



Moss, Levy & Hartzheim LLP

Certified Public Accountants

January 27, 2017

Los Osos Community Services District
2122 9th Street, Suite 102
Los Osos, CA 93402

Attached is a draft copy of your audit for your review. After reviewing and upon your approval, please sign and fax back this letter to our office. We will not finalize the audit until we receive your response, a signed and dated Management Representation Letter (to be prepared by you), a written response from your attorney to the legal representation letter or a letter from you stating that no legal counsel was retained.

Sincerely,

MOSS, LEVY & HARTZHEIM LLP

Moss, Levy & Hartzheim LLP

RESPONSE:

I have reviewed the draft copy of the audit for a Los Osos Community Services District and give my approval.

By: _____

Title: _____

Date: _____

LOS OSOS COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2016**

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LOS OSOS COMMUNITY SERVICES DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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FINANCIAL SECTION

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Moss, Levy & Hartzheim LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Osos Community Services District (District), as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of the Los Osos Community Services District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, the budgetary comparison information on pages 45 and 46, the schedule of funding progress for postemployment benefits on page 47, the schedule of proportionate share of net pension liability on pages 48, and the schedule of pension contributions on pages 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries of the basis financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated xxxxxxxxxxxxxx, 2017, on our consideration of the Los Osos Community Services District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Santa Maria, California
XXXXXXXXXX, 2017

LOS OSOS COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 2,166,502	\$ 1,782,372	\$ 3,948,874
Accounts receivable, net	73,625	365,878	439,503
Deposits		10,000	10,000
Inventory		57,731	57,731
Other assets		900	900
Restricted assets-			
Cash and investments	357,862		357,862
Capital assets:			
Non Depreciable:			
Land	57,375	498,429	555,804
Construction in progress		35,713	35,713
Depreciable:			
Buildings, structures, and improvements	559,936	5,000	564,936
Infrastructure	233,431	9,354,003	9,587,434
Plant and equipment	1,466,215	473,177	1,939,392
Accumulated depreciation	(1,606,407)	(4,568,822)	(6,175,229)
Total assets	<u>3,308,539</u>	<u>8,014,381</u>	<u>11,322,920</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred pensions	59,099	79,396	138,495
Total deferred outflow or resources	<u>59,099</u>	<u>79,396</u>	<u>138,495</u>
LIABILITIES			
Accounts payable	67,145	31,264	98,409
Accrued liabilities	14,225	25,579	39,804
Accrued interest payable		48,587	48,587
Deposits	360	3,150	3,510
Noncurrent liabilities:			
Due within one year	12,237	192,381	204,618
Due in more than one year	348,787	4,350,698	4,699,485
Total liabilities	<u>442,754</u>	<u>4,651,659</u>	<u>5,094,413</u>
DEFERRED INFLOW OF RESOURCES			
Deferred pensions	51,931	80,014	131,945
Total deferred inflow or resources	<u>51,931</u>	<u>80,014</u>	<u>131,945</u>
NET POSITION			
Net investment in capital assets	710,550	1,974,265	2,684,815
Restricted for:			
Fire and emergency services	1,901,425		1,901,425
Equipment replacement			
Capital outlay	305,838		305,838
Bayridge functions	1,175		1,175
Vista de Oro functions			
Drainage services	314,133		314,133
Unrestricted	(360,168)	1,387,839	1,027,671
Total net position	<u>\$ 2,872,953</u>	<u>\$ 3,362,104</u>	<u>\$ 6,235,057</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, 2016

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Contributions and Grants</u>
Governmental activities:			
General government	\$ 659,604	\$ -	\$ -
Public safety	2,284,999	68,514	18,570
Health and sanitation	380,694	60,394	
Street lighting	9,128	9,128	
Total governmental activities	<u>3,334,425</u>	<u>138,036</u>	<u>18,570</u>
Business-type activities:			
Water	1,584,485	1,738,257	1,527
Wastewater treatment project	17,596		
Total business-type activities	<u>1,602,081</u>	<u>1,738,257</u>	<u>1,527</u>
Total governmental	<u>\$ 4,936,506</u>	<u>\$ 1,876,293</u>	<u>\$ 20,097</u>

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General Revenues:

Taxes:

Property

Special

Other

Investment income

Other general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning of fiscal year

Prior period adjustments

Net position - beginning of fiscal year, restated

Net position - end of fiscal year

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

Capital Contributions and Grants	Net (Expenses) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
\$ -	\$ (659,604)	\$ -	\$ (659,604)
	(2,197,915)		(2,197,915)
	(320,300)		(320,300)
	(3,177,819)		(3,177,819)
		155,299	155,299
		(17,596)	(17,596)
		137,703	137,703
<u>\$ -</u>	<u>(3,177,819)</u>	<u>137,703</u>	<u>(3,040,116)</u>
	1,882,664	213,371	2,096,035
	609,570		609,570
		25,000	25,000
	4,407	3,322	7,729
	120,486	56,058	176,544
	577,701	(577,701)	
	3,194,828	(279,950)	2,914,878
	17,009	(142,247)	(125,238)
	2,836,714	3,310,779	6,147,493
	19,230	193,572	212,802
	2,855,944	3,504,351	6,360,295
	<u>\$ 2,872,953</u>	<u>\$ 3,362,104</u>	<u>\$ 6,235,057</u>

LOS OSOS COMMUNITY SERVICES DISTRICT
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 June 30, 2016

	General Fund	Fire Fund	Other Governmental Funds	Totals
ASSETS				
Cash and investments	\$ 45,371	\$ 1,807,063	\$ 314,068	\$ 2,166,502
Restricted cash and investments		52,233	305,629	357,862
Accounts receivable		69,624	4,001	73,625
Due from other funds	11,136			11,136
Total assets	\$ 56,507	\$ 1,928,920	\$ 623,698	\$ 2,609,125
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 41,972	\$ 22,071	\$ 3,102	\$ 67,145
Accrued liabilities	8,801	5,424		14,225
Deposits	360			360
Due to other funds			11,136	11,136
Total liabilities	51,133	27,495	14,238	92,866
Fund Balances:				
Restricted:				
Fire and emergency services		1,901,425		1,901,425
Capital outlay			305,838	305,838
Bayridge functions			1,175	1,175
Drainage services			314,133	314,133
Unassigned	5,374		(11,686)	(6,312)
Total fund balances	5,374	1,901,425	609,460	2,516,259
Total liabilities and fund balances	\$ 56,507	\$ 1,928,920	\$ 623,698	\$ 2,609,125

