarial valuation done at June 30, 2011.

The assumptions used to determine required contributions in 2013-14 remained the same as in the prior year. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected annual salary increases from 3.30% to 14.20% depending on age, service, and type of employment, (c) 2.75% inflation rate, and (d) 3.00% 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 fifteen-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.

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 8 – EMPLOYEE RETIREMENT BENEFITS (Continued)**

**Defined Benefit Pension Plan (Continued)**

Fiscal Year	Three-Year Trend Information for CALPERS			Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed		
2012	\$ 62,981	100%	\$ -	
2013	\$ 63,558	100%	\$ -	
2014	\$ 83,574	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, 2014, is estimated to be \$38,332. Of this amount, only \$18,755 has been recorded in the books. This liability would be \$95,830 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 478 public agencies participating in the Property/Liability program and 404 agencies in its Workers' Compensation program. SDRMA's audit report for the fiscal year 2013-14 shows it had Net Assets of about \$53 million.

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

**NOTE 11 – SOLID WASTE FRANCHISE SALE**

In the bankruptcy case settlement agreement, the court approved the sale of Los Osos Community Services District's Solid Waste Franchise Agreement to San Luis Obispo County in the amount of \$2,800,000. This amount was required to be used pursuant to the settlement agreement in order to pay the settlements as described in Note 12 – Contingencies and Commitments for further details.



LOS OSOS COMMUNITY SERVICES DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014

NOTE 12 – CONTINGENCIES AND COMMITMENTS

Bankruptcy Case Litigation

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 \$12,181,504.95 in unsecured creditor claims. 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, there was an Order Granting Motion for Order Approving the Second Amended Plan for Adjustment of Debts for the Los Osos Community Services District dated October 22, 2010, as further Amended by Non Material Modifications Pursuant to 11 U.S.C. Sections 942, 943 and 945. The confirmed Plan provided \$4,994,711.65 to satisfy the claims of the unsecured creditors (approximately \$11,395,505) or forty-one percent (41%) pro rata share. The sources of these funds were:

- 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 December 31, 2013, the balance was \$1,394,711.65; and
- Solid Waste Franchise Fee totaling \$27,971; and
- \$2.8 million from San Luis Obispo County; in exchange for the transfer of the Solid Waste Franchise Agreement San Luis Obispo County; and
- Asset transfer of \$772,029 from San Luis Obispo County for sewer pipes that had value left from the original \$22,067,856 in Construction in Progress.

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.

The Amended Plan as stipulated to by all the parties resolves all the lawsuits and claims arising from the District's former Wastewater Project. On December 23, 2013, the District received funding from the County of San Luis Obispo to assist with prorated payment amounts due to the general unsecured Class 8 creditors. On February 7, 2014, the District made payments to the same Class 8 creditors totaling \$4,994,711.65. The Notice of Motion and Motion for Order Closing Case was filed on March 19, 2014. There were no objections filed with respect to the Motion. On April 3, 2014, Judge Robin L. Riblet entered an Order Closing Chapter 9 Case. The settlements payments and the release of former liabilities and assets resulted in the extraordinary gain or loss from debt restructuring of \$680,171 in the General Fund, \$2,996 in the Fire Fund, \$47,079 in the Water Fund and (\$19,185,763) in the Wastewater Treatment Project Fund.

Commitment to Pay into the 2002 Bond Reserve

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

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

Note: In FY 2014/2015 the District in cooperation with US Bank conducted a full audit of this fund from its inception through June 30, 2015. After making the payments for FY 2013/2014, FY 2014/2015 and processing all payments currently held by the LOCSD for prior years, the Reserve balance as of June 30, 2015 is \$861,166. As of June 30, 2015, \$296,834 is still needed to restore the reserve to its required level. For FY 2015/2016 the LOCSD Board authorized a \$12 per parcel administrative charge be included on the San Luis Obispo Tax Rolls as allowed by the bond documents. Consistent with the bankruptcy order these funds are to be used to pay the MBIA claim by making the payments annually to US Bank to restore the fund in the Improvement Bond Reserve.

**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 12 – CONTINGENCIES AND COMMITMENTS (Continued)**

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. The District has two court dates schedule in FY 2015/2016 for resolution of the ISJ.

**NOTE 13 – PRIOR PERIOD ADJUSTMENTS**

A prior period adjustment of (\$7,449) was made which affects the governmental activities and the General Fund to remove an old account receivable balance that was likely already collected in prior years.

