SANTA LUCIA COMMUNITY SERVICES DISTRICT

BASIC FINANCIAL STATEMENTS,
INDEPENDENT AUDITORS' REPORT
AND MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED
JUNE 30, 2021

SANTA LUCIA COMMUNITY SERVICES DISTRICT

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SANTA LUCIA COMMUNITY SERVICES DISTRICT

Board of Directors and Officers

June 30, 2021

Mark Boitano	Chairman
Barbara Santry	Vice-Chairman
Mike Saeidi	Treasurer / Financial Officer
Forrest Arthur	Secretary / General Manager
Scot Smythe	Director
Melissa Thorme	Director
Cary Whitfield	Director
Robert Latta	Advisor

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Santa Lucia Community Services District
Carmel, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the ***Santa Lucia Community Services District*** *(the District)*, as of and for the year ended June 30, 2021, 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.

Auditor's 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 State Controller's *Minimum Audit Requirements for California Special Districts*. 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 auditor's 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 District'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 District'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 opinion.

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HAYASHI & WAYLAND ACCOUNTING & CONSULTING, LLP | LOCATIONS IN CARMEL, KING CITY, PASO ROBLES & SALINAS

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the ***Santa Lucia Community Services District***, as of June 30, 2021, and the respective changes in financial position and cash flows thereof for the 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 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hayashi Wayland, LLP

Salinas, California
January 26, 2022

SANTA LUCIA COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

This section of the Santa Lucia Community Services District's (the District) annual financial report presents a discussion and analysis of the District's performance during the year that ended June 30, 2021. Please read it in conjunction with the District's financial statements, which follow this section.

The District, located at 1 Rancho San Carlos Road, Carmel, County of Monterey, California is a community services district formed in 1998 to provide services related to water supply and distribution; wastewater treatment; storm water collection; garbage collection; security; road and bridge maintenance; and broadband deployment.

The Monterey County Local Agency Formation Commission, pursuant to the Cortese-Knox Local Government Reorganization Act of 1985, established the District on July 13, 1998. The District was established for the benefit of the Santa Lucia Preserve residential community.

FINANCIAL HIGHLIGHTS

- Operating revenues increased from fiscal year end 2020 by 3.59% to $6,795,855 in fiscal year end 2021 and operating expenses exclusive of depreciation increased by 3.15% to $6,100,718.
- In fiscal year end 2021 operating revenues increased over operating revenues from fiscal year end 2020 by $235,280.
- Operating expenses exclusive of depreciation for fiscal year end 2021 increased from fiscal year end 2020 by $186,184.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three parts: management's discussion and analysis (this section), the basic financial statements and the notes to the financial statements.

The financial statements provide both long-term and short-term information about the District's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The District's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Position. All assets and liabilities associated with the operation of the District are included in the Statement of Net Position.

COMPARATIVE ANALYSIS

Net Position

The Statement of Net Position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position. Net position is reported in two categories: net investment in capital assets and unrestricted. Capital assets are the cost of the District's buildings, equipment, and infrastructure after deducting depreciation. Unrestricted assets are funds available for future operational and capital expenditures.

Summary of Net Position

	2021	2020	% Change
Current assets	$ 7,932,613	$ 6,459,432	22.81%
Capital assets – net	33,965,191	35,035,601	(3.06%)
Total assets	41,897,804	41,495,033	0.97%
Current liabilities	3,333,921	1,816,053	83.58%
Noncurrent liabilities	1,150,946	1,265,899	(9.08%)
Total liabilities	4,484,867	3,081,952	45.52%
Net investment in capital assets	32,873,579	33,739,419	(2.57%)
Unrestricted	4,539,358	4,673,662	(2.87%)
Total net position	$ 37,412,937	$ 38,413,081	(2.60%)

The District's net position at June 30, 2021 decreased by 2.60% compared to June 30, 2020. Total assets increased by 0.97% to $41,897,084 due primarily to construction in progress of $289,866 and capital additions of $355,642 being offset by $1,715,918 in depreciation, as well as an increase in cash and cash equivalents. Total liabilities increased 45.52% to $4,484,867 due to the timing on payments to affiliate being offset by payments on long-term debt.

Changes in Net Position

Operating revenues increased by $235,280 to $6,795,855. Operating revenues increased over the prior fiscal year due to an adjustment each year in property related fees, continuing through fiscal year 2020–2021 based on election results approving up to a 4% increase each year. Property related fees are inclusive of water, wastewater, roads and security. This increase was offset by a reduction in residential water sales. Lower sales attributed to water conservation efforts in a drought year. At its April meeting, the District passed resolution 21-3 declaring a drought emergency which included a voluntary request for a 10% reduction in water usage from all customers. The Road and Drainage Maintenance Department revenues were also impacted from the drought. Lot mowing requests were lower than in past years due to a very dry spring.

