SANTA LUCIA COMMUNITY SERVICES DISTRICT

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

FOR THE YEAR ENDED
JUNE 30, 2020

SANTA LUCIA COMMUNITY SERVICES DISTRICT

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SANTA LUCIA COMMUNITY SERVICES DISTRICT

Board of Directors and Officers

June 30, 2020

Mark Boitano	Chairman
Barbara Santry	Vice-Chairman
Mike Saeidi	Treasurer / Financial Officer
Forrest Arthur	Secretary / General Manager
Carl Eklund	Director
Allen Finley	Director
Melissa Thorme	Director
Scot Smythe	Advisor
William Dorey	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, 2020, 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, 2020, 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

February 15, 2021
Salinas, California

SANTA LUCIA COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020

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, 2020. 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 decreased from fiscal year end 2019 by 5.09% to $6,560,575 in fiscal year end 2020 and operating expenses exclusive of depreciation increased by 3.26% to $5,914,534.
- In fiscal year end 2020 operating revenues decreased over operating revenues from fiscal year end 2019 by $351,577.
- Operating expenses exclusive of depreciation for fiscal year end 2019 increased from fiscal year end 2019 by $186,783.

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

	2020	2019	% Change
Current assets	$ 6,459,432	$ 5,262,700	22.74%
Capital assets – net	35,035,601	36,226,991	(3.29%)
Total assets	41,495,033	41,489,691	0.01%
Current liabilities	1,816,053	717,324	153.17%
Noncurrent liabilities	1,265,899	1,363,080	(7.13%)
Total liabilities	3,081,952	2,080,404	48.14%
Net investment in capital assets	33,739,419	34,907,993	(3.35%)
Unrestricted	4,673,662	4,501,294	3.83%
Total net position	$ 38,413,081	$ 39,409,287	(2.53%)

The District's net position at June 30, 2020 decreased by 2.53% compared to June 30, 2019. Total assets increased by 0.01% to $41,495,033 due primarily to construction in progress of $236,490 and capital additions of $253,737 being offset by $1,681,617 in depreciation, as well as an increase in cash and cash equivalents. Total liabilities increased 48.14% to $3,081,952 due to the timing on payments to affiliate and an increase in accounts payable being offset by payments on long-term debt.

Changes in Net Position

Operating revenues decreased by $351,577 to $6,560,575. Operating revenues were lower than the prior fiscal year primarily due to the non-reoccurring additional assessment for fiber optic offset by an adjustment each year 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. The remaining changes were from general operations.

Operating expenses exclusive of depreciation increased by $186,783 to $5,914,534. Water service expenses decreased by $632,898, primarily due to costs during the prior year for fiber optic deployment which did not reoccur. Wastewater collection and treatment expenses changes were negligible. Road and storm drain maintenance expenses increased by $563,485 primarily due to $566,823 in road repairs (slurry and paving) in the current year versus $96,661 in the prior year for a net increase of $470,162. Security operations increased by $57,724 due to higher payroll expenses due to filling an FTE position held open in the prior year. Gatehouse operations increased by $58,442 over the prior period primarily due to higher payroll expenses related to replacing an FTE at a higher starting wage with full benefits. General and administrative expenses increased by $137,394 primarily due to higher compensation in the General Manager position and an allocation adjustment for the CEO position increasing expenses attributed to the Preserve Company administrative cost reimbursements.

COMPARATIVE ANALYSIS (Continued)