A prior period adjustment of \$127,198 was made, in the governmental activities. In prior years, the District did not record the PERS side fund asset for the Safety employees.

A prior period adjustment in the business-type activities of (\$532,314) was made in the proprietary funds statements and the business-type activities to remove unamortized bond issuance costs in accordance with the implementation of GASB Statement No. 65. The adjustment was (\$30,540) in the Water Fund and (\$501,774) in the Wastewater Treatment Project Fund.

A prior period adjustment of \$13,259,945 was made in the business-type activities and the Wastewater Treatment Project Fund to remove the 2002 Wastewater Improvement Bond and all of its related cash, assets and liabilities from the business-type activities. Los Osos Community Services District is not liable to advance any funds from the District Treasury to cover any deficiency in the Bond Redemption Fund and therefore the Bond debt is not a debt of the Los Osos Community Services District.

**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, 2014

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 17,620	\$ -	\$ -	\$ -
Intergovernmental			(656)	(656)
Service charges and fees			110	110
Administrative charges	658,587			
Other			32	32
<b>Total revenues</b>	<b>676,207</b>		<b>(514)</b>	<b>(514)</b>
<b>Expenditures:</b>				
Personnel	325,675	311,835	320,191	(8,356)
Contract services	53,320	61,150	70,891	(9,741)
Financial services		100	8,248	(8,148)
Insurance, licenses and regulatory fees	50,580	46,590	45,574	1,016
Legal and professional	103,400	91,900	67,632	24,268
Office expenses	14,100	15,380	17,496	(2,116)
Other expenses	1,500	1,300	1,681	(381)
Rent and utilities	28,550	28,550	27,640	910
Repairs and maintenance	50	200	14,143	(13,943)
Travel and training	11,700	6,250	3,093	3,157
Capital outlay		14,517		14,517
<b>Total expenditures</b>	<b>588,875</b>	<b>577,772</b>	<b>576,589</b>	<b>1,183</b>
Excess of revenues over (under) expenditures	87,332	(577,772)	(577,103)	669
<b>Other Financing Sources (Uses)</b>				
Transfers in		705,597	705,597	
Transfers out		(25,000)	(25,000)	
<b>Total other financing sources (uses)</b>		<b>680,597</b>	<b>680,597</b>	
<b>Extraordinary Item:</b>				
Gain (loss) from debt restructuring adjustment			685,171	685,171
<b>Net change in fund balance</b>	<b>87,332</b>	<b>102,825</b>	<b>788,665</b>	<b>685,840</b>
Fund balance - July 1	(103,625)	(103,625)	(103,625)	
Prior period adjustment			(7,449)	(7,449)
<b>Fund balance - July 1, restated</b>	<b>(103,625)</b>	<b>(103,625)</b>	<b>(111,074)</b>	<b>(7,449)</b>
<b>Fund balance - June 30</b>	<b>\$ (16,293)</b>	<b>\$ (800)</b>	<b>\$ 677,591</b>	<b>\$ 678,391</b>

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, 2014

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 1,548,060	\$ 1,575,925	\$ 1,625,572	\$ 49,647
Special taxes and assessments	521,410	521,410	488,606	(32,804)
Intergovernmental	4,500	8,000	7,549	(451)
Public services fees	64,890	65,818	66,031	213
Use of money and property		240	1,231	991
Other	10,000	83,135	12,610	(70,525)
<b>Total revenues</b>	<b>2,148,860</b>	<b>2,254,528</b>	<b>2,201,599</b>	<b>(52,929)</b>
<b>Expenditures:</b>				
Personnel	140,035	134,945	87,465	47,480
Clothing and uniforms	3,800	3,000	3,371	(371)
Contract services	1,651,999	1,653,199	1,630,890	22,309
Equipment and tools	42,794	38,699	35,867	2,832
Financial services		5,140	5,040	100
Insurance, licenses and regulatory fees	22,500	25,380	23,400	1,980
Legal and professional	1,400	3,460	4,812	(1,352)
Office expenses	7,750	7,606	6,467	1,139
Other expenses	7,540	8,250	8,122	128
Rent and utilities	17,600	18,700	15,588	3,112
Repairs and maintenance	11,300	10,650	28,050	(17,400)
Travel and training	5,600	4,800	6,854	(2,054)
Vehicle maintenance and repairs			162	(162)
Capital outlay		41,072	32,487	8,585
<b>Total expenditures</b>	<b>1,912,318</b>	<b>1,954,901</b>	<b>1,888,575</b>	<b>66,326</b>
Excess of revenues over (under) expenditures	236,542	299,627	313,024	13,397
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets			72,000	72,000
Transfers out	(107,443)	(103,158)	(103,158)	
<b>Total other financing sources (uses)</b>	<b>(107,443)</b>	<b>(103,158)</b>	<b>(31,158)</b>	<b>72,000</b>
<b>Extraordinary Item:</b>				
Gain (loss) from debt restructuring adjustment			2,996	2,996
<b>Net change in fund balance</b>	<b>129,099</b>	<b>196,469</b>	<b>284,862</b>	<b>88,393</b>
Fund balance - July 1	1,077,808	1,077,808	1,077,808	
<b>Fund balance - June 30</b>	<b>\$ 1,206,907</b>	<b>\$ 1,274,277</b>	<b>\$ 1,362,670</b>	<b>\$ 88,393</b>