Operating expenses exclusive of depreciation increased by $186,184 to $6,100,718. Water service expenses increased by $143,069, primarily due to an increase in electrical expenses due to the need for well pumping early in the season compared to the prior year; and additional repairs and maintenance to wells as a result of excess pumping requirements. Wastewater collection and treatment expenses changes were negligible. Road and storm drain maintenance expenses decreased by $148,673 primarily due to less repair and replacement expenses on the roadways. Security operations increased by $26,148 due to higher payroll expenses. Gatehouse operations increased by $30,015 over the prior period primarily due to higher payroll expenses. General and administrative expenses increased by $143,792 primarily due to expenses attributed to the Preserve Company administrative cost reimbursements. These expenses included impacts from COVID 19 expenses, higher compensation in payroll expenses, including the full twelve months of experience in the CFO position, and a significant increase in property and liability insurance.

COMPARATIVE ANALYSIS (Continued)

Summary of Changes in Net Position

	2021	2020	% Change
Operating revenues:			
Property related fees	$ 6,071,343	$ 5,835,608	4.04%
Water usage	487,561	472,433	3.20%
Other community revenue	192,351	221,144	(13.02%)
Miscellaneous income	36,600	29,390	24.53%
Meter connection charges	8,000	2,000	300.00%
Total operating revenues	6,795,855	6,560,575	3.59%
Operating expenses:			
Water service	1,607,050	1,463,981	9.77%
Wastewater collection and treatment	216,121	224,288	(3.64%)
Road and storm drain maintenance	1,445,259	1,593,932	(9.33%)
Security operations	707,724	681,576	3.84%
Gatehouse operations	552,648	522,633	5.74%
General and administrative	1,571,916	1,428,124	10.07%
Total operating expenses before depreciation	6,100,718	5,914,534	3.15%
Operating income (loss) before depreciation	695,137	646,041	7.60%
Depreciation	1,715,918	1,681,617	2.04%
Operating income (loss)	(1,020,781)	(1,035,576)	1.43%
Nonoperating revenues (expenses):			
Interest revenue	22,010	61,064	(63.96%)
Gain/(loss) on sale of investments	(3,927)	19,874	(119.76%)
Gain/(loss) on sale of assets	43,500	2,500	1640.00%
Interest expense	(40,946)	(44,068)	(7.08%)
Total nonoperating revenues (expenses)	20,637	39,370	(47.58%)
Change in net position	(1,000,144)	(996,206)	(0.40%)
Net position – beginning of year	38,413,081	39,409,287	(2.53%)
Net position – end of year	$ 37,412,937	$ 38,413,081	(2.60%)

COMPARATIVE ANALYSIS (Continued)

	Operating Revenues			Operating Expenses			Operating Income (Loss)		
	2021	2020	% Change	2021	2020	% Change	2021	2020	% Change
Water service	$ 2,604,776	$ 2,500,661	4.16%	$ 1,607,050	$ 1,463,981	9.77%	$ 997,726	$ 1,036,680	(3.76%)
Wastewater collection and treatment	384,512	369,784	3.98%	216,121	224,288	(3.64%)	168,391	145,496	15.74%
Road and storm drain maintenance	1,834,375	1,798,514	1.99%	1,445,259	1,593,932	(9.33%)	389,116	204,582	90.20%
Security operations	1,116,042	1,068,473	4.45%	707,724	681,576	3.84%	408,318	386,897	5.54%
Gatehouse operations	856,150	823,143	4.01%	552,648	522,633	5.74%	303,502	300,510	1.00%
General and administrative	–	–	0.00%	1,571,916	1,428,124	10.07%	(1,571,916)	(1,428,124)	(10.07%)
Total	$ 6,795,855	$ 6,560,575	3.59%	$ 6,100,718	$ 5,914,534	3.15%	$ 695,137	$ 646,041	7.60%

- Administration includes senior management, administrative, purchasing, human resources, information technology, and accounting staff, along with organization wide supplies and services, such as outsourced payroll processing and 401k plan administration, computer network and telephone systems, and other professional fees.

- Operating expenses above do not include depreciation.

BUDGET HIGHLIGHTS

The District budgeted operating revenues, excluding reimbursements for intercompany charges related to road and storm drain maintenance department services provided to other functions of the District, of $6.9 million for the fiscal year 2021. The District ended the fiscal year with approximately $52,000 less than budget for operating revenues as a result of the Roads and Drainage department which had decreased revenues from community related projects and lot mowing services.

The District's budget projected operating expenses, excluding depreciation, of $6.3 million for fiscal year 2021. The District ended the fiscal year with approximately $104,000 more than budget for total expenses as a result of approved salary adjustments and higher than budgeted administrative cost reimbursements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets, net of accumulated depreciation, at June 30, 2021 totaled $33,965,191. This amount represents a net decrease of $1,074,410, which is primarily depreciation expense, or 3.06% from 2020.

This year's capital asset additions:

- Construction in progress for $289,866
- Vehicles for $176,052
- Machinery and equipment for $155,994
- Furniture and fixtures $23,596

Capital Assets – Net of Accumulated Depreciation

	2021	2020	% Change
Roads and bridges	$ 14,205,588	$ 14,713,285	(3.45%)
Water system	12,591,392	13,198,808	(4.60%)
Wastewater system	2,609,839	2,719,292	(4.03%)
Buildings	2,873,912	2,966,939	(3.14%)
Machinery and equipment	613,196	549,989	11.49%
Furniture and fixtures	21,630	–	(100.00%)
Vehicles	252,317	178,825	41.10%
Communication lines	129,973	135,111	(3.80%)
Construction in progress	388,306	294,314	31.94%
Land	279,038	279,038	0.00%
Total	$ 33,965,191	$ 35,035,601	(3.06%)

Debt Administration

At June 30, 2021, the District had $1.1 million in long-term debt related to the construction of a corporate yard.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Budget for the fiscal year ending 2022, despite a modest increase, reflects the following impacts. Water rates for the District are not anticipated to change for the fiscal year 2022 budget cycle. In fiscal year end 2022, property related fees are anticipated to increase for water, roads, security, and sewer services over fiscal year end 2021 by 4.0%, which is an increase of approximately $243,000.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Mike Saeidi, Chief Financial Officer, at (831) 620-6706.

