



HAYASHI | WAYLAND

November 13, 2018

Board of Directors
Santa Lucia Community Services District
Carmel, California

We are pleased to present this report related to our audit of the basic financial statements of Santa Lucia Community Services District (the District) as of and for the year ended June 30, 2018. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the District's financial reporting process. Also included is a summary of recently issued accounting standards that may affect future financial reporting by the District.

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts have been described to you in our arrangement letter dated July 30, 2018. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication dated July 30, 2018 regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.



Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District. The District did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period.

Recently Issued Accounting Standards

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.

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.

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.



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.

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.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management’s current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The significant accounting estimates reflected in the District’s June 30, 2018 financial statements include such items as the estimate of useful lives of depreciable assets and the estimate for the allocation of property related fees and administrative costs.



Audit Adjustments

Audit adjustments proposed by us and recorded by the District are shown on the attached "Adjusting Journal Entries," and "Reclassification Journal Entries."

Uncorrected Misstatements

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Disagreements With Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

Consultations With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed With Management

No significant issues arising from the audit were discussed with or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Letter Communicating Significant Deficiencies and Material Weaknesses in Internal Control Over Financial Reporting

When significant deficiencies and material weaknesses are identified during our audit of the financial statements, we are required to communicate them to you in writing. For the year ended June 30, 2018 a letter was not required.

The District contracts the Santa Lucia Preserve Company to manage, process and record the District's records. These functions are performed by the Santa Lucia Preserve Company's accounting department. In order to consider the potential impact to the District due to the Santa Lucia Preserve Company's internal controls, the District board should consider obtaining the letter describing any internal control deficiencies identified as part of the Santa Lucia Preserve Company's audit. For the year ended December 31, 2017 a letter was not required.

Significant Written Communications between Management and Our Firm

We have requested certain representations from management that are included in the management representation letter dated November 13, 2018.



Santa Lucia Community Services District
November 13, 2018
Page 5 of 5

This report is intended solely for the information and use of the Board of Directors, Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the Santa Lucia Community Services District.

Sincerely,

Hayashi Wayland, LLP

Attachments: Adjusting Journal Entries
Reclassification Journal Entries



Santa Lucia Community Services District

AJE

Year End: June 30, 2018

Adjusting Journal Entries

Date: 7/1/2017 To 6/30/2018

Account No: AJE-01 To AJE-99

Number	Date	Name	Account No	Debit	Credit	Amount Chg	Net Income (Loss)
Net Income (Loss) Before Adjustments						(380,478.00)	
AJE-01	6/30/2018	DEPRECIATION EXPENSE	6217-10	628,047.00			
AJE-01	6/30/2018	DEPRECIATION EXPENSE	6217-20	111,940.00			
AJE-01	6/30/2018	DEPRECIATION EXPENSE	6217-30	955,211.00			
AJE-01	6/30/2018	DEPRECIATION EXPENSE	6217-40	49,832.00			
AJE-01	6/30/2018	DEPRECIATION EXPENSE	6217-45	43,018.00			
AJE-01	6/30/2018	DEPRECIATION EXPENSE	6217-90		1,835,857.00		
AJE-01	6/30/2018	DEPRECIATION EXPENSE	6217-90	47,809.00			
To break out depreciation expense by department.				1,835,857.00	1,835,857.00	0.00	(380,478.00)
AJE-02	6/30/2018	RECEIVABLE - COUNTY FYE 17/18	1138-00	7,427.00			
AJE-02	6/30/2018	RECEIVABLE - COUNTY FYE 17/18	1138-00	1,894.00			
AJE-02	6/30/2018	RECEIVABLE - COUNTY FYE 17/18	1138-00		72.00		
AJE-02	6/30/2018	Fiber Optic Assessment	4204-10		7,427.00		
AJE-02	6/30/2018	Fiber Optic Assessment	4204-10		1,894.00		
AJE-02	6/30/2018	MONTEREY COUNTY FEES	6138-90	72.00			
To gross up fiber optic received recorded at net of processing fee; correct error in fee calculation on 4/18 payment and record balance due from first installment of fiber optic assessment.				9,393.00	9,393.00	9,249.00	(371,229.00)
AJE-03	6/30/2018	RECEIVABLE - COUNTY FYE 17/18	1138-00	6,493.00			
AJE-03	6/30/2018	INTEREST INCOME	4625-90		6,493.00		
To report interest income received on delinquent assessments.				6,493.00	6,493.00	6,493.00	(364,736.00)
				1,851,743.00	1,851,743.00	15,742.00	(364,736.00)