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, 2016

Total fund balances - governmental funds \$ 2,516,259

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

Capital assets at historical cost	\$	2,316,957
Accumulated depreciation		<u>(1,606,407)</u>

Net 710,550

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

Compensated absences payable	\$	16,316
Other post employment benefits obligation		8,669
Net pension liability		<u>336,039</u>

Total (361,024)

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

7,168

Total net position - governmental activities

\$ 2,872,953

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, 2016

	General Fund	Fire Fund	Other Governmental Funds	Totals
Revenues:				
Property taxes	\$ -	\$ 1,850,510	\$ 32,154	\$ 1,882,664
Special taxes and assessments		516,277	93,293	609,570
Intergovernmental		18,570		18,570
Service charges and fees			69,522	69,522
Public services fees		68,514		68,514
Use of money and property	278	2,924	1,205	4,407
Other	4,260	6,139	110,087	120,486
Total revenues	4,538	2,462,934	306,261	2,773,733
Expenditures:				
Personnel	321,239	159,445	61,855	542,539
Clothing and uniforms		3,016		3,016
Contract services	41,274	1,907,541	981	1,949,796
Equipment and tools	32	41,518	141	41,691
Financial services	3,154	17		3,171
Insurance, licenses, and regulatory fees	28,240	52,780	12,335	93,355
Legal and professional	222,227	5,156	17,208	244,591
Office expenses	13,444	7,415	1,023	21,882
Other expenses	417	3,453		3,870
Rent and utilities	16,327	11,884	21,395	49,606
Repairs and maintenance	113	29,384	269,186	298,683
Travel and training	1,505	3,702	19	5,226
Vehicle maintenance and repairs	671		2,409	3,080
Capital outlay		44,820		44,820
Total expenditures	648,643	2,270,131	386,552	3,305,326
Excess of revenues over (under) expenditures	(644,105)	192,803	(80,291)	(531,593)
Other Financing Sources (Uses):				
Transfers in	643,598	32,989	109,828	786,415
Transfers out	(154,812)		(53,902)	(208,714)
Total other financing sources (uses)	488,786	32,989	55,926	577,701
Net change in fund balances	(155,319)	225,792	(24,365)	46,108
Fund balances - July 1	160,693	1,656,403	633,825	2,450,921
Prior period adjustments		19,230		19,230
Fund balances - July 1, restated	160,693	1,675,633	633,825	2,470,151
Fund balances - June 30	\$ 5,374	\$ 1,901,425	\$ 609,460	\$ 2,516,259

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, 2016

Total net change in fund balances - governmental funds	\$ 46,108
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 \$44,820 is less than depreciation expense \$(88,216) in the period.	(43,396)
In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, vacation used exceeded the amounts earned by \$1,981 of which (\$4,574) was due to the change in the long-term portion.	(2,593)
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:	(1,988)
In the statement of activities, postemployment benefits are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, benefits earned exceeded the amounts used by \$2,511.	(2,511)
In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:	<u>21,389</u>
Changes in net position - governmental activities	<u>\$ 17,009</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, 2016

	Water Fund	Wastewater Treatment Project Fund	Totals
ASSETS			
Current assets:			
Cash and investments	\$ 1,767,489	\$ 14,883	\$ 1,782,372
Accounts receivable, net	359,892		359,892
Accrued revenue receivables	5,986		5,986
Deposits	10,000		10,000
Inventory at cost	57,731		57,731
Other assets	900		900
Total current assets	<u>2,201,998</u>	<u>14,883</u>	<u>2,216,881</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	5,638,910	158,590	5,797,500
Total noncurrent assets	<u>5,638,910</u>	<u>158,590</u>	<u>5,797,500</u>
Total assets	<u>7,840,908</u>	<u>173,473</u>	<u>8,014,381</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pensions	79,396		79,396
Total deferred outflows of resources	<u>79,396</u>		<u>79,396</u>
LIABILITIES			
Current liabilities:			
Accounts payable	27,264	4,000	31,264
Accrued liabilities	25,579		25,579
Accrued interest payable	48,587		48,587
Deposits payable	3,150		3,150
Compensated absences - current portion	15,892		15,892
Loan payables - current portion	151,489	25,000	176,489
Total current liabilities	<u>271,961</u>	<u>29,000</u>	<u>300,961</u>
Noncurrent liabilities:			
Compensated absences	47,674		47,674
OPEB payable	37,936		37,936
Loans payable	3,671,746	247,334	3,919,080
Net pension liability	346,008		346,008
Total noncurrent liabilities	<u>4,103,364</u>	<u>247,334</u>	<u>4,350,698</u>
Total liabilities	<u>4,375,325</u>	<u>276,334</u>	<u>4,651,659</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	80,014		80,014
Total deferred inflows of resources	<u>80,014</u>		<u>80,014</u>
NET POSITION			
Net investment in capital assets	1,815,675	158,590	1,974,265
Unrestricted (deficit)	1,649,290	(261,451)	1,387,839
Total net position	<u>\$ 3,464,965</u>	<u>\$ (102,861)</u>	<u>\$ 3,362,104</u>

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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, 2016

	Water Fund	Wastewater Treatment Project Fund	Totals
Operating Revenues:			
Utility	\$ 1,738,257	\$ -	\$ 1,738,257
Total operating revenues	<u>1,738,257</u>	<u>-</u>	<u>1,738,257</u>
Operating Expenses:			
Personnel	582,848		582,848
Clothing and uniforms	1,837		1,837
Contract services	64,207		64,207
Equipment and tools	20,497		20,497
Financial services		54	54
Insurance, licenses and regulatory fees	50,922	2,104	53,026
Legal and professional	226,507	15,438	241,945
Office expenses	40,402		40,402
Other expenses	10,209		10,209
Rent and utilities	142,326		142,326
Repairs and maintenance	25,474		25,474
Travel and training	1,756		1,756
Vehicle maintenance and repairs	9,261		9,261
Non-capitalized equipment	22,946		22,946
Depreciation	256,400		256,400
Total operating expenses	<u>1,455,592</u>	<u>17,596</u>	<u>1,473,188</u>
Operating income (loss)	<u>282,665</u>	<u>(17,596)</u>	<u>265,069</u>
Non-Operating Revenues (Expenses):			
Property taxes and assessments	213,371	25,000	238,371
Investment income	3,221	101	3,322
Other non-operating revenue	56,058		56,058
Intergovernmental revenues	1,527		1,527
Interest expense	(128,893)		(128,893)
Total non-operating revenues (expenses)	<u>145,284</u>	<u>25,101</u>	<u>170,385</u>
Income before transfers	427,949	7,505	435,454
Transfers in (out)	(562,678)	(15,023)	(577,701)
Change in net position	<u>(134,729)</u>	<u>(7,518)</u>	<u>(142,247)</u>
Net position (deficit) - July 1	3,411,621	(100,842)	3,310,779
Prior period adjustments	188,073	5,499	193,572
Net position (deficit) - July 1, restated	<u>3,599,694</u>	<u>(95,343)</u>	<u>3,504,351</u>
Net position (deficit) - June 30	<u>\$ 3,464,965</u>	<u>\$ (102,861)</u>	<u>\$ 3,362,104</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, 2016