Summary of Changes in Net Position

	2020	2019	% Change
Operating revenues:			
Property related fees	$ 5,835,608	$ 6,264,971	(6.85%)
Water usage	472,433	424,498	11.29%
Other community revenue	221,144	162,502	36.09%
Miscellaneous income	29,390	48,181	(39.00%)
Meter connection charges	2,000	12,000	(83.33%)
Total operating revenues	6,560,575	6,912,152	(5.09%)
Operating expenses:			
Water service	1,463,981	2,096,879	(30.18%)
Wastewater collection and treatment	224,288	221,652	1.19%
Road and storm drain maintenance	1,593,932	1,030,447	54.68%
Security operations	681,576	623,852	9.25%
Gatehouse operations	522,633	464,191	12.59%
General and administrative	1,428,124	1,290,730	10.64%
Total operating expenses before depreciation	5,914,534	5,727,751	3.26%
Operating income (loss) before depreciation	646,041	1,184,401	(45.45%)
Depreciation	1,681,617	1,685,839	(0.25%)
Operating income (loss)	(1,035,576)	(501,438)	(106.52%)
Nonoperating revenues (expenses):			
Interest revenue	61,064	45,869	33.13%
Gain/(loss) on sale of investments	19,874	14,936	33.06%
Gain/(loss) on sale of assets	2,500	26,000	(90.38%)
Interest expense	(44,068)	(48,144)	(8.47%)
Total nonoperating revenues (expenses)	39,370	38,661	1.83%
Change in net position	(996,206)	(462,777)	(115.27%)
Net position – beginning of year	39,409,287	39,872,064	(1.16%)
Net position – end of year	$ 38,413,081	$ 39,409,287	(2.53%)

COMPARATIVE ANALYSIS (Continued)

	Operating Revenues			Operating Expenses			Operating Income (Loss)		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Water service	$ 2,500,661	$ 3,048,067	(17.96%)	$1,463,981	$2,096,879	(30.18%)	$1,036,680	$ 951,188	8.99%
Wastewater collection and treatment	369,784	353,346	4.65%	224,288	221,652	1.19%	145,496	131,694	10.48%
Road and storm drain maintenance	1,798,514	1,684,817	6.75%	1,593,932	1,030,447	54.68%	204,582	654,370	(68.74%)
Security operations	1,068,473	1,034,953	3.24%	681,576	623,852	9.25%	386,897	411,101	(5.89%)
Gatehouse operations	823,143	790,969	4.07%	522,633	464,191	12.59%	300,510	326,778	(8.04%)
General and administrative	–	–	0.00%	1,428,124	1,290,730	10.64%	(1,428,124)	(1,290,730)	(10.64%)
Total	$ 6,560,575	$ 6,912,152	(5.09%)	$5,914,534	$5,727,751	3.26%	$ 646,041	$ 1,184,401	(45.45%)

- 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.
- Operating expenses for water service include $-0- for fiber optic deployment whereas the prior year included $659,317.

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 $6.5 million for the fiscal year 2020. The District ended the fiscal year with approximately $60,000 more than budget for operating revenues as a result of the Roads and Drainage department which had increased revenues from community related projects.

The District's budget projected operating expenses, excluding depreciation, of $6.1 million for fiscal year 2020. The District ended the fiscal year with approximately $98,000 more than budget for total expenses as a result of higher than budgeted payroll expenses and health insurance costs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets, net of accumulated depreciation, at June 30, 2020 totaled $35,035,601. This amount represents a net decrease of $1,191,390, which is primarily depreciation expense, or 3.29% from 2019.

This year's capital asset additions:

- Construction in progress for $236,490
- Vehicles for $42,285
- Machinery and equipment for $206,369
- Wastewater system for $5,083

Capital Assets – Net of Accumulated Depreciation

	2020	2019	% Change
Roads and bridges	$ 14,713,285	$ 15,412,367	(4.54%)
Water system	13,198,808	13,621,446	(3.10%)
Wastewater system	2,719,292	2,823,408	(3.69%)
Buildings	2,966,939	3,059,967	(3.04%)
Machinery and equipment	549,989	419,049	31.25%
Furniture and fixtures	–	1,949	(100.00%)
Vehicles	178,825	239,810	(25.43%)
Communication lines	135,111	140,248	(3.66%)
Construction in progress	294,314	229,709	28.12%
Land	279,038	279,038	0.00%
Total	$ 35,035,601	$ 36,226,991	(3.29%)

Debt Administration

At June 30, 2020, the District had $1.3 million in long-term debt related to the construction of a corporate yard and the financing of a tractor.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Budget for the fiscal year ending 2021, despite a modest increase, reflects these impacts. Water rates for the District are not anticipated to change for the fiscal year 2021 budget cycle. In fiscal year end 2021, property related fees are anticipated to increase for water, roads, security, and sewer services over fiscal year end 2020 by 4.0%, which is an increase of approximately $233,000.