Santa Lucia Community Services District
Year End: June 30, 2018
Reclassification Journal Entries
Date: 7/1/2017 To 6/30/2018

RJE

Number	Date	Name	Account No	Debit	Credit	Amount	Chg Net Income (Loss)
Net Income (Loss) Before Adjustments						(364,736.00)	
RJE-01	6/30/2018	MISCELLANEOUS INCOME	4330-10		2,839.00		
RJE-01	6/30/2018	MISCELLANEOUS INCOME	4330-20		455.00		
RJE-01	6/30/2018	MISCELLANEOUS INCOME	4330-30		1,844.00		
RJE-01	6/30/2018	MISCELLANEOUS INCOME	4330-40		1,194.00		
RJE-01	6/30/2018	MISCELLANEOUS INCOME	4330-45		868.00		
RJE-01	6/30/2018	MISCELLANEOUS INCOME	4330-90	7,200.00			
RJE-01	6/30/2018	INTEREST INCOME	4625-10		11,931.00		
RJE-01	6/30/2018	INTEREST INCOME	4625-20		1,911.00		
RJE-01	6/30/2018	INTEREST INCOME	4625-30		7,750.00		
RJE-01	6/30/2018	INTEREST INCOME	4625-40		5,018.00		
RJE-01	6/30/2018	INTEREST INCOME	4625-45		3,649.00		
RJE-01	6/30/2018	INTEREST INCOME	4625-90	30,259.00			
RJE-01	6/30/2018	GAIN (LOSS) ON SALE OF FIXED	4655-10	4,135.00			
RJE-01	6/30/2018	GAIN/LOSS ON SALE OF FIXED ASSETS	4655-20	662.00			
RJE-01	6/30/2018	GAIN (LOSS) ON SALE OF FIXED	4655-30	2,686.00			
RJE-01	6/30/2018	GAIN (LOSS) ON SALE OF FIXED	4655-40	1,739.00			
RJE-01	6/30/2018	GAIN (LOSS) ON SALE OF FIXED ASSETS	4655-45	1,264.00			
RJE-01	6/30/2018	GAIN (LOSS) ON SALE OF FIX	4655-90		10,486.00		
RJE-01	6/30/2018	DEPRECIATION EXPENSE	6217-10	18,852.00			
RJE-01	6/30/2018	DEPRECIATION EXPENSE	6217-20	3,020.00			
RJE-01	6/30/2018	DEPRECIATION EXPENSE	6217-30	12,244.00			
RJE-01	6/30/2018	DEPRECIATION EXPENSE	6217-40	7,928.00			
RJE-01	6/30/2018	DEPRECIATION EXPENSE	6217-45	5,765.00			
RJE-01	6/30/2018	DEPRECIATION EXPENSE	6217-90		47,809.00		
RJE-01	6/30/2018	INTEREST EXPENSE	6287-10	20,535.00			
RJE-01	6/30/2018	INTEREST EXPENSE	6287-20	3,289.00			
RJE-01	6/30/2018	INTEREST EXPENSE	6287-30	13,337.00			
RJE-01	6/30/2018	INTEREST EXPENSE	6287-40	8,635.00			
RJE-01	6/30/2018	INTEREST EXPENSE	6287-45	6,279.00			
RJE-01	6/30/2018	INTEREST EXPENSE	6287-90		52,075.00		
To allocate non-operating income and expenses from G&A to other departments.				147,829.00	147,829.00	0.00	(364,736.00)
RJE-02	6/30/2018	G&A	7500-10	465,585.00			
RJE-02	6/30/2018	G&A	7500-20	74,573.00			
RJE-02	6/30/2018	G&A	7500-30	302,393.00			
RJE-02	6/30/2018	G&A	7500-40	195,786.00			
RJE-02	6/30/2018	G&A	7500-45	142,370.00			
RJE-02	6/30/2018	G&A	7500-90		1,180,707.00		
To allocate G&A operating expenses to other functions.				1,180,707.00	1,180,707.00	0.00	(364,736.00)
RJE-03	6/30/2018	LABOR/MAT - RANCH OPS MECHAN	6008-10		17,900.00		
RJE-03	6/30/2018	LABOR/MAT - RANCH OPS MECHAN	6008-20		5,320.00		
RJE-03	6/30/2018	LABOR/MAT - RANCH OPS MECHAN	6008-30		2,880.00		
RJE-03	6/30/2018	LABOR/MAT - RANCH OPS MECHAN	6008-40		8,540.00		
RJE-03	6/30/2018	LABOR/MAT - RANCH OPS MECHAN	6008-90		360.00		
RJE-03	6/30/2018	AUTO EXPENSE	6130-30		28,060.00		
RJE-03	6/30/2018	EQUIPMENT MAINTENANCE	6243-30		75,980.00		
RJE-03	6/30/2018	MECHANIC PARTS/LABOR REIMBUR	7002-30	139,040.00			
To reverse Other Community Revenue related to interdepartmental charges for the fiscal year.				139,040.00	139,040.00	0.00	(364,736.00)