LOS OSOS COMMUNITY SERVICES DISTRICT  
 SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFITS  
 OTHER THAN PENSIONS  
 For the Fiscal Year Ended June 30, 2014

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

SCHEDULE OF FUNDING PROGRESS

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

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**SUPPLEMENTARY INFORMATION**



**LOS OSOS COMMUNITY SERVICES DISTRICT**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
 June 30, 2014

	<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	\$ 29,499	\$ 19,160	\$ 262,806	\$ 209	\$ 311,674
Restricted cash and investments				304,756	304,756
<b>Total assets</b>	<u>\$ 29,499</u>	<u>\$ 19,160</u>	<u>\$ 262,806</u>	<u>\$ 304,965</u>	<u>\$ 616,430</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 913	\$ 256	\$ 2,101	\$ -	\$ 3,270
Due to other funds		1,517			1,517
<b>Total liabilities</b>	<u>913</u>	<u>1,773</u>	<u>2,101</u>		<u>4,787</u>
Fund Balances:					
Restricted	28,586	17,387	260,705	304,965	611,643
<b>Total fund balances</b>	<u>28,586</u>	<u>17,387</u>	<u>260,705</u>	<u>304,965</u>	<u>611,643</u>
<b>Total liabilities and fund balances</b>	<u>\$ 29,499</u>	<u>\$ 19,160</u>	<u>\$ 262,806</u>	<u>\$ 304,965</u>	<u>\$ 616,430</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, 2014

	Bayridge	Vista de Oro	Drainage	Parks and Recreation	Total
<b>Revenues:</b>					
Property taxes	\$ 7,412	\$ -	\$ 18,310	\$ -	25,722
Special taxes and assessments			97,681		97,681
Service charges and fees	56,331	16,531			72,862
Use of money and property			60	733	793
Other			226		226
<b>Total revenues</b>	<b>63,743</b>	<b>16,531</b>	<b>116,277</b>	<b>733</b>	<b>197,284</b>
<b>Expenditures:</b>					
Personnel	11,364	12,674	17,771		41,809
Contract services	165	265			430
Equipment and tools	111	111	236		458
Insurance, licenses and regulatory fees	1,230	988	5,864		8,082
Legal and professional	1,250	200	3,633		5,083
Office expenses	30	30	138		198
Other expenses			250		250
Rent and utilities	13,623	6,985	2,390		22,998
Repairs and maintenance	626	49	1,370		2,045
Travel and training			13		13
Vehicle maintenance and repairs	1,152	576	2,074		3,802
Capital outlay					
<b>Total expenditures</b>	<b>29,551</b>	<b>21,878</b>	<b>33,739</b>		<b>85,168</b>
Excess of revenues over (under) expenditures	34,192	(5,347)	82,538	733	112,116
<b>Other Financing Sources (Uses)</b>					
Transfers in		20,498			20,498
Transfers out	(6,798)		(45,440)		(52,238)
<b>Total other financing sources (uses)</b>	<b>(6,798)</b>	<b>20,498</b>	<b>(45,440)</b>		<b>(31,740)</b>
<b>Net change in fund balance</b>	<b>27,394</b>	<b>15,151</b>	<b>37,098</b>	<b>733</b>	<b>80,376</b>
Fund balances - July 1	1,192	2,236	223,607	304,232	531,267
Fund balances - June 30	<u>\$ 28,586</u>	<u>\$ 17,387</u>	<u>\$ 260,705</u>	<u>\$ 304,965</u>	<u>\$ 611,643</u>