BASIC FINANCIAL STATEMENTS

SANTA LUCIA COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2021

	Enterprise Fund
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 7,430,246
Accounts receivable:	
Property related fees	232,884
Other receivable – net	67,818
Prepaid expenses	192,974
Inventory	8,691
Total current assets	7,932,613
CAPITAL ASSETS – NET	33,965,191
TOTAL ASSETS	$ 41,897,804
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	$ 407,801
Affiliate payable	2,432,066
Accrued liabilities	212,909
Accrued compensated absences	161,189
Long-term debt – current portion	119,956
Total current liabilities	3,333,921
NONCURRENT LIABILITIES:	
Accrued compensated absences	69,081
Deferred revenue	110,209
Long-term debt	971,656
Total noncurrent liabilities	1,150,946
TOTAL LIABILITIES	$ 4,484,867
NET POSITION	
Net investment in capital assets	$ 32,873,579
Unrestricted	4,539,358
TOTAL NET POSITION	$ 37,412,937

See Notes to Basic Financial Statements.

SANTA LUCIA COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

	Enterprise Activities						
	Water Service	Wastewater Collection and Treatment	Road and Storm Drain Maintenance	Security Operations	Gatehouse Operations	General and Administrative	Total
OPERATING REVENUES:							
Property related fees	$ 2,103,228	$ 383,763	$ 1,633,656	$ 1,097,159	$ 853,537	$ –	$ 6,071,343
Water usage:							
Preserve Golf Club	214,668	–	–	–	–	–	214,668
Residential	237,583	–	–	–	–	–	237,583
Ranch Club	35,310	–	–	–	–	–	35,310
Other community revenue	–	–	192,351	–	–	–	192,351
Miscellaneous income	5,987	749	8,368	18,883	2,613	–	36,600
Meter connection charges	8,000	–	–	–	–	–	8,000
Total operating revenues	2,604,776	384,512	1,834,375	1,116,042	856,150	–	6,795,855
OPERATING EXPENSES:							
Salaries and wages	764,382	88,176	633,369	431,937	317,507	353,157	2,588,528
Employee benefits	127,776	14,298	109,674	80,043	72,664	70,957	475,412
Management fee	–	–	–	–	–	842,527	842,527
Auto lease and expense	16,942	845	31,213	7,103	–	–	56,103
Chemicals	2,039	6,528	–	–	–	–	8,567
Contract labor	19,171	18,273	(3,266)	3,735	42,166	151	80,230
Education and seminars	4,143	195	305	–	–	–	4,643
Equipment expense	12,844	782	32,293	–	–	–	45,919
Fees and collection charges	–	–	135	–	–	25,832	25,967
Fuel, oil, and propane	32,987	2,882	38,638	21,851	–	3,499	99,857
Gate operating expense	–	–	–	15,240	578	–	15,818
Gatehouse overhead	–	–	610	–	32,677	–	33,287
Insurance	–	–	–	–	–	107,753	107,753
Legal and professional fees	–	–	–	–	–	49,019	49,019
Miscellaneous	23,514	170	1,817	3,219	169	50,597	79,486
Office expenses	8,698	11	2,143	4,353	2,898	2,970	21,073
Payroll taxes	57,498	6,854	46,339	30,370	25,386	16,722	183,169
Pension (401(k) match)	23,746	–	15,560	4,761	5,887	13,891	63,845
Permits and fees	4,767	7,644	11,946	–	–	–	24,357
Radios and pagers	171	–	1,286	765	–	–	2,222
Recruitment	218	–	–	–	–	–	218
Refuse removal	3,524	6,209	3,524	–	–	–	13,257
Repairs and maintenance	170,257	7,901	488,798	25,276	11,148	12,135	715,515
Residential lot projects	–	–	1,283	–	–	–	1,283
Total forward	$ 1,272,677	$ 160,768	$ 1,415,667	$ 628,653	$ 511,080	$ 1,549,210	$ 5,538,055