	Water Fund	Wastewater Treatment Project Fund	Totals
Cash Flows From Operating Activities:			
Receipts from customers	\$ 1,771,703	\$ -	\$ 1,771,703
Payments to suppliers	(753,525)	(12,928)	(766,453)
Payments to employees	(570,629)		(570,629)
Net cash provided (used) by operating activities	<u>447,549</u>	<u>(12,928)</u>	<u>434,621</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition of capital assets	(32,463)		(32,463)
Principal paid on capital debt	(147,005)		(147,005)
Interest paid on capital debt	(130,761)		(130,761)
Net cash provided (used) by capital and related financing activities	<u>(310,229)</u>		<u>(310,229)</u>
Cash Flows from Noncapital Financing Activities:			
Transfers from (to) other funds	(562,678)	(15,023)	(577,701)
Property taxes and assessments	212,527	25,000	237,527
Intergovernmental revenues	1,527		1,527
Debt payment		(25,000)	(25,000)
Other revenue	14,058		14,058
Net cash provided (used) by noncapital financing activities	<u>(334,566)</u>	<u>(15,023)</u>	<u>(349,589)</u>
Cash Flows From Investing Activities:			
Interest income	3,221	101	3,322
Net cash provided (used) by investing activities	<u>3,221</u>	<u>101</u>	<u>3,322</u>
Net increase (decrease) in cash and cash equivalents	(194,025)	(27,850)	(221,875)
Cash and cash equivalents - July 1	1,961,514	42,733	2,004,247
Cash and cash equivalents - June 30	<u>\$ 1,767,489</u>	<u>\$ 14,883</u>	<u>\$ 1,782,372</u>
Reconciliation to Statement of Net Position:			
Cash and investments	<u>\$ 1,767,489</u>	<u>\$ 14,883</u>	<u>\$ 1,782,372</u>

(Continued)

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS (Continued)
 For the Fiscal Year Ended June 30, 2016

	Water Fund	Wastewater Treatment Project Fund	Totals
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 282,665	\$ (17,596)	\$ 265,069
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation expense	256,400		256,400
Change in assets, liabilities, deferred inflows of resources, and deferred outflows of resources:			
Receivables, net	33,446		33,446
Inventories	(57,731)		(57,731)
Other assets	(900)		(900)
Deferred outflows	(12,510)		(12,510)
Accounts payable	(78,550)	4,668	(73,882)
Accrued liabilities	17,153		17,153
Compensated absences	7,553		7,553
OPEB payable	10,984		10,984
Net pension liability	4,553		4,553
Deferred inflows	(15,514)		(15,514)
Net cash provided (used) by operating activities	\$ 447,549	\$ (12,928)	\$ 434,621

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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, 2016

	Agency Fund
	<u> </u>
ASSETS	
Cash and investments	\$ 106,670
Cash with fiscal agent	1,739,381
Accrued property taxes receivable	24,813
Loan receivable from District	<u>272,334</u>
Total assets	<u><u>\$ 2,143,198</u></u>
LIABILITIES	
Due to bondholders	<u>\$ 2,143,198</u>
Total liabilities	<u><u>\$ 2,143,198</u></u>

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LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

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

B. Basis of Presentation

Fund Financial Statements:

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

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

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

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

Proprietary Funds

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

Proprietary Funds are as follows:

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

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Fiduciary Funds

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

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

Major Funds

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

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting

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

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

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

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

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

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

D. Property Taxes

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

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

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

LOS OSOS COMMUNITY SERVICES DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property Taxes (Continued)

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

E. Cash and Investments

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

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

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

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

F. Accounts and Interest Receivable

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

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

G. Prepaid Expenses and Inventory

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

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

H. Restricted Assets

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

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

Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

J. Accumulated Compensated Absences

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

K. Long-Term Liabilities

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

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Deferred Outflows and Inflows of Resources

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

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

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

M. Interfund Transactions

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

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

N. Equity Classifications

Government-Wide Statements

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

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

O. Future Accounting Pronouncements

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

Statement No. 74	"Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans"	The provisions of this statement are effective for fiscal years beginning after June 15, 2016.
Statement No. 75	"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 77	"Tax Abatement Disclosures"	The provisions of this statement are effective for fiscal years beginning after December 15, 2015.

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

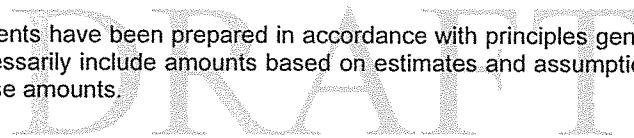
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Future Accounting Pronouncements (Continued)

Statement No. 78	"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"	The provisions of this statement are effective for fiscal years beginning after December 15, 2015.
Statement No. 79	"Certain External Investment Pools and Pool Participants"	The provisions of this statement are effective for fiscal years beginning after December 15, 2015.
Statement No. 80	"Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14"	The provisions of this statement are effective for fiscal years beginning after June 15, 2016.
Statement No. 81	"Irrevocable Split-Interest Agreements"	The provisions of this statement are effective for fiscal years beginning after December 15, 2016.
Statement No. 82	"Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

P. Use of Estimates

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



NOTE 2 – CASH AND INVESTMENTS

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

Investments of the District as of June 30, 2016

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

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

The composition of cash and investments as of June 30, 2016, by fund type is as follows:

	Available for Operations	Restricted	Total
General Fund	\$ 45,371	\$ -	\$ 45,371
Special Revenue Funds	2,121,131	357,862	2,478,993
Proprietary Funds	1,782,372		1,782,372
Fiduciary Funds		1,846,051	1,846,051
	<u>\$ 3,948,874</u>	<u>\$ 2,203,913</u>	<u>\$ 6,152,787</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	\$ 3,948,874
Cash and investments - restricted	357,862
Total cash and investments, statement of net position	<u>4,306,736</u>
Cash and investments, statement of fiduciary net position	106,670
Cash and investments with fiscal agents, statement of fiduciary net position	1,739,381
Total cash and investments	<u>\$ 6,152,787</u>

On June 30, 2016, the District had the following cash and investments on hand:

Deposits with financial institutions	\$ 1,616,855
Imprest funds	10,972
Bank time deposits	52,006
State investment pool	635,395
Money market	3,837,559
Total cash and investments	<u>\$ 6,152,787</u>

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

Disclosure Relating to Interest Rate Risk

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosure Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2016:

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Bank time deposits	\$ 52,006	\$ 52,006	\$ -	\$ -	\$ -
LAIF	635,395	635,395			
Money market	2,098,178	2,098,178			
Held by bond trustees:					
Money market	1,739,381	1,739,381			
	<u>\$ 4,524,960</u>	<u>\$ 4,524,960</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, 2016 for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	Aa	Not Rated
Bank time deposits	\$ 52,006	N/A	\$ -	\$ -	\$ -	\$ 52,006
LAIF	635,395	N/A				635,395
Money market	2,098,178	N/A		2,098,178		
Held by bond trustees:						
Money market	1,739,381			1,739,381		
	<u>\$ 4,524,960</u>		<u>\$ -</u>	<u>\$ 3,837,559</u>	<u>\$ -</u>	<u>\$ 687,401</u>

Concentration of Credit Risk

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

The biggest investment of the District is in money market funds, comprising seventy-nine percent (79%) 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 twenty percent (20%) of all invested funds. This fund is not registered with the Securities and State Commission as an investment company but is required to invest according to California State Code. The fund is under the oversight of the Treasurer of the State of California through the Local Investment Advisory Board that consists of five members as designated by statute. Market valuation is conducted quarterly by the State Treasurer's office. In addition, it also conducts a monthly fair market valuation of all securities held against carrying costs. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based on the District's pro-rata share of the fair value of the entire portfolio net of any amortized costs as provided by LAIF.

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk (Continued)

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

Custodial Credit Risk

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

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

NOTE 3 – INTERFUND TRANSACTIONS

Transfers between funds during the fiscal year ended June 30, 2016, were as follows:

Interfund Transfers:

<u>Major Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 643,598	\$ 154,812
Fire	32,989	
<u>Nonmajor Governmental Funds:</u>		
Bayridge	109,828	
Vista de Oro		10,819
Drainage		43,083
<u>Proprietary Funds:</u>		
Water		562,678
Wastewater Treatment Plant		15,023
	<u>\$ 786,415</u>	<u>\$ 786,415</u>

Due To/Due From:

<u>Major Governmental Fund:</u>	<u>Due From</u>	<u>Due To</u>
General	\$ 11,136	\$ -
<u>Nonmajor Governmental Fund:</u>		
Vista de Oro		11,136
	<u>\$ 11,136</u>	<u>\$ 11,136</u>

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 4 – CAPITAL ASSETS

Governmental activities:

	Balance at July 1, 2015	Additions	Retirements	Balance at June 30, 2016
Capital assets not being depreciated				
Land	\$ 57,375	\$ -	\$ -	\$ 57,375
Total capital assets not being depreciated	\$ 57,375	\$ -	\$ -	\$ 57,375
Capital assets being depreciated				
Buildings, structures, and improvements	\$ 515,116	\$ 44,820	\$ -	\$ 559,936
Infrastructure	237,756		(4,325)	233,431
Plant and equipment	1,466,215			1,466,215
Total capital assets being depreciated	2,219,087	44,820	(4,325)	2,259,582
Less accumulated depreciation				
Buildings, structures, and improvements	397,428	19,456		416,884
Infrastructure	226,214	3,270	(2,337)	227,147
Plant and equipment	896,886	65,490		962,376
Total accumulated depreciation	1,520,528	88,216	(2,337)	1,606,407
Total capital assets being depreciated, net	\$ 698,559	\$ (43,396)	\$ (1,988)	\$ 653,175
Net capital assets	\$ 755,934	\$ (43,396)	\$ (1,988)	\$ 710,550

Business-type activities:

	Balance at July 1, 2015	Additions	Retirements	Prior Period Adjustment	Balance at June 30, 2016
Capital assets not being depreciated					
Land	\$ 498,429	\$ -	\$ -	\$ -	\$ 498,429
Construction in progress	624,179	32,463	(620,929)		35,713
Total capital assets not being depreciated	\$ 1,122,608	\$ 32,463	\$ (620,929)	\$ -	\$ 534,142
Capital assets being depreciated					
Building and improvements	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Infrastructure	8,578,174	620,929		154,900	9,354,003
Plant and equipment	504,324			(31,147)	473,177
Total capital assets being depreciated	9,087,498	620,929		123,753	9,832,180
Less accumulated depreciation					
Building and improvements	5,000				5,000
Infrastructure	3,922,906	231,451		10,927	4,165,284
Plant and equipment	425,295	24,949		(51,706)	398,538
Total accumulated depreciation	4,353,201	256,400		(40,779)	4,568,822
Total capital assets being depreciated, net	\$ 4,734,297	\$ 364,529	\$ -	\$ 164,532	\$ 5,263,358
Net capital assets	\$ 5,856,905	\$ 396,992	\$ (620,929)	\$ 164,532	\$ 5,797,500

Governmental Activities:

General administration	\$ 8,368
Public safety	76,578
Health and sanitation	3,270
Total governmental activities depreciation expense	\$ 88,216

Business-type Activities:

Water services	\$ 256,400
Total business-type activities depreciation expense	\$ 256,400

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

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, 2016:

	Balance at July 1, 2015	Additions	Reductions	Balance at June 30, 2016	Current Portion	Long Term Portion
Governmental Activities:						
Compensated Absences	\$ 18,297	\$ 4,832	\$ 6,813	\$ 16,316	\$ 12,237	\$ 4,079
Other Post Employment Benefits Obliga	6,158	6,092	3,581	8,669		8,669
Net Pension Liability	279,555	146,170	89,686	336,039		336,039
Total Governmental Activities	\$ 304,010	\$ 157,094	\$ 100,080	\$ 361,024	\$ 12,237	\$ 348,787
Business-Type Activities:						
Compensated Absences	\$ 56,013	\$ 28,694	\$ 21,141	\$ 63,566	\$ 15,892	\$ 47,674
Other Post Employment Benefits Obliga	26,952	12,591	1,607	37,936		37,936
Water Fund:						
Loan Payable	3,970,240		147,005	3,823,235	151,489	3,671,746
Wastewater Treatment Project Fund:						
Loan Payable to Fiduciary Fund	297,334		25,000	272,334	25,000	247,334
Net Pension Liability	341,455	150,507	145,954	346,008		346,008
Total Business-Type Activities	\$ 4,691,994	\$ 191,792	\$ 340,707	\$ 4,543,079	\$ 192,381	\$ 4,350,698

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NOTE 6 – LOANS PAYABLE

California Infrastructure and Economic Development Bank

On December 6, 2004, the District entered into a loan agreement with the California Infrastructure and Economic Development Bank (CIEDB) for a principal amount of \$5 million for the purpose of constructing and upgrading water delivery facilities. The loan is for a term of thirty years ending in August 2034 with an interest rate of 3.05% per annum. Annual payments average \$278,000 per year including interest. Debt service payments are due in August and February each year. Water revenues were pledged to guarantee the loan. All projects covered by the loan were completed and closed out in January 2009. The outstanding principal balance of the loan at June 30, 2016, was \$3,823,235.

For the Fiscal Year Ending June 30	California Infrastructure and Economic Development Bank			
	Principal	Interest	Annual Administrative Fee	Total
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	165,777	99,792	10,064	275,633
2021	170,834	94,659	9,567	275,060
2022-2026	935,575	390,646	39,826	1,366,047
2027-2031	1,087,225	236,684	24,912	1,348,821
2032-2035	995,358	61,858	7,579	1,064,795
Total	\$ 3,823,235	\$ 1,212,317	\$ 124,980	\$ 5,160,532

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, 2016, the District owed \$272,334. See Note 12 – Contingencies and Commitments for further details.

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 7 – PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions

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

Benefits Provided

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

Contribution rates are based on the Actuarial Valuation Report as of June 30, 2013. The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
	Classic Member Hired Prior to January 1, 2013*	New Member Hired On or after January 1, 2013
Hire Date		
Benefit formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.46% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.50%
Required employer contribution rates	9.353%	6.73%

	Safety	
	Classic Member Hired Prior to January 1, 2013*	New Member Hired On or after January 1, 2013
Hire Date		
Benefit formula	2% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	50-57
Monthly benefits, as a % of eligible compensation	2.0-2.7%	2.0% to 2.7%
Required employee contribution rates	9%	12.25%
Required employer contribution rates	15.373%	11.92%

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 7 – PENSION PLANS (Continued)

A. General Information about the Pension Plans (Continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$98,670 for the Safety Plan and \$10,520 for the Miscellaneous Plan for the fiscal year ended June 30, 2016.

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

At June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net position liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 453,586
Safety	228,461
	<u>\$ 682,047</u>

The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2015, the District's proportionate share of the net pension liability for each Plan as of June 30, 2014 and June 30, 2015 was as follows:

	Miscellaneous	Safety
Proportion-June 30, 2015	0.00731%	0.00267%
Proportion-June 30, 2016	0.00661%	0.00333%
Change-Increase (Decrease)	-0.00070%	0.00066%

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$73,084. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 109,190	\$ -
Changes in assumptions		(44,555)
Differences between expected and actual experience	4,292	
Net difference between projected and actual earnings on retirement plan investments		(22,344)
Adjustment due to differences in proportion	14,483	(65,046)
Changes in proportion and differences between District contributions and proportionate share of contributions	10,530	
	<u>\$ 138,495</u>	<u>\$ (131,945)</u>

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 7 – PENSION PLANS (Continued)

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

\$109,190 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

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

Fiscal year ending June 30,	Amount
2017	\$ (43,876)
2018	(44,860)
2019	(42,431)
2020	28,527
	<u>\$ (102,640)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous	Safety
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3%	3%
Projected Salary Increase	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return (1)	7.50%	7.50%
Mortality	Derived using CalPERS' Membership Data for all Funds (1)	Derived using CalPERS' Membership Data for all Funds (1)

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

Change of Assumptions

GASB 68, paragraph 68 states that the long term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expenses. The discount rate was changed from 7.50% (net of administrative expenses in 2014) to 7.65% as of June 30, 2015 to correct the adjustment which previously reduced the discount rate for administrative expenses.

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 7 – PENSION PLANS (Continued)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

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

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 7 – PENSION PLANS (Continued)

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

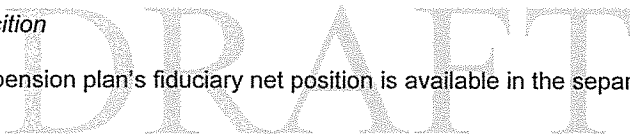
Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rate

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

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.65%	6.65%
Net Pension Liability	\$ 760,695	\$ 366,301
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 453,586	\$ 228,461
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 200,032	\$ 115,434

Pension Plan Fiduciary Net Position

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



C. Payable to the Pension Plan

At June 30, 2016, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2016.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (Continued)

Annual required Contribution	\$ 18,707
Interest on net OPEB obligation	1,159
Adjustment to annual required contribution	<u>(1,183)</u>
Annual OPEB cost (expense)	18,683
Contributions made	<u>5,188</u>
Increase in net OPEB obligation	13,495
Net OPEB obligation - beginning of fiscal year	<u>33,110</u>
Net OPEB obligation - end of fiscal year	<u><u>\$ 46,605</u></u>

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

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

Funding Status and Funding Progress

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

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

Methods and Assumptions

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

The following simplifying assumptions were made:

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

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

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (Continued)

Methods and Assumptions (Continued)

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

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

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

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

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

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

Plan for Funding

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

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Required Supplementary Information: Schedule of Funding Progress

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

NOTE 9 – OPERATING LEASES

The District has commitments to lease certain office equipment and facilities. The District leases its administrative facilities for \$2,000 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.

