SANTA LUCIA COMMUNITY SERVICES DISTRICT

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

FOR THE YEAR ENDED
JUNE 30, 2018

SANTA LUCIA COMMUNITY SERVICES DISTRICT

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SANTA LUCIA COMMUNITY SERVICES DISTRICT

Board of Directors and Officers

June 30, 2018

Mark Boitano	Chairman
Barbara Santry	Vice-Chairman
Andrew Simer	Treasurer / Financial Officer
Forrest Arthur	Secretary / General Manager
Carl Eklund	Director
John Gamble	Director
David Maddox	Director
Allen Finley	Advisor
David Rinaldo	Advisor
Melissa Thorme	Advisor

HAYASHI | WAYLAND

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, 2018, 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, 2018, 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.

November 13, 2018

Hayashi Wayland, LLP

SANTA LUCIA COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

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, 2018. 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 2017 by 17.87% to $6,864,587 in fiscal year end 2018 and Operating expenses exclusive of depreciation decreased by 1.56% to $5,371,964.
- In fiscal year end 2018 Operating revenues increased over Operating revenues from fiscal year end 2017 by $1,040,580.
- Operating expenses exclusive of depreciation for fiscal year end 2018 decreased from fiscal year end 2017 by $84,911.

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

	2018	2017	% Change
Current assets	$ 4,440,319	$ 3,799,086	16.88%
Capital assets – net	37,415,637	38,957,040	(3.96%)
Total assets	41,855,956	42,756,126	(2.11%)
Current liabilities	618,706	1,049,100	(41.03%)
Noncurrent liabilities	1,365,186	1,470,226	(7.14%)
Total liabilities	1,983,892	2,519,326	(21.25%)
Net investment in capital assets	35,988,914	37,426,384	(3.84%)
Unrestricted	3,883,150	2,810,416	38.17%
Total net position	$ 39,872,064	$ 40,236,800	(0.91%)

The District's net position at June 30, 2018 decreased by 0.91% compared to June 30, 2017. Total assets decreased by 2.11% to $41,855,956 due primarily to construction in progress of $44,913 and capital additions of $249,541 being offset by $1,835,857 in depreciation. Total liabilities decreased 21.25% to $1,983,892 due to the timing on payments to affiliate and payment on long-term debt.

Changes in Net Position

Operating revenues increased by $1,040,580 to $6,864,587. Operating revenues were higher than the prior fiscal year primarily due to an adjustment each year continuing through fiscal year 2020–2021 based on election results approving up to a 4% increase each year and an assessment for fiber optic of $765,004. Property related fees are inclusive of water, wastewater, roads and security. The remaining increases were from general operations.

Operating expenses exclusive of depreciation decreased by $84,911 to $5,371,964. Water service expenses decreased by $550,419, primarily due to lower costs during the year for fiber optic deployment. Wastewater collection and treatment decreased by $11,344 primarily due to lower expenses related to parts and supplies for the new plant. Road and storm drain maintenance expenses increased by $470,054 primarily due to $460,870 in road repairs (slurry and paving; guardrail construction) versus $116,278 in the prior year for a net increase of $344,592. Other increases included Community Projects, auto and equipment expenses. Security operations decreased by $31,618 due to lower repairs and maintenance charges for gates combined with lower payroll expenses due to attrition.

COMPARATIVE ANALYSIS (Continued)

Gatehouse operations decreased by $785 primarily due to lower repairs and maintenance charges for gates. General and administrative expenses increased by $39,201 primarily due to higher expenses attributed to the New Corporation Yard and an increase in Insurance Property/Liability premiums.