	Enterprise Activities						
	Water Service	Wastewater Collection and Treatment	Road and Storm Drain Maintenance	Security Operations	Gatehouse Operations	General and Administrative	Total
Total forward	$ 1,272,677	$ 160,768	$ 1,415,667	$ 628,653	$ 511,080	$ 1,549,210	$ 5,538,055
Road maintenance	–	–	15,447	–	–	–	15,447
SCADA improvements	1,042	–	–	–	–	–	1,042
Septic maintenance	–	16,489	–	–	–	–	16,489
Small tools and equipment	12,104	580	1,574	–	–	–	14,258
Supplies	64,307	11,938	1,403	1,499	5,161	1,382	85,690
Telephone	13,874	231	3,967	63,333	15,795	17,109	114,309
Testing	14,846	15,517	–	–	–	–	30,363
Uniforms	6,406	350	6,748	1,616	3,831	3,940	22,891
Utilities	208,743	10,248	453	12,623	9,315	275	241,657
Vehicle I.D. expense	–	–	–	–	7,466	–	7,466
Water meter expenses	13,051	–	–	–	–	–	13,051
General and administrative allocation	611,268	85,937	378,358	279,171	217,182	(1,571,916)	–
Total operating expenses before depreciation	2,218,318	302,058	1,823,617	986,895	769,830	–	6,100,718
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	386,458	82,454	10,758	129,147	86,320	–	695,137
DEPRECIATION	681,328	114,249	808,941	62,115	49,285	–	1,715,918
OPERATING INCOME (LOSS)	(294,870)	(31,795)	(798,183)	67,032	37,035	–	(1,020,781)
NONOPERATING REVENUES (EXPENSES):							
Interest revenue	8,559	1,203	5,298	3,909	3,041	–	22,010
Gain (loss) on sale of investments	(1,527)	(215)	(945)	(697)	(543)	–	(3,927)
Gain (loss) on sale of assets	–	–	43,500	–	–	–	43,500
Interest expense	(15,923)	(2,239)	(9,856)	(7,272)	(5,656)	–	(40,946)
Total nonoperating revenues (expenses)	(8,891)	(1,251)	37,997	(4,060)	(3,158)	–	20,637
CHANGE IN NET POSITION	(303,761)	(33,046)	(760,186)	62,972	33,877	–	(1,100,144)
NET POSITION, BEGINNING OF YEAR	15,689,731	1,811,968	16,656,269	3,321,287	933,826	–	38,413,081
NET POSITION, END OF YEAR	$ 15,385,970	$ 1,778,922	$ 15,896,083	$ 3,384,259	$ 967,703	$ –	$ 37,412,937

See Notes to Basic Financial Statements.

SANTA LUCIA COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from residents and customers	$ 7,083,491
Cash payments to employees	(3,294,278)
Cash payments to suppliers for goods and services	(1,320,766)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,468,447
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Payments on long-term debt	(204,570)
Additions to capital assets	(645,508)
Interest paid	(40,946)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(891,024)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Realized gain (loss) on investments	(3,927)
Interest income received	22,010
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	18,083
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,595,506
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,834,740
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,430,246
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	$ (1,020,781)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	1,715,918
Gain on sale of assets	43,500
(Increase) decrease in:	
Property related fees receivable	223,489
Other receivable	20,647
Prepaid expenses	(118,840)
Inventory	(2,971)
Increase (decrease) in:	
Accounts payable	(26,391)
Affiliate payable	1,582,988
Accrued liabilities	34,212
Accrued compensated absences	16,676
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 2,468,447

See Notes to Basic Financial Statements.

NOTE 1. THE FINANCIAL REPORTING ENTITY

Reporting Entity – The Santa Lucia Community Services District (the District) was established on July 13, 1998 by the Monterey County Local Agency Formation Commission, pursuant to the Cortese-Knox Local Government Reorganization Act of 1985. The District was established for the benefit of the Santa Lucia Preserve (the Preserve) residential community.

The District, which exclusively incorporates the 31 square miles of the Preserve, oversees all of the infrastructure services to the Settled Lands, either directly or through sub-contractors. The District provides water for domestic, irrigation and fire protection uses through a Preserve-wide, pressurized water system supplied from well clusters across the property. The District maintains all sewer and septic systems. It maintains, repairs and replaces the roadways, culverts and drainage systems. The District’s annual budget is primarily funded from a direct assessment on the annual real property tax bill for all parcels within the settled lands.

Component Units – Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards have been considered and there are no agencies or entities which should be presented with the District as component units. However, the District is affiliated with the following organizations:

The Santa Lucia Preserve Company (the Preserve Company) – The Preserve Company was established to provide professional, coordinated management and services for the District and the Santa Lucia Preserve Association. It contracts with these entities to deliver their services and fulfill their obligations to the residents of the Preserve. It also contracts with The Preserve Golf Club, Inc. and The Ranch Club, Inc. to manage their respective facilities at the direction of the respective Boards of Directors of the clubs.

The Ranch Club, Inc. (the Ranch Club) – The community’s activity focus is at the historic grand Hacienda and surrounding facilities that make up the Ranch Club. The Ranch Club is the place where residents gather as a community – the heart of the Preserve community; where residents, their families and guests gather to dine, lodge, enjoy cultural programs and use the tennis, health and fitness facilities. The Ranch Club also offers an equestrian center, 100 miles of hiking, riding and cycling trails, as well as camping and fishing at Moore’s Lake. The District provides security, road maintenance, water supply, wastewater disposal and solid waste disposal to the Ranch Club.