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 10 – FIDUCIARY BONDED DEBT – NON-DISTRICT DEBT

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

Wastewater Improvement Bonds

Wastewater Improvement Bonds			
For the Fiscal Year Ending June 30	Principal	Interest	Total
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	555,000	586,125	1,141,125
2021	585,000	557,625	1,142,625
2022-2026	3,390,000	2,307,500	5,697,500
2027-2031	4,320,000	1,348,750	5,668,750
2032-2034	3,150,000	241,250	3,391,250
Total	<u>\$ 13,515,000</u>	<u>\$ 6,957,375</u>	<u>\$ 20,472,375</u>

NOTE 11 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, property loss and damage, errors and omissions, and employee injury. The District carries all its insurance coverage over these risks and also for Workers' Compensation through the Special Districts Risk Management Authority (SDRMA). This agency is a Joint Powers Authority (JPA) consisting of special districts in the State of California. It is governed by a seven-member Board of Directors. All seven are elected at large from the membership to serve four year terms. It has about 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 2014-15 shows it had Net Assets of about \$48.7 million.

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

NOTE 12 – CONTINGENCIES AND COMMITMENTS

Commitment to Pay into the 2002 Bond Reserve

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

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

Note: In FY 2014/2015 the District in cooperation with US Bank conducted a full audit of this fund from its inception through June 30, 2015. After making the payments for FY 2013/2014, FY 2014/2015, and processing all payments currently held by the LOCSD for prior years, the Reserve balance as of June 30, 2015 is \$861,166. As of June 30, 2015, \$297,334 is still needed to restore the reserve to its required level. For FY 2015/2016 the LOCSD Board authorized a \$12 per parcel administrative charge be included on the San Luis Obispo Tax Rolls as allowed by the bond documents. Consistent with the bankruptcy order these funds are to be used to pay the MBIA claim by making the payments annually to US Bank to restore the fund in the Improvement Bond Reserve.

Other Commitments

In September 2007, the District entered into an Interlocutory Stipulated Judgment (ISJ) with three other water purveyors in the community. The judgment was intended to provide a coordinated effort of all parties to manage the water basin by first preparing a comprehensive plan to address deficiencies that threaten the long-term viability of the water basin. The judgment provided for an equitable sharing of costs. The District's share is thirty-nine percent (39%). The District is current on this commitment which is funded in its annual budget. The District has two court dates schedule in FY 2015/2016 for resolution of the ISJ.

LOS OSOS COMMUNITY SERVICES DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 13 – PRIOR PERIOD ADJUSTMENTS

	Statement of Activities		Fund Statements	
	Governmental Activities	Business-type Activities	Governmental Funds	Proprietary Funds
Governmental Funds:				
Fire Fund				
Difference between the amount recorded as accounts receivable/payable in prior fiscal year and the actual amount received/paid in the current fiscal year.	\$ 19,230	\$ -	\$ 19,230	\$ -
Proprietary Funds:				
Water Fund				
Remove accrued liabilities from previous fiscal year.		23,541		23,541
Adjust capital assets to inventoried list performed during the fiscal year.		164,532		164,532
Wastewater Treatment Project Fund				
Correct an expenditure that was improperly expensed in the previous fiscal year.		5,499		5,499
	<u>\$ 19,230</u>	<u>\$ 193,572</u>	<u>\$ 19,230</u>	<u>\$ 193,572</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ 278	\$ 278
Other			4,260	4,260
Total revenues			4,538	4,538
Expenditures:				
Personnel	332,562	332,562	321,239	11,323
Contract services	45,200	45,200	41,274	3,926
Equipment and tools			32	(32)
Financial services	2,000	2,000	3,154	(1,154)
Insurance, licenses, and regulatory fees	39,175	39,175	28,240	10,935
Legal and professional	94,100	94,100	222,227	(128,127)
Office expenses	19,400	19,400	13,444	5,956
Other expenses			417	(417)
Rent and utilities	36,464	36,464	16,327	20,137
Repairs and maintenance	300	300	113	187
Travel and training	5,500	5,500	1,505	3,995
Capital outlay	5,000	5,000		5,000
Total expenditures	579,701	579,701	648,643	(68,942)
Excess of revenues over (under) expenditures	(579,701)	(579,701)	(644,105)	(64,404)
Other Financing Sources (Uses)				
Transfers in	579,701	579,701	643,598	63,897
Transfers out			(154,812)	(154,812)
Total other financing sources (uses)	579,701	579,701	488,786	(90,915)
Net change in fund balance			(155,319)	(155,319)
Fund balance - July 1	160,693	160,693	160,693	
Fund balance - June 30	\$ 160,693	\$ 160,693	\$ 5,374	\$ (155,319)

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, 2016

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Property taxes	\$ 1,760,766	\$ 1,760,766	\$ 1,850,510	\$ 89,744
Special taxes and assessments	532,329	532,329	516,277	(16,052)
Intergovernmental	15,119	15,119	18,570	3,451
Public services fees	71,134	71,134	68,514	(2,620)
Use of money and property			2,924	2,924
Other			6,139	6,139
Total revenues	2,379,348	2,379,348	2,462,934	83,586
Expenditures:				
Personnel	174,735	174,735	159,445	15,290
Clothing and uniforms	4,500	4,500	3,016	1,484
Contract services	1,905,453	1,905,453	1,907,541	(2,088)
Equipment and tools	42,071	42,071	41,518	553
Financial services	100	100	17	83
Insurance, licenses, and regulatory fees	23,300	23,300	52,780	(29,480)
Legal and professional	2,040	2,040	5,156	(3,116)
Office expenses	9,570	9,570	7,415	2,155
Other expenses	1,800	1,800	3,453	(1,653)
Rent and utilities	13,532	13,532	11,884	1,648
Repairs and maintenance	11,750	11,750	29,384	(17,634)
Travel and training	6,857	6,857	3,702	3,155
Capital outlay	20,000	20,000	44,820	(24,820)
Total expenditures	2,215,708	2,215,708	2,270,131	(54,423)
Excess of revenues over (under) expenditures	163,640	163,640	192,803	29,163
Other Financing Sources (Uses)				
Transfers out	(110,306)	(110,306)	32,989	143,295
Total other financing sources (uses)	(110,306)	(110,306)	32,989	143,295
Net change in fund balance	53,334	53,334	225,792	172,458
Fund balance - July 1	1,656,403	1,656,403	1,656,403	
Prior period adjustment			19,230	19,230
Fund balance - July 1, restated	1,656,403	1,656,403	1,675,633	19,230
Fund balance - June 30	\$ 1,709,737	\$ 1,709,737	\$ 1,901,425	\$ 191,688