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, 2020

	Enterprise Fund
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 5,834,740
Accounts receivable:	
Property related fees	456,373
Other receivable – net	88,465
Prepaid expenses	74,134
Inventory	5,720
Total current assets	6,459,432
CAPITAL ASSETS – NET	35,035,601
TOTAL ASSETS	$ 41,495,033
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	$ 434,192
Affiliate payable	849,078
Accrued liabilities	178,697
Accrued compensated absences	149,516
Long-term debt – current portion	204,570
Total current liabilities	1,816,053
NONCURRENT LIABILITIES:	
Accrued compensated absences	64,078
Deferred revenue	110,209
Long-term debt	1,091,612
Total noncurrent liabilities	1,265,899
TOTAL LIABILITIES	$ 3,081,952
NET POSITION	
Net investment in capital assets	$ 33,739,419
Unrestricted	4,673,662
TOTAL NET POSITION	$ 38,413,081

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, 2020

	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	$ 2,020,875	$ 368,988	$ 1,570,061	$ 1,056,792	$ 818,892	$ –	$ 5,835,608
Water usage:							
Preserve Golf Club	211,656	–	–	–	–	–	211,656
Residential	225,989	–	–	–	–	–	225,989
Ranch Club	34,788	–	–	–	–	–	34,788
Other community revenue	–	–	221,144	–	–	–	221,144
Miscellaneous income	5,353	796	7,309	11,681	4,251	–	29,390
Meter connection charges	2,000	–	–	–	–	–	2,000
Total operating revenues	2,500,661	369,784	1,798,514	1,068,473	823,143	–	6,560,575
OPERATING EXPENSES:							
Salaries and wages	744,415	83,037	669,006	415,984	293,909	394,065	2,600,416
Employee benefits	129,940	10,531	123,206	70,576	64,363	58,418	457,034
Management fee	–	–	–	–	–	675,093	675,093
Auto lease and expense	17,512	2,067	23,964	7,429	–	–	50,972
Chemicals	2,199	5,400	–	–	–	–	7,599
Contract labor	15,078	16,904	1,596	8,916	30,083	–	72,577
Education and seminars	3,562	989	1,281	440	–	–	6,272
Equipment expense	(2,136)	300	42,498	–	–	–	40,662
Fees and collection charges	–	–	–	–	–	38,208	38,208
Fuel, oil, and propane	30,408	3,204	37,643	21,654	–	1,687	94,596
Gate operating expense	–	–	–	15,071	8,901	–	23,972
Gatehouse overhead	–	–	–	–	35,826	–	35,826
Insurance	–	–	–	–	–	93,318	93,318
Legal and professional fees	–	–	–	–	–	48,842	48,842
Miscellaneous	31,077	–	(8)	2,689	271	46,680	80,709
Office expenses	6,131	2	1,880	2,320	1,799	1,446	13,578
Payroll taxes	52,267	6,501	47,497	27,589	22,247	17,042	173,143
Pension (401(k) match)	26,510	2,031	12,981	4,835	5,768	14,550	66,675
Permits and fees	4,080	6,547	13,042	–	–	–	23,669
Radios and pagers	758	–	1,345	637	–	–	2,740
Refuse removal	449	5,279	511	–	–	–	6,239
Repairs and maintenance	134,055	26,713	566,823	36,290	12,091	10,588	786,560
Residential lot projects	–	–	11,770	–	–	–	11,770
Total forward	$ 1,196,305	$ 169,505	$ 1,555,035	$ 614,430	$ 475,258	$ 1,399,937	$ 5,410,470