Santa Lucia Community Services District

RJE-1

Year End: June 30, 2018

Reclassification Journal Entries

Date: 7/1/2017 To 6/30/2018

Number	Date	Name	Account No	Debit	Credit	Amount	Chg Net Income (Loss)
RJE-04	6/30/2018	County Tax Assessments	4200-45		730,118.00		
RJE-04	6/30/2018	SECURITY ASSESSMENTS - RESID	4215-40	730,118.00			
		To reclassify gatehouse portion of property related fees. (Based on % of budgeted expenses).		730,118.00	730,118.00	0.00	(364,736.00)
RJE-05	6/30/2018	INTEREST INCOME	4625-90		10,486.00		
RJE-05	6/30/2018	GAIN(LOSS) - CAL TRST MED	4657-90	10,486.00			
		Reclassify gains/losses on account.		10,486.00	10,486.00	0.00	(364,736.00)
RJE-06	6/30/2018	Fiber Optic Assessment	4204-10		755,683.00		
RJE-06	6/30/2018	FIBER OPTIC	6248-10	755,683.00			
		To reclassify fiber optic assessment collected into revenue vs. net with expense.		755,683.00	755,683.00	0.00	(364,736.00)
RJE-07	6/30/2018	FIRE CLEARING	4102-30	111,748.00			
RJE-07	6/30/2018	RANCH CLUB LABOR CHARGES	6006-30		102,000.00		
RJE-07	6/30/2018	EQUIPMENT MAINTENANCE	6243-10		9,028.00		
RJE-07	6/30/2018	EQUIPMENT MAINTENANCE	6243-20		720.00		
		To reverse "OPS GROSS UP" estimate.		111,748.00	111,748.00	0.00	(364,736.00)
RJE-08	6/30/2018	RECEIVABLE - COUNTY FYE 15	1136-00		5,143.00		
RJE-08	6/30/2018	RECEIVABLE - COUNTY FYE 16/1	1137-00		35,720.00		
RJE-08	6/30/2018	RECEIVABLE - COUNTY FYE 17/18	1138-00	40,863.00			
		To reconcile property related fees receivable to actual per the County confirmation.		40,863.00	40,863.00	0.00	(364,736.00)
RJE-09	6/30/2018	PREPAID INSURANCE LIABILITY	1405-00	2,591.00			
RJE-09	6/30/2018	INSURANCE LIABILITY	2003-00		2,591.00		
		To reclass prepaid insurance into correct account.		2,591.00	2,591.00	0.00	(364,736.00)
				3,119,065.00	3,119,065.00	0.00	(364,736.00)