LOS OSOS COMMUNITY SERVICES DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFITS
 OTHER THAN PENSIONS
 For the Fiscal Year Ended June 30, 2016

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

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LOS OSOS COMMUNITY SERVICES DISTRICT
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 Last 10 Years*
 As of June 30, 2016

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

	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.00994%	0.00998%
Proportionate share of the net pension liability	\$ 682,047	\$ 621,010
Covered- employee payroll	\$ 413,539	\$ 413,539
Proportionate share of the net pension liability as percentage of covered-employee payroll	164.93%	150.17%
Plan's total pension liability	\$ 31,771,217,402	\$ 30,829,966,631
Plan's fiduciary net position	\$ 24,907,305,871	\$ 24,607,502,515
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.82%

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

LOS OSOS COMMUNITY SERVICES DISTRICT
 SCHEDULE OF CONTRIBUTIONS
 Last 10 Years*
 As of June 30, 2016

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

	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 95,817	\$ 109,190
Contribution in relation to the actuarially determined contributions	<u>95,817</u>	<u>109,190</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered- employee payroll	\$ 636,099	\$ 636,099
Contributions as a percentage of covered-employee payroll	15.06%	17.17%

Notes to Schedule

Valuation Date:	6/30/2014
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age
Asset valuation method	5-year smoothed market
Discount rate	7.50%
Price Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality	Derived using CalPERS' Membership data for all funds.
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies,
Valuation Date:	6/30/2015
Discount rate	7.65%

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

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LOS OSOS COMMUNITY SERVICES DISTRICT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2016

	Bayridge	Vista de Oro	Drainage	Parks and Recreation	Total
ASSETS					
Cash and investments	\$ 1,663	\$ -	\$ 312,196	\$ 209	\$ 314,068
Restricted cash and investments				305,629	305,629
Accounts receivable	936	327	2,738		4,001
Total assets	\$ 2,599	\$ 327	\$ 314,934	\$ 305,838	\$ 623,698
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,424	\$ 877	\$ 801	\$ -	\$ 3,102
Due to other funds		11,136			11,136
Total liabilities	1,424	12,013	801		14,238
Fund Balances:					
Restricted	1,175		314,133	305,838	621,146
Unassigned		(11,686)			(11,686)
Total fund balances (deficit)	1,175	(11,686)	314,133	305,838	609,460
Total liabilities and fund balances	\$ 2,599	\$ 327	\$ 314,934	\$ 305,838	\$ 623,698

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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, 2016

	Bayridge	Vista de Oro	Drainage	Parks and Recreation	Total
Revenues:					
Property taxes	\$ 8,895	\$ 327	\$ 22,932	\$ -	\$ 32,154
Special taxes and assessments			93,293		93,293
Service charges and fees	54,081	15,441			69,522
Use of money and property			332	873	1,205
Other	109,848		239		110,087
Total revenues	172,824	15,768	116,796	873	306,261
Expenditures:					
Personnel	19,535	10,052	32,268		61,855
Contract services	406	403	172		981
Equipment and tools	65	38	38		141
Insurance, licenses, and regulatory fees	2,237	1,527	8,571		12,335
Legal and professional	6,234	3,670	7,304		17,208
Office expenses	13		1,010		1,023
Rent and utilities	11,850	5,400	4,145		21,395
Repairs and maintenance	265,561	28	3,597		269,186
Travel and training			19		19
Vehicle maintenance and repairs	665	333	1,411		2,409
Total expenditures	306,566	21,451	58,535		386,552
Excess of revenues over (under) expenditures	(133,742)	(5,683)	58,261	873	(80,291)
Other Financing Sources (Uses)					
Transfers in	109,828				109,828
Transfers out		(10,819)	(43,083)		(53,902)
Total other financing sources (uses)	109,828	(10,819)	(43,083)		55,926
Net change in fund balance	(23,914)	(16,502)	15,178	873	(24,365)
Fund balances - July 1	25,089	4,816	298,955	304,965	633,825
Fund balances (deficit) - June 30	\$ 1,175	\$ (11,686)	\$ 314,133	\$ 305,838	\$ 609,460

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Osos Community Services District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Los Osos Community Services District's basic financial statements and have issued our report thereon dated January XX, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies (findings 2016-1 through 2016-3).

Compliance and Other Matters

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

Los Osos Community Services District's Responses to Findings

The Los Osos Community Services District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Los Osos Community Services District's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

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

Santa Maria, California
January XX, 2017

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Finding 2016-1
Capital Assets

Criteria:

The District capital asset list and depreciation schedule should reconcile with the accounting system.

Condition:

When we examined the capital asset list and depreciation schedule, we noticed that capital outlay in the governmental type funds and capital asset additions in the enterprise funds of the accounting system did not reconcile. Also, the District also did an inventory of capital assets in the Water fund and found that actual assets in use did not match what was recorded in the capital asset list.

Cause:

District was not maintaining a capital asset list and depreciation schedule on a regular basis.

Effect:

The District's capital assets from the prior period were understated and capital outlay was overstated.

Recommendation:

The District should ensure that where capital assets are purchased, they are properly coded to the accounting system as a capital addition and that repairs and maintenance expenditures are not coded to the accounting system as capital additions. Staff with knowledge of the purchases and projects needs to inform the District account as to how the item should be coded. Staff should also inform the District accountant when capital assets are impaired and/or disposed of. The capital asset list and depreciation schedule should be reconciled to the accounting system on a regular basis.

District's Corrective Action Plan:

Finding 2016-2
Accounting for the Fiduciary Fund

Criteria:

The District reports on assets held by the District in a fiduciary capacity for the Los Osos Community Services District Wastewater Assessment District No. 1. Only the assets held for the Los Osos Community Services District Wastewater Assessment District No. 1 should be reported in the accounting system within this fund. As part of the District's bankruptcy agreement, the District is required to repay the Los Osos Community Services District Wastewater Assessment District No. 1 Limited Obligation Improvement Bonds Reserve Fund \$25,000 annually.

Condition:

During our examination of account balances in the general ledger, we noticed that revenues and expenditures related to the assessment process were recorded to this fund. Also, we noticed that the \$25,000 annual repayment to the Bond Reserve Fund was not done during the year.

Cause:

District oversight and current staff was unaware of the fund purpose after employee turnover.

Effect:

Expenditures off the District were originally understated. The District posted an adjustment after audit fieldwork to properly report these funds in the financial statements.