	Enterprise Activities						
	Water Service	Wastewater Collection and Treatment	Road and Storm Drain Maintenance	Security Operations	Gatehouse Operations	General and Administrative	Total
Total forward	$ 1,196,305	$ 169,505	$ 1,555,035	$ 614,430	$ 475,258	$ 1,399,937	$ 5,410,470
Road maintenance	–	–	19,772	–	–	–	19,772
SCADA improvements	368	–	–	–	–	–	368
Septic maintenance	729	7,295	–	–	–	–	8,024
Small tools and equipment	10,422	133	3,481	–	–	–	14,036
Supplies	47,774	10,599	5,010	2,090	5,931	5,734	77,138
Telephone	14,874	4,001	3,093	51,583	20,962	19,572	114,085
Testing	12,393	15,252	–	–	–	–	27,645
Uniforms	5,496	559	7,364	1,105	4,824	3,114	22,462
Utilities	160,920	16,944	177	12,368	7,782	(233)	197,958
Vehicle I.D. expense	–	–	–	–	7,876	–	7,876
Water meter expenses	14,700	–	–	–	–	–	14,700
General and administrative allocation	547,985	89,550	339,495	254,154	196,940	(1,428,124)	–
Total operating expenses before depreciation	2,011,966	313,838	1,933,427	935,730	719,573	–	5,914,534
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	488,695	55,946	(134,913)	132,743	103,570	–	646,041
DEPRECIATION	664,517	116,194	798,857	53,158	48,891	–	1,681,617
OPERATING INCOME (LOSS)	(175,822)	(60,248)	(933,770)	79,585	54,679	–	(1,035,576)
NONOPERATING REVENUES (EXPENSES):							
Interest revenue	23,431	3,829	14,516	10,867	8,421	–	61,064
Gain (loss) on sale of investments	7,626	1,246	4,724	3,537	2,741	–	19,874
Gain (loss) on sale of assets	–	–	2,500	–	–	–	2,500
Interest expense	(16,909)	(2,763)	(10,476)	(7,843)	(6,077)	–	(44,068)
Total nonoperating revenues (expenses)	14,148	2,312	11,264	6,561	5,085	–	39,370
CHANGE IN NET POSITION	(161,674)	(57,936)	(922,506)	86,146	59,764	–	(996,206)
NET POSITION, BEGINNING OF YEAR	15,851,405	1,869,904	17,578,775	3,235,141	874,062	–	39,409,287
NET POSITION, END OF YEAR	$ 15,689,731	$ 1,811,968	$ 16,656,269	$ 3,321,287	$ 933,826	$ –	$ 38,413,081

See Notes to Basic Financial Statements.

SANTA LUCIA COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from residents and customers	$ 6,730,749
Cash payments to employees	(3,235,439)
Cash payments to suppliers for goods and services	(1,701,395)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,793,915
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Payments on long-term debt	(111,654)
Additions to capital assets	(401,389)
Interest paid	(44,068)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(557,111)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Realized gain (loss) on investments	19,874
Interest income received	61,064
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	80,938
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,317,742
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,516,998
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,834,740
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	$ (1,035,576)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	1,681,617
Gain on sale of assets	2,500
(Increase) decrease in:	
Property related fees receivable	(139,439)
Other receivable	(9,163)
Affiliate receivable	316,276
Prepaid expenses	(46,488)
Inventory	(176)
Increase (decrease) in:	
Accounts payable	149,397
Affiliate payable	849,078
Accrued liabilities	(35,940)
Accrued compensated absences	61,829
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 1,793,915
SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES –	
Purchase of equipment on account	$ 88,838

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. 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 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, 2020, 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 May 2020, GASB issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance.* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The implementation of this statement had no impact on the accompanying financial statements.

Subsequent Events – Subsequent events have been evaluated through February 15, 2021, 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, 2020 consisted of the following:

CalTrust Investment Pool	$ 1,193,752
Deposits with financial institutions	4,531,132
Local Agency Investment Fund	109,856
Total	$ 5,834,740

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, 2020, 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, 2020 was $4,222,855.