Summary of Changes in Net Position

	2018	2017	% Change
Operating revenues:			
Property related fees	$ 6,155,200	$ 5,181,156	18.80%
Water usage	427,669	391,751	9.17%
Other community revenue	229,331	193,545	18.49%
Miscellaneous income	34,387	49,555	(30.61%)
Meter connection charges	18,000	8,000	125.00%
Total operating revenues	6,864,587	5,824,007	17.87%
Operating expenses:			
Water service	1,486,369	2,036,788	(27.02%)
Wastewater collection and treatment	196,753	208,097	(5.45%)
Road and storm drain maintenance	1,460,378	990,324	47.46%
Security operations	608,252	639,870	(4.94%)
Gatehouse operations	439,505	440,290	(0.18%)
General and administrative	1,180,707	1,141,506	3.43%
Total operating expenses before depreciation	5,371,964	5,456,875	(1.56%)
Operating income before depreciation	1,492,623	367,132	306.56%
Depreciation	1,835,857	1,808,171	1.53%
Operating income (loss)	(343,234)	(1,441,039)	76.18%
Nonoperating revenues (expenses):			
Interest revenue	30,259	20,844	45.17%
Gain/(loss) on sale of investments	(10,486)	(6,704)	56.41%
Gain/(loss) on sale of assets	10,800	14,500	(25.52%)
Interest expense	(52,075)	(55,869)	(6.79%)
Total nonoperating revenues (expenses)	(21,502)	(27,229)	(21.03%)
Change in net position	(364,736)	(1,468,268)	(75.16%)
Net position – beginning of year	40,236,800	41,705,068	(3.52%)
Net position – end of year	$ 39,872,064	$ 40,236,800	(0.91%)

COMPARATIVE ANALYSIS (Continued)

	Operating Revenues			Operating Expenses			Operating Income (Loss)		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Water service	$ 3,083,548	$ 2,201,587	40.06%	$1,486,369	$2,036,788	(27.02%)	$1,597,179	$ 164,799	869.17%
Wastewater collection and treatment	334,415	319,805	4.57%	196,753	208,097	(5.45%)	137,662	111,708	23.23%
Road and storm drain maintenance	1,688,167	1,596,457	5.74%	1,460,378	990,324	47.46%	227,789	606,133	(62.42%)
Security operations	1,016,811	1,007,945	0.88%	608,252	639,870	(4.94%)	408,559	368,075	11.00%
Gatehouse operations	741,646	698,213	6.22%	439,505	440,290	(0.18%)	302,141	257,923	17.14%
General and administrative	–	–	0.00%	1,180,707	1,141,506	3.43%	(1,180,707)	(1,141,506)	(3.43%)
Total	$ 6,864,587	$ 5,824,007	17.87%	$5,371,964	$5,456,875	(1.56%)	$1,492,623	$ 367,132	306.56%

- Administration includes senior management, administrative and accounting staff, along with organization wide supplies and services, such as human resources, computer network and telephone systems.

- Operating expenses above do not include depreciation.

- Operating expenses for water service include $19,162 for fiber optic deployment whereas the prior year included $662,973.

BUDGET HIGHLIGHTS

The District exceeded its budgeted operating revenues of $6.3 million for the fiscal year 2018. The District ended the fiscal year with approximately $605,000 more than budget for operating revenues as a result of an assessment for fiber optic of $765,000 offset by the Roads and Drainage department which had decreased revenues from reimbursements for equipment and mechanic labor service charges and community related projects.

The District's budget projected operating expenses, excluding depreciation, of $5.6 million for fiscal year 2018. The District ended the fiscal year with approximately $206,000 less than budget for total expenses as a result of added expenditures for the exploration of placing fiber-optic cable within the Preserve, and the engineering and legal expenses exploring the potential for enhanced cellular communications.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets, net of accumulated depreciation, at June 30, 2018 totaled $37,415,637. This amount represents a net decrease of $1,541,403, which is primarily depreciation expense, or 3.96% from 2017.

This year's capital asset additions:

- Construction in progress for $44,913
- Vehicles for $138,834
- Machinery and equipment $110,707

Capital Assets – Net of Accumulated Depreciation

	2018	2017	% Change
Roads and bridges	$ 16,070,368	$ 16,918,158	(5.01%)
Water system	14,178,932	14,720,730	(3.68%)
Wastewater system	2,925,518	3,033,812	(3.57%)
Buildings	3,152,995	3,204,530	(1.61%)
Machinery and equipment	345,381	331,981	4.04%
Furniture and fixtures	13,646	25,343	(46.15%)
Vehicles	304,373	251,769	20.89%
Communication lines	145,386	150,524	(3.41%)
Construction in progress	–	41,155	(100.00%)
Land	279,038	279,038	0.00%
Total	$ 37,415,637	$ 38,957,040	(3.96%)

Debt Administration

At June 30, 2018, the District had $1.4 million in long-term debt related to the construction of a corporate yard.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In fiscal year ended June 30, 2018, water sales were higher than prior year due to continued development within the community.

The Budget for the fiscal year ending 2019, despite a modest increase, reflects these impacts. Water rates for the District are not anticipated to change for the fiscal year 2019 budget cycle. In fiscal year end 2019, property related fees are anticipated to increase for water, roads, security and sewer services over fiscal year end 2018 by 4.7%, which is an increase of approximately $219,984.