Recommendation:

The District should ensure that staff understands the purpose of this fund is only to report the assets of the Los Osos Community Services District Wastewater Assessment District No. 1 and all District administration and assessment related costs should be reported in the District's Wastewater Treatment Project Fund. The District should ensure that an order is placed with US Bank annually to authorize the repayment of the \$25,000 to the Reserve Fund until it is replenished as per the bankruptcy agreement.

District's Corrective Action Plan:

Finding 2016-3
Payroll

Criteria:

The District's personnel policy grants employees vacation time accrual at certain rates based on their length of employment with the District.

Condition:

During our testing of payroll controls and processes, we found that one employee was receiving vacation time at 10 days per year instead of the 15 days per year they were entitled to based on the number of years they have been employed by the District.

Cause:

Employee did not properly receive the increase on their employment anniversary date.

Effect:

Understatement of accrued compensated absences.

Recommendation:

Ensure that vacation time accrual rates are periodically reviewed to ensure they are consistent with the personnel policy.

District's Corrective Action Plan:

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Finding 2015-1
Bank Statement Reconciliations

Criteria:

The District should reconcile the cash accounts to the general ledger on a timely basis. The reconciling items should consist mostly of outstanding checks and deposits in transit rather than adjusting journal entries to force the reconciliation.

Condition:

When we examined the cash accounts, the bank reconciliations were not completed in a timely fashion and the initial reconciliations received were reconciled mostly by journal entries to cash.

Cause:

District personnel lacked proper training and knowledge to produce a proper reconciliation.

Effect:

The District's cash and expenses or revenue in various accounts were overstated or understated and the reconciliations had to be re-performed at a later date by a consultant.

Recommendation:

The District should ensure that all bank statements are reconciled properly in a timely manner. Staff must be trained in how to properly reconcile cash accounts.

Current Status:

Implemented.

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Finding 2015-2
Journal Entries

Criteria:

The District's internal control procedures should be able to process receipts, payroll, disbursements, etc. and result in the transactions being accurately reported into the general ledger. With few exceptions, journal entries should not routinely be made to adjust cash reconciliations and fund balance. All journal entries should be printed, signed in approval, and retained with their supporting documentation for transparency.

Condition:

During our examination of account balances in the general ledger, we noticed that journal entries were made directly to the cash and fund balance accounts which is unusual for an accounting system. The standard internal control process over receipts, payroll, disbursements, etc. should be able to result in correctly recorded transactions and does not require many cash adjustments for the bank statements to reconcile. In addition, the journal entries were not printed, signed in approval from someone other than the accountant preparing the entry, and retained with their supporting documentation.

Cause:

Lack of proper controls over the bank reconciliation and journal entry process.

Effect:

Staff turnover and weaknesses in the reporting internal controls. The general ledger is difficult to follow and trace balances. In addition, management's override of the internal controls creates a lack of proper segregation of duties which could result in a misstatement in the financial statements and conceal any misappropriation of assets.

Recommendation:

The District's internal controls and procedures over the bank reconciliation process should ensure that journal entries are not required to force cash reconciliations. All journal entries should be made only by the District accountant and they should be printed and filed with an approval signature of the review performed by the General Manager.

Current Status:

Implemented.

Finding 2015-3
Payroll

Criteria:

The District vacation, overtime and other accrued compensation must follow California law, the employment memorandum of understanding, and/or contract.

Condition:

During our testing of payroll controls and processes, we found that: the General Manager overused allowed administrative leave by 8 hours, one employee was paid at an overtime rate for 1.5 hours instead of regular rate because sick leave used during that day was improperly included in the calculation of 8 hours of regular time, and multiple occasions during pay periods where the payroll system was not properly tracking leave hours which then had to be manually corrected in the software at a later date.

Cause:

Inadequate tracking of compensated leave hours by the District's payroll software and lack of training on overtime rules.

Effect:

Misappropriation of assets as one employee was overpaid overtime and the General Manager received excess leave pay.

Recommendation:

Ensure management is properly trained on overtime rules and work with the payroll software vendor to ensure the leave balance tracking is operating properly.

Current Status:

Partially implemented, see Finding 2016-3.

Finding 2015-4
Petty Cash and District Debit Cards

Criteria:

All restaurant meal purchases using District funds need to be supported by itemized receipts.

Condition:

During our testing of petty cash and debit card usage, the itemized meal receipts were not filed and retained on 3 of 20 transactions tested.

Cause:

Lack of appropriate District oversight on restaurant meal purchasing procedures.

Effect:

Possible misappropriation of cash could occur if the restaurant purchases were not proper.

Recommendation:

The District should ensure that every meal purchased using District funds is supported by an itemized receipt, description of the business purpose of the meal, and a list of whose meals are being purchased in order to ensure that the use of funds is appropriate.

Current Status:

Implemented.

Los Osos Community Services District
Schedule of Prior Fiscal Year Findings and Responses
June 30, 2016

Finding 2015-5
Inventory

Criteria:

Inventory must be counted at or near year-end in order to place a value on the inventory on hand at June 30, 2015.

Condition:

No count of inventory on hand was done in the fiscal year ended June 30, 2015.

Cause:

Lack of proper management oversight of required year-end procedures.

Effect:

Inventory balance as of June 30, 2015, is unknown. Possible misappropriation of assets.

Recommendation:

The District should ensure that inventory is counted on June 30th of every year in order to create a list of items, the amount of each item, and total dollar value of the inventory on hand at the end of the fiscal year.

Current Status:

Implemented.

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Moss, Levy & Hartzheim LLP

Certified Public Accountants

January XX, 2017

To the Board of Directors of the
Los Osos Community Services District

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Osos Community Services District as of and for the fiscal year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January XX, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Los Osos Community Services District are described in Note 1 to the financial statements. As discussed in note 1 to basic financial statements effective July 1, 2015, the Los Osos Community Services District adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement*. We noted no transactions entered into by the governmental unit during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Management's estimate of the useful lives of capital assets is based on experience with other capital assets and on their standard table of useful lives. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the other postemployment benefits (OPEB) expense is based on the actuary's expertise and experience. We evaluated the key factors and assumptions used to develop the other postemployment benefits (OPEB) expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability and deferred inflows and outflows related to pension are based on the CalPERS actuary's expertise and experience. We evaluated the key factors and assumptions used to develop the net pension liability and deferred inflows and outflows related to pension in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of the Pension Plan in Note 7.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January XX, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of the Los Osos Community Services District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Santa Maria, California