NOTE 1. <u>THE FINANCIAL REPORTING ENTITY (Continued)</u>

The Preserve Golf Club, Inc. (the Golf Club) – The Golf Club is a private 18-hole golf course and clubhouse. The course, designed by Tom Fazio, is located in the sunny coastal foothills of the 20,000-acre Preserve. The clubhouse overlooks the first tee, the 18th green and the surrounding hills, ridges and mountains of the Santa Lucia Preserve. The District provides security, road maintenance, water supply, wastewater disposal and solid waste disposal to the Golf Club.

The Santa Lucia Preserve Association (the Association) – The Association is comprised of all Preserve property owners. The Association was organized on November 24, 1998 with the recording of the Declaration of Protective Restrictions at the office of Official Records of Monterey County. The Association derives its authority and responsibilities from this Declaration. The Association was incorporated as a nonprofit mutual benefit corporation on December 4, 1998. It administers and enforces the Covenants, Conditions and Restrictions, particularly the Design Guidelines. Through its Design Review Board and its Design and Construction Services Group, the Association assures that all structures comply with the principles of subordination to and compatibility with the landscape and the architectural traditions of the central California coast. The District provides construction monitoring through security services to the Association.

Santa Lucia Preserve Housing, LLC (SLPH) – SLPH was established to acquire lots for employee and inclusionary housing. Employee housing is located on lot 61 and consists of four single family homes. These units are restricted to employees of the Preserve Company and are market rate housing. Inclusionary housing is located on lot 62 and is income restricted property. Current inclusionary housing consists of the six units located on lot 62 and two additional units above the equestrian center that are under title to the Ranch Club. The District manages the employee and inclusionary housing units which house Preserve Company employees.

The Santa Lucia Conservancy (the Conservancy) – The Conservancy has been established as a non-profit, tax-exempt California corporation to ensure that approximately 90% of the Preserve, including its most environmentally sensitive acres, remains natural and is never subdivided. The Conservancy will protect and manage 18,000 private acres for recreation, grazing, environmental research, and wildlife habitat for the community. The Conservancy manages, restores and enhances the Preserve lands. The District and the Conservancy work together to share information for the benefit of the Preserve.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – In accordance with Generally Accepted Accounting Principles (GAAP) applicable to governmental units, the accounts of the District are organized into a single proprietary type fund, the Enterprise Fund.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District accounts for its operations in a single enterprise fund. However, in accordance with government accounting standards, the District reports the statement of revenues, expenses and changes in net assets by *different identifiable activities*. The different identifiable activities of the District are water service, wastewater collection and treatment, road and storm drain maintenance, security operations, and gatehouse operations.

Method of Allocating Revenue and Expenses – The District allocates property related fees revenue that is not specific to wastewater collection and treatment to the remaining activities of the District. The property related fees revenue and property administrative costs are allocated to the various activities based on budgeted costs. Administrative costs are comprised of the General Manager's salary and related benefits, personnel services provided by the Preserve Company, insurance, legal, corporate yard overhead and various other general and administrative expenses that are not directly charged to one of the District's activities.

Measurement Focus and Basis of Accounting – The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the accounting period in which the liability is incurred, regardless of the timing of related cash flows.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents – The District considers all highly liquid assets with an original maturity of three months or less when purchased and pooled cash as cash equivalents. Cash and cash equivalents are comprised of cash in checking, money market accounts, certificates of deposit, amounts in the California State Treasurer's Investment Fund, known as the Local Agency Investment Fund (LAIF),

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

amounts in the CalTrust Investment Pool and United States treasury bills and notes. The CalTrust Investment Pool includes certain investments with longer maturities, however, the pooled funds are considered readily available for immediate use and, therefore, are included with cash equivalents.

Fair Value – 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. 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. All of the District's investments are level one.

Receivables – All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. The allowance is based on an assessment of the current status of individual accounts. At June 30, 2021, the allowance was estimated to be $43,940.

Affiliate Receivable/Payable – Under the management agreement with the Preserve Company, all District vendor invoices are paid by the Preserve Company. Additionally, all billings are performed by the Preserve Company. The District and the Preserve Company maintain reciprocal intercompany payable and receivable accounts that reflect these transactions. For example, when the District is invoiced by a vendor, the payable is recorded on the Preserve Company's books and a corresponding entry is made to increase the intercompany payable from the District to the Preserve Company. The balance in affiliate payable represents amounts payable to the Preserve Company from the District.

Prepaid Expenses – Prepaid expenses are capitalized and amortized ratably over the period of benefit.

Inventory – Inventory is valued at lower of cost or net realizable value. Cost is determined by the first-in, first-out method.

Capital Assets – Capital Assets are accounted for at historical cost or estimated historical cost if actual historical cost is not known. It is the policy of the District to capitalize assets with an initial individual cost of more than $2,000 (computer equipment), $5,000 (other equipment) and $10,000 (land and facilities improvements) and an estimated useful life in excess of one year. Capital assets are depreciated on a straight-line basis over their estimated useful life.