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 Andrew Simer, Chief Financial Officer, at (831) 620-6706.

BASIC FINANCIAL STATEMENTS

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SANTA LUCIA COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Enterprise Fund
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 4,268,704
Accounts receivable:	
Property related fees	72,367
Other receivable – net	56,009
Prepaid expenses	32,863
Inventory	10,376
Total current assets	4,440,319
CAPITAL ASSETS – NET	37,415,637
TOTAL ASSETS	$ 41,855,956
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	$ 163,908
Affiliate payable	68,311
Accrued liabilities	170,990
Accrued compensated absences	107,772
Long-term debt – current portion	107,725
Total current liabilities	618,706
NONCURRENT LIABILITIES:	
Accrued compensated absences	46,188
Long-term debt	1,318,998
Total noncurrent liabilities	1,365,186
TOTAL LIABILITIES	$ 1,983,892
NET POSITION	
Net investment in capital assets	$ 35,988,914
Unrestricted	3,883,150
TOTAL NET POSITION	$ 39,872,064

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, 2018

	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:							
General assessment	$ 1,869,756	$ 333,960	$ 1,452,312	$ 1,004,050	$ 730,118	$ –	$ 5,390,196
Fiber optic assessment	765,004	–	–	–	–	–	765,004
Water usage:							
Preserve Golf Club	202,487	–	–	–	–	–	202,487
Residential	191,894	–	–	–	–	–	191,894
Ranch Club	33,288	–	–	–	–	–	33,288
Other community revenue	–	–	229,331	–	–	–	229,331
Miscellaneous income	3,119	455	6,524	12,761	11,528	–	34,387
Meter connection charges	18,000	–	–	–	–	–	18,000
Total operating revenues	3,083,548	334,415	1,688,167	1,016,811	741,646	–	6,864,587
OPERATING EXPENSES:							
Salaries and wages	688,343	75,563	594,782	348,536	230,793	346,757	2,284,774
Employee benefits	130,616	10,409	107,658	59,888	42,565	56,449	407,585
Management fee	–	–	–	–	–	518,883	518,883
Auto lease and expense	19,820	2,663	19,234	9,354	–	–	51,071
Chemicals	3,680	1,703	–	–	–	–	5,383
Contract labor	21,987	11,391	20,307	1,198	28,240	79	83,202
Education and seminars	8,601	–	478	–	1,168	–	10,247
Equipment expense	–	–	50,018	–	–	–	50,018
Fees and collection charges	–	–	–	–	–	27,510	27,510
Fiber optic	19,162	–	–	–	–	–	19,162
Fuel, oil and propane	30,797	2,880	36,940	22,388	–	2,626	95,631
Gate operating expense	–	–	–	14,162	11,351	–	25,513
Gatehouse overhead	–	–	–	–	32,121	–	32,121
Insurance	–	–	–	–	–	63,608	63,608
Legal and professional fees	–	–	–	–	–	56,769	56,769
Miscellaneous	19,672	–	2,640	1,128	44	44,716	68,200
Office expenses	5,387	–	1,451	2,617	1,266	7,742	18,463
Payroll taxes	50,205	6,165	43,055	23,855	19,908	16,867	160,055
Pension (401(k) match)	24,861	–	14,219	3,712	4,804	11,058	58,654
Permits and fees	7,454	7,766	11,911	–	–	–	27,131
Radios and pagers	–	–	–	1,161	–	–	1,161
Recruitment	328	–	–	–	104	798	1,230
Refuse removal	–	5,400	(97)	–	–	–	5,303
Repairs and maintenance	174,943	10,583	461,094	56,294	24,941	360	728,215
Residential lot projects	–	–	53,718	–	–	–	53,718
Total forward	$ 1,205,856	$ 134,523	$ 1,417,408	$ 544,293	$ 397,305	$ 1,154,222	$ 4,853,607