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:

	2019	ADDITIONS	TRANSFERS/ DELETIONS	2020
Capital assets being depreciated:				
Roads and bridges	$ 30,862,179	$ –	$ –	$ 30,862,179
Water system	23,444,457	–	171,885	23,616,342
Wastewater system	4,338,256	5,083	–	4,343,339
Buildings	3,721,110	–	–	3,721,110
Machinery and equipment	995,518	206,369	–	1,201,887
Furniture and fixtures	344,701	–	–	344,701
Vehicles	692,480	42,285	–	734,765
Communication lines	205,500	–	–	205,500
Total cost	64,604,201	253,737	171,885	65,029,823
Accumulated depreciation:				
Roads and bridges	15,449,812	699,082	–	16,148,894
Water system	9,823,011	594,523	–	10,417,534
Wastewater system	1,514,848	109,199	–	1,624,047
Buildings	661,143	93,028	–	754,171
Machinery and equipment	576,469	75,429	–	651,898
Furniture and fixtures	342,752	1,949	–	344,701
Vehicles	452,670	103,270	–	555,940
Communication lines	65,252	5,137	–	70,389
Less accumulated depreciation	28,885,957	1,681,617	–	30,567,574
Total capital assets, being depreciated, net of depreciation	35,718,244	(1,427,880)	171,885	34,462,249
Capital assets not being depreciated:				
Construction in progress	229,709	236,490	(171,885)	294,314
Land	279,038	–	–	279,038
Total capital assets not being depreciated	508,747	236,490	(171,885)	573,352
Total capital assets, net of depreciation	$ 36,226,991	$ (1,191,390)	$ –	$ 35,035,601

NOTE 5. LONG–TERM DEBT

Long-term debt consists of the following at June 30, 2020:

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.	$ 1,207,344
Note payable to John Deere Financial in the original amount of $88,838. The note bears interest at 4.7% per annum to be paid in monthly installments of $1,562 until maturity on May 16, 2025. The note is secured by equipment. The note was paid off in December 2020.	88,838
Total	1,296,182
Less current portion	204,570
Long-term debt	$ 1,091,612

Long-term debt repayments are as follows:

Fiscal year ended June 30:	Principal	Interest	Total
2022	$ 119,956	$ 39,844	$ 159,800
2023	124,334	35,466	159,800
2024	128,873	30,927	159,800
2025	133,576	26,224	159,800
2026 – 2029	584,873	54,327	639,200
Total	$ 1,091,612	$ 186,788	$ 1,278,400

A summary of the changes in long-term debt for the year ending June 30, 2020 is as follows:

	Beginning Balance 6/30/19	Additions	Payments	Ending Balance 6/30/20	Due Within One Year
Notes payable	$1,318,998	$ 88,838	$ 111,654	$1,296,182	$ 204,570

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, 2020, the entire unrestricted net position of $4,673,662 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 2020 is as follows:

Water Service	$ 2,020,875
Wastewater Collection and Treatment	368,988
Road and Storm Drain Maintenance	1,570,061
Security Operations	1,056,792
Gatehouse Operations	818,892
Total property related fees	$ 5,835,608

The total number of parcels that were assessed in 2020 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 $648 annually and sewer service in the amount of $2,726 annually. In 2020, $60,955 in assessments was made by the District for septic and $308,033 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 $849,078 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, 2020 was $211,656.

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, 2020 was $34,788.

The District contracts with the Preserve Company for personnel services. Salaries and related payroll expenses for the year ended June 30, 2020 directly charged to the District by the Preserve Company were $3,257,967.

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, 2020 was $4,425,000.

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, 2020 were $675,093.

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, 2020 was $1,973. 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:

2021	$ 987
	$ 987

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, 2020, 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, 2020 are as follows:

Vendor/Contractor	Project	Contract Limit	Outstanding at June 30, 2020
R&S Erection of Monterey Bay	Gate Motors	N/A	Time & Materials
Justin Pauly Architects	Fire Building	$ 28,500	$ 25,400
Moore Twining & Associates	Fire Building	$ 8,550	$ 8,550

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 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, 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. 90 will have on the accompanying financial statements.

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

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.

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.

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

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 of time an 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.

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.