The useful lives used to depreciate capital assets, by asset class, are as follows:

Vehicles	5	Years
Furniture and fixtures	5	Years
Machinery and equipment	5	Years
Roads and bridges	20 – 40	Years
Water System	40	Years
Wastewater System	40	Years
Communication Lines	40	Years
Buildings	40	Years

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenditures for maintenance and repairs are charged to operating expenses as incurred. Renewals, betterments, and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Accrued Compensated Absences – Since all employees are employed by the Preserve Company, the District records an estimated liability for accrued compensated absences. There is no estimated liability for unpaid accumulated sick leave since there is not a policy to pay amounts when employees separate from service with the Preserve Company. All vacation pay is accrued when earned. All full-time employees accrue personal leave, or compensated absences, by a prescribed formula based on length of service. Employees may accumulate up to two times their annual current accrual rate. If the earned, but unused vacation hours reach this maximum, additional benefits will not accrue until unused benefits are used or otherwise reduced as allowed by the vacation policy. Upon termination of employment, all unused and un-forfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Property Related Fees – The County is responsible for the assessment and collection of property related fees for all taxing jurisdictions, including the District. The District is responsible for determining the amount of property related fees and the County is responsible for the collection and apportionment. Property related fees are payable in equal installments, November 1st and February 1st, and become delinquent on December 10th and April 10th, respectively. The assessment date is July 1st of each year. Property related fees are recognized in the fiscal year in which the assessments have been levied.

Other Community Revenue – The District provides services to property owners of the Preserve. The provision of these services are sanctioned under the District's by-laws, are billed to property owners at arms-length and include the following types of services: fire clearing, erosion control, pasture preparation, lot mowing, lot cleanup, poison oak spraying, driveway maintenance, carpentry, mechanical services and other operations.

Capital Contributions – Capital assets are capitalized at cost, which approximates fair value at the time of the District's acquisition and are recorded as capital contributions when they are placed in service.

Net Position – Net position represents the difference between assets and liabilities and is classified into the following net position categories:

Net Investment in Capital Assets – Investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position invested in capital assets, excludes unspent debt proceeds.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Net Positions – Restricted net positions result when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted – Unrestricted net positions consist of assets that do not meet the definition of the two preceding categories. Unrestricted net position includes net position that has been designated by management to be used for other than general operating purposes.

When restricted and other fund balance resources are available for use, it is the District's policy to use restricted resources first.

Income Taxes – Santa Lucia Community Services District is a California local governmental unit and is exempt from both Federal and State income taxes.

Use of Estimates – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Effects of New Pronouncements – In August 2018, GASB issued Statement No. 90 *Majority Equity Interests* – An Amendment of GASB Statement No. 14 and No. 61. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The implementation of this statement had no impact on the accompanying financial statements.

Subsequent Events – Subsequent events have been evaluated through January 26, 2022, which is the date the financial statements were available to be issued.

NOTE 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2021 consisted of the following:

CalTrust Investment Pool	$ 1,197,633
Deposits with financial institutions	6,122,356
Local Agency Investment Fund	110,257
Total	$ 7,430,246

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a depositor 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 custodial credit risk for investments is the risk that, in the event of the failure of the counter party (e.g., broker-dealer) to a transaction, a depositor will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's 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 provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governments units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market 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 deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The value of each participating dollar equals the fair value divided by the amortized cost. The District's fair value of the position in the pool is the same as the value of the pool shares.

The District maintains its cash accounts in commercial banks located in Monterey, California. Accounts are guaranteed by the Federal Depository Insurance Corporation (FDIC), the Securities Investment Protection Corporation (SIPC), or collateralized by the pledging institution under the California Government Code and unsecured and uncollateralized deposits in the California State Treasurer's Investment Pool (LAIF) and the CalTrust Investment Pool.

As of June 30, 2021, the District's deposits with financial institutions are either insured by the FDIC, SIPC or collateralized with pledged securities held in the trust department of the financial institutions not in the District's name. The total amount which the District's deposits exceeded insured limits at June 30, 2021 was $5,814,793.

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

Authorized Investments – The table below identifies the investment types that are authorized by the District's Investment Policy and are authorized by California Government Code. Maturities of investments will be selected based on liquidity requirements to minimize interest rate risk and maximize earnings.

Authorized Investment Type	Maximum Percentage of Portfolio
Investment Trust of California (CalTRUST)	100%
The Local Agency Investment Fund (LAIF)	50%
Certificates of Deposit insured by the FDIC	50%
United States Treasury Securities	50%
Triple A rated money market mutual funds regulated by the SEC	100%
FDIC insured deposits in banks	50%
Other prudent investment instruments authorized by CA Gov Code	50%

The District's general policy is to apply the prudent-investor rule: Investments are made as a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the District.

Investment in State Investment Pools – The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California and the CalTrust Joint Powers Authority under the oversight of the Wachovia Portfolio Services. The investment of state pooled funds is governed by state law, by policies adopted by the Pooled Money Investment Board (PMIB) and by accepted norms for prudent fiduciary management of investments. PMIB funds may be invested in a wide range of interest-bearing securities, such as Treasury notes, prime commercial paper, certain California municipal and agency obligations, highly rated corporate bonds, obligations of such agencies as Fannie Mae, and negotiable certificates of deposit. Also allowed are time deposits in California banks, savings and loans, and credit unions that have no less than a "satisfactory" CRA rating.