	Water Service	Wastewater Collection and Treatment	Road and Storm Drain Maintenance	Security Operations	Gatehouse Operations	General and Administrative	Total
	Enterprise Activities						
Total forward	$ 1,205,856	$ 134,523	$ 1,417,408	$ 544,293	$ 397,305	$ 1,154,222	$ 4,853,607
Road maintenance	–	–	27,297	–	–	–	27,297
Septic maintenance	–	5,592	–	–	–	–	5,592
Small tools and equipment	15,233	432	3,230	–	–	–	18,895
Supplies	59,074	14,005	3,113	1,777	3,942	5,959	87,870
Telephone	13,107	3,237	4,566	49,019	24,405	16,166	110,500
Testing	17,038	14,647	–	–	–	–	31,685
Uniforms	5,229	298	4,590	2,209	4,160	3,001	19,487
Utilities	150,272	24,019	174	10,954	7,327	1,359	194,105
Vehicle I.D. expense	–	–	–	–	2,366	–	2,366
Water meter expenses	20,560	–	–	–	–	–	20,560
General and administrative allocation	465,585	74,573	302,393	195,786	142,370	(1,180,707)	–
Total operating expenses before depreciation	1,951,954	271,326	1,762,771	804,038	581,875	–	5,371,964
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	1,131,594	63,089	(74,604)	212,773	159,771	–	1,492,623
DEPRECIATION	646,899	114,960	967,455	57,760	48,783	–	1,835,857
OPERATING INCOME (LOSS)	484,695	(51,871)	(1,042,059)	155,013	110,988	–	(343,234)
NONOPERATING REVENUES (EXPENSES):							
Interest revenue	11,931	1,911	7,750	5,018	3,649	–	30,259
Gain (loss) on sale of investments	(4,135)	(662)	(2,686)	(1,739)	(1,264)	–	(10,486)
Gain (loss) on sale of assets	3,800	–	7,000	–	–	–	10,800
Interest expense	(20,535)	(3,289)	(13,337)	(8,635)	(6,279)	–	(52,075)
Total nonoperating revenues (expenses)	(8,939)	(2,040)	(1,273)	(5,356)	(3,894)	–	(21,502)
CHANGE IN NET POSITION	475,756	(53,911)	(1,043,332)	149,657	107,094	–	(364,736)
NET POSITION, BEGINNING OF YEAR	15,583,674	1,982,053	19,073,176	2,948,000	649,897	–	40,236,800
NET POSITION, END OF YEAR	$ 16,059,430	$ 1,928,142	$ 18,029,844	$ 3,097,657	$ 756,991	$ –	$ 39,872,064

See Notes to Basic Financial Statements.

SANTA LUCIA COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from residents and customers	$ 6,970,493
Cash payments to employees	(2,902,111)
Cash payments to suppliers for goods and services	(2,923,189)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,145,193
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Payments on long-term debt	(103,933)
Additions to capital assets	(294,454)
Interest paid	(52,075)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(450,462)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Realized gain (loss) on investments	(10,486)
Interest income received	30,259
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	19,773
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	714,504
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,554,200
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,268,704
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	$ (343,234)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	1,835,857
Gain on sale of assets	10,800
(Increase) decrease in:	
Property related fees receivable	662
Other receivable	94,444
Prepaid expenses	(20,600)
Inventory	(1,235)
Increase (decrease) in:	
Accounts payable	(81,722)
Affiliate payable	(297,395)
Accrued liabilities	(61,341)
Accrued compensated absences	8,957
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 1,145,193

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 Ranch Club may issue up to 400 equity memberships. The District provides security, road maintenance, water supply, wastewater disposal and solid waste disposal to the Ranch Club.

NOTE 1. THE FINANCIAL REPORTING ENTITY (Continued)

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 Golf Club may issue 300 equity memberships. 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 insure 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, 2018, the allowance was estimated to be $53,905.

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 market. 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 Districts 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 costs, 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.

Subsequent Events – Subsequent events have been evaluated through November 13, 2018, 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, 2018 consisted of the following:

CalTrust Investment Pool	$ 1,110,887
Deposits with financial institutions	3,052,868
Local Agency Investment Fund	104,949
Total	$ 4,268,704

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, 2018, 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, 2018 was $3,345,552.

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:

	2017	ADDITIONS	TRANSFERS/ DELETIONS	2018
Capital assets being depreciated:				
Roads and bridges	$ 30,821,937	$ –	$ –	$ 30,821,937
Water system	23,368,193	–	44,919	23,413,112
Wastewater system	4,331,747	–	–	4,331,747
Buildings	3,679,961	–	41,149	3,721,110
Machinery and equipment	762,593	110,707	(27,022)	846,278
Furniture and fixtures	344,701	–	–	344,701
Vehicles	522,853	138,834	–	661,687
Communication lines	205,500	–	–	205,500
Total cost	64,037,485	249,541	59,046	64,346,072
Accumulated depreciation:				
Roads and bridges	13,903,779	847,790	–	14,751,569
Water system	8,647,463	586,717	–	9,234,180
Wastewater system	1,297,935	108,294	–	1,406,229
Buildings	475,431	92,684	–	568,115
Machinery and equipment	430,612	97,307	(27,022)	500,897
Furniture and fixtures	319,358	11,697	–	331,055
Vehicles	271,084	86,230	–	357,314
Communication lines	54,976	5,138	–	60,114
Total accumulated depreciation	25,400,638	1,835,857	(27,022)	27,209,473
Total capital assets, being depreciated, net of depreciation	38,636,847	(1,586,316)	86,068	37,136,599
Capital assets not being depreciated:				
Construction in progress	41,155	44,913	(86,068)	–
Land	279,038	–	–	279,038
Total capital assets not being depreciated	320,193	44,913	(86,068)	279,038
Total capital assets – net	$ 38,957,040	$ (1,541,403)	$ –	$ 37,415,637

NOTE 5. LONG–TERM DEBT

Long-term debt consists of the following at June 30, 2018:

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.	$ 1,426,723
Less current portion	107,725
Long-term debt	$ 1,318,998

Long-term debt repayments are as follows:

Fiscal year ended June 30:

	Principal	Interest	Total
2019	$ 107,725	$ 52,075	$ 159,800
2020	111,656	48,144	159,800
2021	115,732	44,068	159,800
2022	119,956	39,844	159,800
2023	124,334	35,466	159,800
2024 – 2028	693,149	105,851	799,000
2029	154,171	5,627	159,798
Total	$ 1,426,723	$ 331,075	$ 1,757,798

A summary of the changes in long-term debt for the year ending June 30, 2018 is as follows:

	Beginning Balance 6/30/17	Additions	Payments	Ending Balance 6/30/18	Due Within One Year
Note payable	$ 1,530,656	$ –	$ 103,933	$ 1,426,723	$ 107,725

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, 2018, the entire unrestricted net position of $3,883,150 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 2018 is as follows:

Water Service	$ 1,869,756
Wastewater Collection and Treatment	333,960
Road and Storm Drain Maintenance	1,452,312
Security Operations	1,004,050
Gatehouse Operations	730,118
Total property related fees	$ 5,390,196

In addition, the District assessed a property related fee for fiber optic of $765,004.

The total number of parcels that were assessed in 2018 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 $600 annually and sewer service in the amount of $2,520 annually. In 2018, $49,162 in assessments was made by the District for septic and $284,798 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 $68,311 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, 2018 was $202,487.

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, 2018 was $33,288.

The District contracts with the Preserve Company for personnel services. Salaries and related payroll expenses for the year ended June 30, 2018 directly charged to the District by the Preserve Company were $2,874,843.

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, 2018 was $5,425,000.

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, 2018 were $518,883.

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, 2018 was $4,308. Assuming the District continues use of the current leased equipment, future minimum lease payments under operating leases for the year ended June 30 are as follows:

2019	$	1,973
2020		1,973
2021		987
	$	4,933

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, 2018, 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, 2018 are as follows:

	Contracted Limit	Outstanding at June 30, 2018
AT&T California – Fiber optic	$ 1,300,000	$ 650,000

Fiber Optic – At a total cost of $1.53M, the District is directing the installation of fiber-optic cable within the Preserve community, beginning in the prior fiscal year. The installation began at the Preserve Gatehouse and will proceed into and throughout the community to all affected and assessable parcels. It was expected the installation would be fully completed during fiscal year ending June 30, 2018, and with Preserve property owner approval obtained and verified in September 2016, funding will be at the rate of $4,951.46 per lot. Following District survey and election results, the importance to the Preserve community to expedite this project was apparent. The District's unrestricted net position will be utilized to fund the project and will be replenished in Tax Year 2017-18 and 2018-19. Current and future fiber optic costs, and revenues derived from funds assessed for the project, are being reported departmentally on the statement of revenues, expenses and changes in net position. As of June 30, 2018, the installation was not yet fully completed.

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

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefore. This Statement requires similar disclosures for a government's minority shares of AROs. The requirements in this Statement are effective for fiscal years beginning after June 30, 2018. 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. 83 will have on the accompanying financial statements.

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 30, 2020. 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 April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledge as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. 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. 88 will have on the accompanying financial statements.

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, 2019. 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.

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

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements 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. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement established that ownership of majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. 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. 90 will have on the accompanying financial statements.