Deposits in LAIF are invested by the State Treasurer to realize the maximum return consistent with prudent treasury management. All earnings of the fund, less a reimbursement of management costs incurred not to exceed on quarter of one percent of earnings, are distributed to the contributing agencies in their relative share each quarter. The value of each participating dollar equals the fair value divided by the amortized cost. The District's fair value position in the pool is the same as the value of the pool shares. The District relied upon information provided by the State Treasurer in estimating the District's fair value position of its holding in LAIF. The District's deposits with LAIF are accounted for at cost which approximates fair value. The District's deposits with CalTrust are stated at fair market value. Increases or decreases in fair market value are recognized in the period in which they occur.

NOTE 4. CAPITAL ASSETS

Capital assets consist of the following at June 30:

	2020	ADDITIONS	TRANSFERS/ DELETIONS	2021
Capital assets being depreciated:				
Roads and bridges	$ 30,862,179	$ –	$ 195,874	$ 31,058,053
Water system	23,616,342	–	–	23,616,342
Wastewater system	4,343,339	–	–	4,343,339
Buildings	3,721,110	–	–	3,721,110
Machinery and equipment	1,201,887	155,994	(38,063)	1,319,818
Furniture and fixtures	344,701	23,596	–	368,297
Vehicles	734,765	176,052	–	910,817
Communication lines	205,500	–	–	205,500
Total cost	65,029,823	355,642	157,811	65,543,276
Accumulated depreciation:				
Roads and bridges	16,148,894	703,571	–	16,852,465
Water system	10,417,534	607,416	–	11,024,950
Wastewater system	1,624,047	109,453	–	1,733,500
Buildings	754,171	93,027	–	847,198
Machinery and equipment	651,898	92,787	(38,063)	706,622
Furniture and fixtures	344,701	1,966	–	346,667
Vehicles	555,940	102,560	–	658,500
Communication lines	70,389	5,138	–	75,527
Less accumulated depreciation	30,567,574	1,715,918	(38,063)	32,245,429
Total capital assets, being depreciated, net of depreciation	34,462,249	(1,360,276)	195,874	33,297,847
Capital assets not being depreciated:				
Construction in progress	294,314	289,866	(195,874)	388,306
Land	279,038	–	–	279,038
Total capital assets not being depreciated	573,352	289,866	(195,874)	667,344
Total capital assets, net of depreciation	$ 35,035,601	$ (1,070,410)	$ –	$ 33,965,191

NOTE 5. **LONG–TERM DEBT**

Long-term debt consists of the following at June 30, 2021:

Note payable to the Municipal Finance Corporation in the original amount of $1,821,000. The note bears interest at 3.65% per annum to be paid July 15 each year until maturity on July 15, 2028. The note is unsecured.	$ 1,091,612
Less current portion	119,956
Long-term debt	$ 971,656

Long-term debt repayments are as follows:

Fiscal year ended June 30:	Principal	Interest	Total
2023	$ 124,334	$ 35,466	$ 159,800
2024	128,873	30,927	159,800
2025	133,576	26,224	159,800
2026	138,452	21,348	159,800
2027 – 2029	446,421	32,979	479,400
Total	$ 971,656	$ 146,944	$ 1,118,600

A summary of the changes in long-term debt for the year ending June 30, 2021 is as follows:

	Beginning Balance 6/30/20	Additions	Payments	Ending Balance 6/30/21	Due Within One Year
Notes payable	$1,296,182	$ –	$ 204,570	$1,091,612	$ 119,956

NOTE 6. **UNRESTRICTED NET POSITION**

Unrestricted net position includes reserve funds set aside by management for specific uses. The balance of the unrestricted net position is available for spending at the District’s discretion. Designations are established by actions of the District’s board of directors and management and can be increased, reduced, or eliminated by similar actions.

The District currently has a policy in place to accumulate reserves for the replacement and improvement of the District’s capital assets and for seasonal or emergency working capital requirements. Reserves are funded based on the existence of an operating surplus at fiscal year-end, before depreciation and net of any capital reserves spent. As of June 30, 2021, the entire unrestricted net position of $4,539,358 is designated for reserves.

NOTE 7. PROPERTY RELATED FEES

The District receives property related fees from the County of Monterey. The property related fees are charged to the individual lot owners in two components. One component is for wastewater collection and treatment. The next component is to cover the other activities of the District. This part of the assessment is allocated to the other activities of the District based on budgeted expenses. The breakdown for 2021 is as follows:

Water Service	$ 2,103,228
Wastewater Collection and Treatment	383,763
Road and Storm Drain Maintenance	1,633,656
Security Operations	1,097,159
Gatehouse Operations	853,537
Total property related fees	$ 6,071,343

The total number of parcels that were assessed in 2021 was 319. This total includes 297 full year residential parcels, 4 Ranch Club parcels, 3 Golf Club parcels, 12 employee housing parcels and 3 District parcels.

The District assesses for septic maintenance in the amount of $674 annually and sewer service in the amount of $2,835 annually. In 2021, $63,397 in assessments was made by the District for septic and $320,366 was made for sewer. These assessments are included in the property related fees above.

NOTE 8. TRANSACTIONS WITH AFFILIATED ORGANIZATIONS

The affiliate payable balance of $2,432,066 is due to the Santa Lucia Preserve Company.

The District provides potable water and irrigation to the Golf Club from a combination of recycled domestic wastewater, recycled golf course irrigation, and pumping from wells. The charge for water usage provided by the District for the Golf Club for the year ended June 30, 2021 was $214,668.

The District provides potable water and irrigation to the Ranch Club from a combination of recycled domestic wastewater and pumping from wells. The charge for water usage provided by the District for the Ranch Club for the year ended June 30, 2021 was $35,310.

The District contracts with the Preserve Company for personnel services. Salaries and related payroll expenses for the year ended June 30, 2021 directly charged to the District by the Preserve Company were $3,271,967.

The Preserve Company receives funds from the District for monthly operating expenses. The total of all funds received by the Preserve Company for the year ended June 30, 2021 was $4,700,000.

NOTE 8. TRANSACTIONS WITH AFFILIATED ORGANIZATIONS (Continued)

The District has a management services agreement with the Preserve Company. The District reimburses the Preserve Company for operating expenses incurred. Administrative costs for the year ended June 30, 2021 were $842,527.

The District contracts with Santa Lucia Preserve Housing, LLC to manage the employee and inclusionary housing units. The District receives a management fee of $7,200 per year for such services.

The District uses and operates equipment which are leased by the Preserve Company. The District's obligation is to pay the lessor directly for leases pertaining to equipment utilized by the District. The District expenses all lease payments. Lease expense for the year ended June 30, 2021 was $2,390. The current leased equipment terms are on a month-to-month basis.

NOTE 9. RISK MANAGEMENT

The District is insured against various risks of loss related to torts, thefts of, damage or destruction of assets; errors and omissions; work-related injuries to employees and natural disasters through participation in a joint venture under a joint powers agreement (JPA) with the Special District Risk Management Authority (SDRMA). The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes. The insurance carried by the District includes policies for workers' compensation, general liability, errors and omissions, and vehicular liability.

There have not been any significant reductions in insurance coverage as compared to the previous year. Settled claims from these risks have not exceeded commercial coverage.

SDRMA was formed under a joint powers agreement pursuant to California Government Code Section 6500 et seq. effective August 1, 1986 to provide general liability, comprehensive/collision liability and property damage, and errors and omissions risk financing for the member districts. SDRMA is administered by a Board of Directors, consisting of one member appointed by the California Special Districts Association and five members elected by the districts participating. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

The SDRMA did not have long-term debt outstanding at June 30, 2021, other than claims liabilities and capital lease obligations. The District's share of year-end assets, liabilities and risk margin has not been calculated by the SDRMA.

NOTE 10. JOINT POWERS AGREEMENTS

The District participates in a joint venture under a joint powers agreement (JPA) with the Monterey County Regional Fire District (Fire District). The Fire District provides fire protection and paramedic services to Carmel Valley and surrounding areas. The Fire District provides paramedic coverage, fire protection planning and fire response services on the Preserve per its separate funding sources which are primarily made up of county tax assessments. The two special districts cooperate on many programs and several District personnel are volunteers with the Fire District. The District and the Fire District contract or reimburse each other for certain services or equipment as needed.

The District participates in a joint venture under a joint powers agreement (JPA) with the Investment Trust of California (CalTrust). CalTrust is a Joint Powers Authority created by public agencies to provide a convenient method for public agencies to pool their assets for investment purposes. CalTrust is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. The Board sets overall policies for the program and selects and supervises the activities of the investment manager and other agents. The purpose of CalTrust is to consolidate investment activities of the Participants and thereby reduce duplication, achieve economies of scale and carry out coherent and consolidated investment strategies.

NOTE 11. COMMITMENTS

The District's signed commitments for the year ended June 30, 2021 are as follows:

Vendor/Contractor	Project	Contract Limit	Outstanding at June 30, 2021
BlackWater Consulting Engineers	Water Treatment Plant	$63,998	$22,053
Justin Pauly Architects	Fire Building	$28,500	$14,172

NOTE 12. AUTHORITATIVE PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021. Earlier application is encouraged. The District has no plan for early implementation of this Statement. At this time the District is not certain of the effect the adoption of Statement No. 87 will have on the accompanying financial statements.

NOTE 12. AUTHORITATIVE PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED (Continued)

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement established accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The District has no plans for early implementation of this Statement. At this time the District is not certain of the effect the adoption of Statement No. 89 will have on the accompanying financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged. The District has no plans for early implementation of this Statement. At this time the District is not certain of the effect of the adoption of Statement No. 92 will have on the accompanying financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. At this time the District is not certain of the effect of the adoption of Statement No. 92 will have on the accompanying financial statements.

NOTE 12. <u>AUTHORITATIVE PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED (Continued)</u>

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with Statement No. 87, Leases, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. At this time the District is not certain of the effect of the adoption of Statement No. 93 will have on the accompanying financial statements.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.* The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The District has no plan for early implementation of this Statement. At this time the District is not certain of the effect the adoption of Statement No. 94 will have on the accompanying financial statements.

NOTE 12. AUTHORITATIVE PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED (Continued)

In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The District has no plan for early implementation of this Statement. At this time the District is not certain of the effect the adoption of Statement No. 96 will have on the accompanying financial statements.

In June 2020, GASB issued Statement No. 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The District has no plan for early implementation of this Statement. At this time the District is not certain of the effect the adoption of Statement No. 97 will have on the accompanying financial statements.